



PATAGONIA, INC.
ASSESSMENT FOR REACCREDITATION

FLA BOARD OF DIRECTORS MEETING
OCTOBER 2017

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Patagonia's Headquarters in Ventura, California, USA.

INTRODUCTION

On February 20, 2013, the FLA Board of Directors voted to approve the reaccreditation of Patagonia's labor compliance program. When joining the FLA, Participating Companies and Participating Suppliers commit to implementing the [FLA Workplace Code of Conduct](#), which aims to ensure "respectful and ethical treatment of workers" and "promotes sustainable conditions through which workers earn fair wages in safe and healthy workplaces." The [Principles of Fair Labor and Responsible Sourcing / Production](#) ("Principles") serve as the standards upon which Participating Companies and Participating Suppliers are assessed towards an accreditation of their labor compliance program. Participating Companies and Participating Suppliers with [accredited](#) compliance programs have demonstrated that they have the systems and procedures in place needed to successfully uphold fair labor standards throughout their supply chains. In assessing for reaccreditation, the FLA looks for continued implementation of the workplace standards and focuses on key components that innovatively support the FLA's mission to "improve workers' lives worldwide."



The FLA accreditation process involves staff conducting due diligence on the performance of a Participating Company or Participating Supplier during the implementation period. To assess an affiliate for reaccreditation of their labor compliance program, the FLA focuses on implementation of a subset of standards, namely responsible purchasing practices, civil society engagement, remediation efforts, and program innovations. This assessment involved testing a selection of data points or information sources in order to verify actions by the company. Sources of information include:

- 1) **Affiliate Headquarter Assessment:** Assessments at headquarters and field offices to interview staff involved in compliance and in other functions, and to review documentation, processes, and database capabilities. In some cases, the offices of agents are visited as well. In countries where the FLA is not able to conduct in-person assessments, interviews are conducted by phone with company staff involved in compliance and in other functions.
- 2) **FLA Factory-Level Assessments:** Independent External Monitoring (IEM), Independent External Verification (IEV), and Sustainable Compliance Initiative (SCI) assessments are all sources of information on compliance issues and remediation efforts. For reaccreditation, affiliates are subject to Verification Assessments, which verify remediation efforts.
- 3) **Annual Reports:** Affiliate reports for each year of implementation provide data on the evolution of an affiliate's compliance program in line with FLA Principles.
- 4) **FLA Third-Party Complaints:** Where relevant, an affiliate's involvement in, and responsiveness to, FLA Third-Party Complaints provide additional insight into compliance programs and remediation strategies.
- 5) **FLA Strategic Projects:** Where relevant, an affiliate's participation in FLA Strategic Projects provides opportunities to learn about the affiliate's compliance strategies for detecting and remediating complex issues.
- 6) **Observation:** Wherever possible, FLA staff accompanied affiliate compliance staff on internal audits, training sessions or remediation visits.
- 7) **Routine Interactions:** Information on the affiliate's compliance program has also been collected through discussions and interactions with affiliate compliance staff in the course of each year's program. Exchanges with civil society organizations and other stakeholders interacting with the affiliate provide additional perspective.

SECTION 1: PATAGONIA AFFILIATE OVERVIEW (2014-2017)

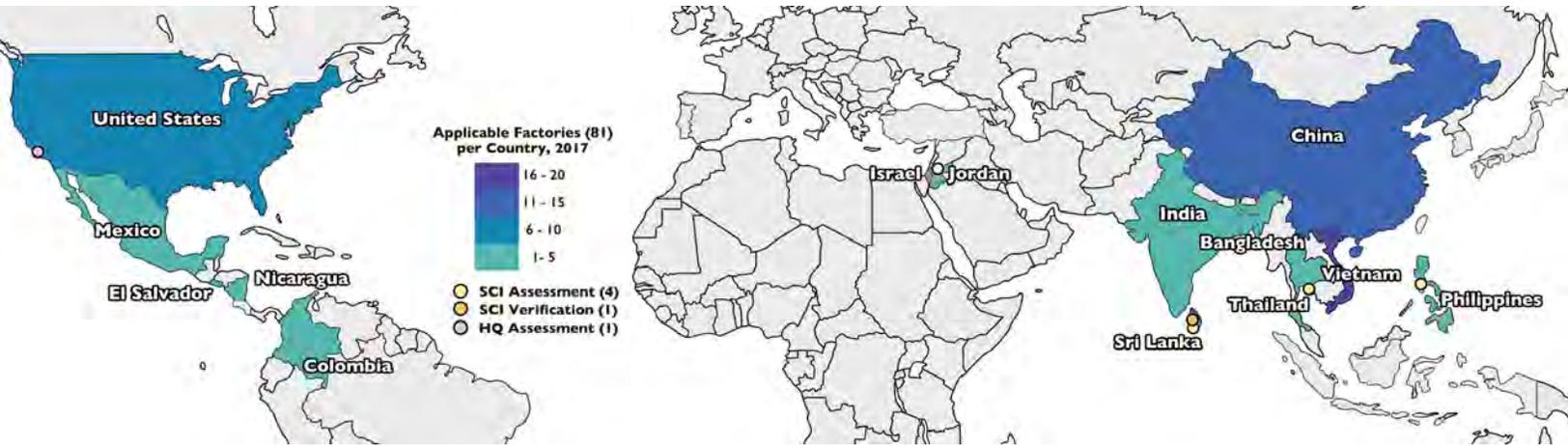
Name of Company	Patagonia, Inc.	Category	Participating Company
Location	Ventura, California, USA	Products	Apparel, Footwear, Accessories
		Current Number of Applicable Facilities	81
FLA Affiliation Month/Year	January 2001 (Founding Member)	Most Recent Reaccreditation Month/Year	February 2013
FLA Reaccreditation Lead/Support	Leads: Tiffany Rogers (Program Manager, Business Accountability); Jen Caruso (former Associate Director, Business Accountability) Support: Jingwen Peng (Senior Associate, Business Accountability, Eastern Hemisphere)		
Unique Company Characteristics	<ol style="list-style-type: none"> 1) Patagonia, Inc. was founded in 1973 by Yvon Chouinard, who had previously developed and sold mountain climbing gear. The original “tin shed” where Chouinard started still remains on the Patagonia campus in Ventura. 2) Patagonia advocates for customers to sustain the life-span of their products for as long as possible. Patagonia has advised its customers not to buy its products and to buy less during the U.S.’s notorious Black Friday shopping day. Additionally, Patagonia’s Worn Wear program attempts to educate customers on clothing repair (the Worn Wear truck, Delila, travels the U.S. repairing Patagonia clothing for free) and allows for the return and purchase of used clothing. 3) Patagonia advocates for grassroots activism and has published a book on tools for activists. Patagonia has notably opposed the construction of the Keystone XL oil pipeline in the U.S.; pulled out of the Outdoor Retailer Show in Utah to protest efforts to strip federal protection of public land; threatened to sue the U.S. White House over President Trump’s executive order for the Department of Interior to review the designation of national monuments; and on August 20, 2017, released its first Television spot ever featuring Yvon Chouinard – designed to put pressure on Secretary of Interior Zinke during the final days of the national monuments review. 4) Patagonia was one of the first larger brands to introduce Fair Trade Certified apparel products into the market. Patagonia deposits premiums to factory workers into bank accounts that they control and democratically decide how to use the money. Factories have used the premiums for child care centers, health and hygiene education and supplies, water filters, vouchers for essential home goods and food, and cash bonuses. This is Patagonia’s first step in addressing low wages in the supply chain while they work on their larger compensation strategy. From 2014 through mid-2017 Patagonia has allocated nearly \$1.5 million in premiums to workers in 14 factories in 8 countries. 		

<p>Summary of Key Strengths</p>	<ol style="list-style-type: none"> 1) Commitment from top management and the Board of Directors to improve working conditions beyond Tier 1 suppliers and pursue progress towards achieving living wages and eliminating recruitment fees for workers; 2) Focused assessments on functioning grievance mechanisms and support provided to suppliers to improve their own grievance mechanisms for workers; 3) Engagement with civil society to support Patagonia's strategic goals in addressing labor issues involving foreign migrant workers, living wages, transparency, and worker voice; 4) The collaborative 4-Fold approach, where sourcing, quality, social and environmental teams all have equal sourcing veto power, which ensures all relevant departments have a role and are held accountable for implementing Patagonia's Responsible Purchasing Practices program; 5) Collaboration with other brands to address labor violations; 6) Pioneering and piloting various methods to address fair compensation for workers; and 7) Commitment and progress in addressing living wages and fair compensation within Patagonia's supply chain.
<p>Summary of Key Suggestions for Strengthening</p>	<ol style="list-style-type: none"> 1) Continue to expand engagement with local civil society organizations, including trade unions, to address labor issues within the supply chain; 2) Continue to work with Tier 1 Suppliers in addressing labor violations in their supply chain; and 3) While beyond the scope of the FLA Principles, continue to develop and implement programs to address labor violations beyond Patagonia's Tier 1 supply chain.

Patagonia's Worn Wear Truck, that offers repair services for Patagonia products, at the Patagonia campus during the HQ Assessment in April 2017.



SECTION 2: PATAGONIA SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES (2014-2017)



As the above map shows, Patagonia currently sources from 14 countries and sources from 81 factories and subcontractors. While FLA does not require subcontractors to be disclosed, Patagonia has included its subcontractors within their scope of FLA affiliation for SCI assessments. Major sourcing countries are Vietnam (18 factories), Sri Lanka (17 factories), and China (11 factories); Patagonia also sources from 20 factories in the Americas. Patagonia received four SCI Assessments in Philippines, Sri Lanka (2), and Thailand from 2014 to 2017, and one SCI Verification in 2017 in Sri Lanka. Further discussion of the SCI Verification results is included in the Remediation, Innovation, and Collaboration section. Patagonia has not had any aborted SCI Assessments, nor any irregularities with their factory list disclosure to FLA.

SECTION 3: ANALYSIS OF PATAGONIA LABOR COMPLIANCE PROGRAM FOR ACCREDITATION

Information used in this assessment originates from reports submitted by Patagonia and verified by the FLA through:

- 1) An assessment at Patagonia headquarters conducted by FLA staff in April 2017;
- 2) Information gathered in person, via phone interviews, and through email correspondence with Patagonia staff;
- 3) Documentation review of supporting evidence submitted by Patagonia;
- 4) Field observation of a webinar supplier training on responsible production practices;
- 5) Results of FLA Verification Assessments at Patagonia applicable facilities conducted by FLA assessors to verify remediation efforts at the factory level;
- 6) Completion of FLA Independent External Assessments at Patagonia applicable facilities conducted by FLA assessors and accredited service providers; and
- 7) Communication with stakeholders.

IMPLEMENTING THE FLA STANDARDS IN SOCIAL COMPLIANCE & BEYOND

Implementing the FLA's Principles of Fair Labor & Responsible Sourcing & Strategic Goals

In 2015, the FLA revised its [Principles of Fair Labor & Responsible Sourcing](#) to raise the standards of company and supplier social compliance programs, with the most notable changes being the improvement of Principle 8: Responsible Purchasing & Production Practices and providing key performance indicators (KPIs) for all Principle Benchmarks. Patagonia has actively worked to meet and exceed the revised Principles through their program implementation; the FLA has verified the implementation of the Principle KPIs through the 2015 and 2016 annual self-assessment submissions. Since the last reaccreditation in 2013, Patagonia worked to implement the revised standards of Principle 8: Responsible Purchasing Practices, which is further discussed later in this report. The FLA also reviewed the Suggestions for Strengthening¹ from the FLA's Patagonia 2013 Reaccreditation Report, to ensure Patagonia has made progress in these areas.



Patagonia's SER Team and FLA staff review Patagonia's implementation of Principle 8: Responsible Purchasing Practices at the HQ Assessment in April 2017.

¹ The Suggestions for Strengthening included in the confidential 2014 Reaccreditation Report were: 1) Proactive and extensive training of workers, managers and supervisors on Code awareness, grievance procedures, and confidential reporting channels; 2) Greater emphasis on the development of functioning factory grievance mechanisms; 3) Continued open and sustained dialogue with factory partners to mutually address challenging noncompliances in a sustainable manner; and 4) Broader and more in-depth engagement with local civil society organizations involved in labor rights in sourcing countries.

The FLA reviewed Patagonia's annual goals approved by Patagonia's Chief Operating Officer and shared with Patagonia's Board of Directors, who also receive progress updates from the SER Team. These goals showed a clear commitment to improve working conditions beyond Tier 1 suppliers and industry standards. The goals included addressing worker voice, remediation, living wages, and migrant workers. The FLA commends Patagonia for pursuing implementation of programs that improve working conditions for workers throughout their supply chain and notes Patagonia's top management commitment as a key factor in the success of implementing these programs.

Scope of the Social & Environmental Responsibility Program & FLA Affiliation

Patagonia's Social & Environmental Responsibility (SER) program extends to all finished goods suppliers and subcontractors, strategic raw material suppliers, and encompasses all workers, including auxiliary employees in finished goods suppliers, such as security guards, canteen workers, and cleaning personnel. Within the raw material supply chain, Patagonia has focused its efforts on working with the top 40 suppliers that represent 80 percent of their material. For Patagonia's FLA scope of affiliation, Patagonia has disclosed its 81 finished suppliers and subcontractors as part of the FLA's Independent External Assessment cycles; however, for this reaccreditation, FLA has assessed the social compliance program to include finished goods suppliers, subcontractors, and raw material suppliers.

The Social & Environmental Responsibility Department & Collaboration through its 4-Fold Approach

Since the 2013 Reaccreditation, Patagonia's SER Department has expanded in headcount and responsibility. The Vice President of SER continues to report directly to Patagonia's Chief Operating Officer and now, in addition to overseeing supply chain social and environmental responsibility, she also oversees brand responsibility (reducing corporate footprint), animal welfare, traceability and related sustainability claims substantiation, Benefit Corporation certification and sustainability reporting. The Social Responsibility side of the headquarters team consists of the Senior Manager of Supply Chain Social Responsibility & Traceability, the Manager of Supply Chain Social Responsibility, the Manager of Raw Materials Social Responsibility and Special Projects, and the Traceability Manager. Four field managers -- in Taiwan, Thailand, Hong Kong, and Vietnam -- report to the Supply Chain Social Responsibility Managers. The addition of the Senior Manager and the two headquarters-based Supply Chain Social Responsibility Managers, both with extensive backgrounds in supply chain monitoring and capacity building, has allowed Patagonia's SER team to expand and dive deeply into the compliance challenges faced within their supply chain and to continue to institutionalize SER guidance into Patagonia's everyday business practices.

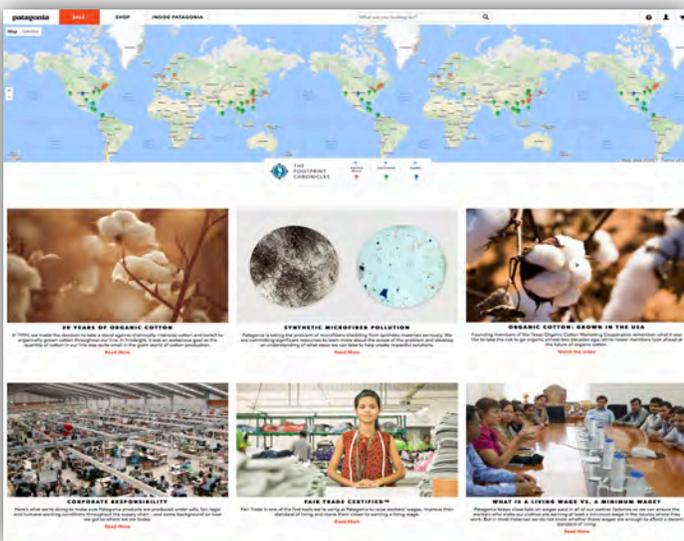


Since the mid-2000s Patagonia implemented a system to pre-screen proposed potential sourcing factories before placing orders; review social and environmental responsibility, sourcing, and quality performance of current suppliers; and analyze potential strategic supply chain changes. This system is implemented by team members representing four key departments that collectively review supply chain issues and provide oversight for sourcing decisions. The “4-Fold” are represented by Quality, Business, Social Responsibility, and Environmental Responsibility. The 4-Fold meets on a weekly basis to discuss supplier onboarding; issues pertaining to each fold; remediation that requires collaboration; and factory exits. In 2011, the raw materials fabric and trim suppliers were included in the 4-Fold. The 4-Fold is further discussed in this report in the Responsible Purchasing Practices section.

Patagonia’s SER Team also participates actively in FLA activities. The Vice President of SER served on the FLA’s Board of Directors and Monitoring Committee in 2012-2016. Patagonia’s Manager of Supply Chain Social Responsibility also serves on the FLA’s Practitioners Working Group for Fair Compensation. Additionally, Patagonia has made presentations during the FLA’s Responsible Purchasing Practices webinar and served as a panelist on the Audit & Remediation panel.

Public Reporting & Factory List Disclosure

Patagonia publishes an annual [Environmental and Social Initiatives Report](#) that includes updates from the work of the SER Department and others within Patagonia. The SER Department also oversees the web content on sustainability work on Patagonia’s website, including contributing to stories on the [Footprint Chronicles](#) transparency website that includes a global map of their finished goods factories, textile mills and some farms. On the map of suppliers, interested parties can see information about the suppliers, where they are located and what products they specialize in, if they are a Fair Trade Certified or Better Work factory, the gender mix, and how long they have been a supplier for Patagonia. Patagonia publishes their finished goods supplier and subcontractor information in a [searchable list format](#) on their website.



A screenshot of Patagonia's Footprint Chronicles on their [website](#), where they include a map of their supply chain and various in-depth looks at the SER Department's work in various aspects of sustainability.

Patagonia also makes public its various workplace standards, such as its code of conduct and [migrant worker standards](#). For the migrant worker standards, Patagonia also published a [timeline](#) of the journey Patagonia took to understand the labor issues for migrant workers in their supply chain underlying the development of their standards to protect migrant workers and strategy on remediation. Patagonia is also known for sharing its tools and procedures with other brands that request it, especially amongst FLA brands and suppliers.

Grievance Mechanisms & Confidential Reporting

Patagonia has implemented a focused grievance system capacity building project in order to ensure that its suppliers make available to their workers effective, efficient, and trusted grievance systems. While Patagonia maintains a confidential reporting channel that enables workers to lodge complaints directly with the brand, Patagonia has administered a self-assessment to suppliers to gauge the maturity level of their internal grievance systems. From this self-assessment, Patagonia conducts verification remotely, through its internal audits, or through focused onsite assessments; rates suppliers on the maturity of their grievance systems; and collaboratively plans with suppliers on how to improve their grievance systems over time. Additionally, when grievances are submitted through Patagonia's confidential reporting channel, Patagonia guides suppliers in taking corrective actions not only to address the grievances, but also to improve internal grievance mechanisms so workers feel more comfortable addressing issues internally.

FLA reviewed Patagonia's focused assessment on grievance mechanisms whose piloting began in 2016. FLA also reviewed how Patagonia prioritized its grievance assessments, focusing on suppliers that needed further support in developing functioning grievance systems. FLA also reviewed how Patagonia tracks the grievances submitted through its confidential hotline and found that workers are submitting grievances related to labor violations, such as supervisors not signing worker resignations or concerns on social insurance benefits. When Patagonia receives a grievance through this channel, it works with the supplier to address the grievance and to also improve the supplier's internal grievance mechanisms so that the supplier can manage its own workers' grievances. FLA noted Patagonia's focused review of grievance mechanisms and the support Patagonia provides to its suppliers as a key improvement from the 2013 Reaccreditation.



Patagonia's SER Team photo during its annual SER summit in Ventura, CA.

CIVIL SOCIETY ENGAGEMENT²

Civil Society Engagement Strategy Development & Implementation

For each fiscal year (FY), Patagonia develops a civil society engagement strategy to address challenges for workers in the supply chain. For FY2016, Patagonia focused on engaging with civil society on topics of foreign migrant labor at material suppliers in Taiwan; freedom of association in Mexico; and minimum wage and back wages in Bangladesh. For FY2017, Patagonia focused on increasing engagement on the topics of trade unions, living wages, and transparency, and continued to focus on foreign migrant labor in material suppliers. For FY2018, Patagonia will focus on engaging with civil society on the topics of foreign migrant workers and recruitment fees, living wages, transparency, and worker voice and engagement. For worker voice and engagement, Patagonia will engage with local, national, and/or international CSOs that specialize in worker engagement. FLA reviewed Patagonia's civil society engagement strategies for FY2016-2018 and supports the topics that Patagonia has prioritized for their engagement with civil society. FLA also notes that Patagonia's civil society engagement strategy also includes engagement with government entities in sourcing countries and non-government organizations (NGOs) that specialize in services to address labor violations.

To engage with civil society, Patagonia has developed engagement standard operation procedures and a civil society guidance tool for all SER staff to utilize. The tool defines the differences between NGOs and civil society organizations (CSOs) and provides guidance on how to reach out to organizations and the questions to ask to learn more about local conditions. The tool captures the profile of the engagement with the organization. FLA reviewed this tool and the tracker SER staff maintain as an annual tracker of engagements.

As Patagonia addresses more complex labor issues within the supply chain, the company has prioritized engagement with larger organizations that can provide contacts with other civil society organizations with expertise in specific fields. Patagonia explained that this strategy emphasizes the importance of relationships to address more severe or complex labor violations or issues. Additionally, Patagonia has engaged with academics specialized in civil society engagement, and has received feedback on how to improve its engagement practices.

Patagonia's Strategic Topics for Civil Society Engagement



Foreign Migrant Workers & Recruitment Fees

Living Wages



Supplier Transparency

Worker Voice & Engagement



² Principle 9 "Consultation with Civil Society (CSO)" articulates how a company can engage with civil society to improve the lives of the workers in its supply chain.

Engaging with Civil Society to Improve the Patagonia Social Compliance Program

Foreign Migrant Workers

Patagonia has worked with various organizations to improve conditions for foreign migrant workers, committing to the elimination of recruitment fees in their strategic goals. Patagonia has also engaged with civil society organizations that have focused on these issues, including the Alliance to Stop Slavery and End Trafficking (ASSET) and the Coalition to Abolish Slavery and Trafficking (CAST) to share information and keep each other updated on the work being carried out to address human trafficking in supply chains. Patagonia has also engaged with non-profits like Verite and Humanity United to collaborate and explore possible partnerships to continue the fight against human trafficking.

Patagonia has also engaged with the Ministry of Labor in Taiwan to understand the challenges in addressing recruitment fees for foreign migrant workers in textile mills. They engaged with Taiwan's Ministry of Labor to address laws that incentivized factory management to keep migrant worker passports. In 2014, the Taiwanese government reformed these laws to de-incentivize passport holding. However, Patagonia recognized that while the laws in Taiwan allowed for better freedom of movement for foreign migrant workers, the recruitment fees from the origin country of the migrant worker still negatively impacted the migrant worker. To address recruitment fees from agents that charge unreasonable fees to migrant workers, Patagonia advocated for their Taiwan suppliers to directly hire migrant workers. In partnership with Taiwan's Ministry of Labor's Direct Hiring Service Center, Patagonia co-hosted trainings on direct hiring for their raw material suppliers.

Living Wages

Patagonia's strategic goal for the SER department is to finish their wage data analysis and further develop implementation strategies for addressing compensation issues in the supply chain. This process is done in conjunction with their internal Living Wage Task Force made up of the company's Chief Operations Officer, Senior Director of Sourcing, Senior Director of Quality, Director of Quality, Manager of Supply Chain Performance, and SER department staff. Also, Patagonia's Manager of Supply Chain Social Responsibility served on the Technical Working Group for Fair Compensation, a multi-stakeholder working group that supported the first element of the [Fair Compensation Work Plan](#). The same representative is also participating in the Practitioners Working Group, which is tasked with improving FLA's wage data collection tools. Through participation in both groups, Patagonia's Manager has been actively engaged in FLA's compensation work as well as the work of other affiliates and colleagues. Patagonia also worked with Massachusetts Institute of Technology's (MIT) Sloan School of Business to recommend improvements to compensation data collection; this work is further discussed in the Remediation, Collaboration, and Innovation section of this report.

Supplier Transparency

FLA reviewed the organizations Patagonia has engaged with and how the engagement has informed the overall social compliance program. For example, Patagonia engaged with Maquila Solidarity Network on the [Transparency Pledge](#) from the Civil Society Coalition on Garment Industry Transparency. This pledge called for apparel and footwear brands to publicly disclose their supplier lists to better collaborate with civil society in addressing labor and human rights violations in the

supply chain. In reviewing the Patagonia factory list, the Civil Society Coalition on Garment Industry Transparency confirmed that Patagonia was in alignment with the Transparency Pledge, and Patagonia agreed to improve the supplier list by providing further clarity on identifying suppliers' parent company, where applicable.

FLA engaged with Baptist World Aid Australia, an organization that publishes an annual [Ethical Fashion Report](#), rating brands on their labor rights management systems in the fashion industry. Brands are rated from A to F on Policies, Knowing Your Suppliers, Auditing & Supplier Relationships, and Worker Empowerment. Brands can choose whether or not to submit information to World Baptist Aid Australia to be reflected in their ratings. Patagonia engages with Baptist World Aid Australia on an annual basis to provide information on their SER program to be considered for the annual report. In the most recent report, Patagonia received an A, the highest rating for a multinational. Baptist World Aid Australia noted Patagonia's commitment to improve its social compliance program and to be transparent for the Ethical Fashion Report.

Worker Voice & Engaging with Local Trade Unions

Systematic engagement with trade unions at Patagonia factories occurs during Patagonia's audit process, with union representatives included in the interview process. In some cases, Patagonia will engage with factory trade unions to discuss specifics on labor issues. FLA reviewed Patagonia's engagement log and found that in 2016 and 2017, Patagonia engaged with five different unions at different factories in their Tier 1 supply chain. Most of these engagements were to further understand how the union operates at the factory and their specific responsibilities and activities. One engagement with a factory trade union was to follow-up on a grievance submitted by the union's president. FLA recognizes Patagonia's engagement with local unions and encourages Patagonia to continue to engage with local unions to understand dynamics within the factory and to address labor issues.



A Patagonia jacket being produced by a worker at a Patagonia supplier in Thai Binh, Vietnam.

RESPONSIBLE PURCHASING PRACTICES³

Patagonia's Responsible Purchasing Practices Procedures

Patagonia has developed Responsible Purchasing Practices Procedures that capture the practices of its Sourcing, Costing, and Planning departments. These procedures reflect Patagonia's costing, lead time, and capacity planning practices. In the most recent update to these procedures, the SER team conducted a gap analysis of Patagonia's previous procedures and the FLA's Principle 8: Responsible Purchasing Practices Benchmarks and KPIs. Patagonia's SER, Production, and Planning Teams developed the Responsible Purchasing Practices procedures, and identified Production, Planning, and SER as the relevant departments to lead the implementation of these procedures.

While Patagonia has two seasons for its apparel lines, there have been efforts to provide more balanced planning to suppliers, such as placing early purchase orders for carry-over styles or providing season-less programs to suppliers that have heavy seasonal orders. Patagonia's Responsible Purchasing Practices Procedures are also outlined in their manual for Tier 1 suppliers. Raw materials suppliers play a role in Patagonia's Responsible Purchasing Practices program. For example, responsible lead times are set by starting with the lead time for production and transit of fabrics and trims from raw material suppliers. Patagonia has also shared their Responsible Purchasing Practices procedures with other companies, recognizing that suppliers will not benefit from responsible purchasing practices unless more buyers are making an effort to mitigate negative impacts on working conditions.

Responsible Purchasing Practices (RPP) Training

Patagonia started its implementation of responsible purchasing practices with a training for relevant staff (Production and Planning) that featured a full explanation of the FLA requirements; their journey since the program's inception as well as examples of poor purchasing practices; identification of core departments responsible for implementing responsible purchasing practices; review of the RPP Policy; and supplier feedback on Patagonia's purchasing practices. This training was developed by the SER team in collaboration with the Sourcing and Supply Planning Teams. The training also identified "influencers" of RPP: CEO & Senior Management, Design, Product Lifecycle Management, Quality, Product Development, and Legal. The SER team also conducted a supplier survey to receive feedback on Patagonia's purchasing practices, and this feedback was incorporated into the training. Further details on the supplier feedback are presented below in the Dialogue & Engagement section. FLA reviewed the training content and interviewed the Chief Operations Officer, Senior Director of Sourcing, and Director of Supply Chain to verify the implementation of the training and discuss the progress of how Patagonia has improved its implementation of responsible purchasing practices.

Accountability for Implementation of Responsible Purchasing Practices

In order to ensure accountability for implementing responsible purchasing practices across departments, Patagonia has 4-Fold weekly meetings to review supply chain performance KPIs in Business, Quality, Social Responsibility, and Environmental Responsibility. Each of the four departments have equal factory and textile mill sourcing veto power. This broad participation and

³ Principle 8 "Responsible Purchasing Practices" articulates how a company develops and implements responsible purchasing practices, that mitigate negative working conditions, informed by the company's social compliance program.

equal weight has been key to keeping the supply chain consolidated and focused on sourcing in the most responsible factories. A dashboard has been put together that reviews metrics per department, and key issues for each fold are discussed. Through these meetings, supply chain approval has been denied or delayed for certain product categories if labor or environmental violations are found in the supply chain in Tier 1, subcontractors, raw materials, or farms. Additionally, all relevant staff received revised job descriptions to incorporate their responsibilities to implement responsible purchasing practices in collaboration with the SER Department.

Dialogue & Engagement to Implement Responsible Purchasing Practices in Patagonia's Supply Chain

As mentioned above, Patagonia has implemented 4-Fold weekly meetings to regularly discuss supplier issues between the SER, Quality, Production, and Planning Teams. Additionally, Patagonia engages regularly with its suppliers, and has implemented a supplier survey to collect feedback on Patagonia's purchasing practices. While most feedback from suppliers reflects positively on Patagonia's purchasing practices, there was some feedback that indicated suppliers would prefer longer term product planning and larger volumes, preferences that are not realistic for the size of Patagonia's business. In reviewing this feedback from suppliers during the HQ Assessment, FLA recommended that Patagonia further elaborate on Patagonia's practices on carry-over styles, so that suppliers are aware that Patagonia strives to provide its suppliers with consistent orders and repeat styles.

FLA also interviewed the Senior Director of Sourcing, Director of Supply Chain, and a Costing Engineer to understand how Patagonia conducts costing negotiations and provides forecasts to its suppliers.

Costing: Patagonia has established a transparent costing process with its suppliers and requires suppliers to submit component costing. Once a purchase order is placed the price negotiation is final; however, Patagonia has made exceptions to this policy, for example in one factory, where costs were raised in order to account for the minimum wage increase. Patagonia's SER team incorporates compensation data collected through audits in a tracking sheet that is shared with the sourcing department in order to help set labor minute rates. This tracking sheet also includes wage benchmarks such as the minimum wage, poverty wage, and living wage estimates, which serves as a reference point to better understand how their labor rates compare. FLA recognizes Patagonia's effort to bring together the data of labor minute costing and compensation to be able to address living wages and fair compensation and understand the complexities in costing products that strive to uphold fair compensation.

Forecasting: Capacity Planning is provided to all suppliers prior to the start of the season and reviewed and adjusted monthly following each buy. In cases where inaccurate capacity planning may cause retrenchment, Patagonia has strived to reallocate orders to help reduce the risk of retrenchment. Through cross functional meetings, Patagonia can review if inaccuracies in capacity planning might lead to retrenchment and discuss possible solutions to mitigate retrenchment. For example, various options were presented to mitigate lay-offs at one of its suppliers, reviewing if production could be moved from other suppliers so that the

supplier would not need to lay off workers. In 2017, Patagonia revised its approach to monitoring monthly capacity plans, to be able to adjust the plans based on monthly differences in forecasts and actual purchase orders.

Patagonia has also provided training to its Tier 1 and raw material suppliers on responsible production practices to mitigate excessive overtime. FLA observed a webinar training on this topic and reviewed the recording of the training, delivered in May 2017. In this webinar training, Patagonia utilized a third-party trainer to provide the definition of overtime, analyze the root causes of overtime and introduce methodologies of managing working hours. Patagonia then collected feedback from the suppliers to improve future trainings. FLA commends Patagonia's commitment to supporting its suppliers in addressing complex issues, like excessive overtime, and encourages Patagonia to continue to provide support to its suppliers.

Evaluating & Incentivizing Suppliers to Produce Responsibly

Currently, suppliers receive ratings for Business, Quality, Social Responsibility, and Environmental Responsibility. Patagonia is working to develop a balanced scorecard that equally represents the scores from each of the 4-Folds. To incentivize suppliers to uphold Patagonia's standards, Patagonia commits to a reduction of audits for suppliers with mature programs, favorable descriptions of suppliers on the Footprint Chronicles page, increased capacity building opportunities, Fair Trade certification and FLA Participating Supplier status, and sharing of audit reports with other brands in order to reduce audit fatigue and duplicate and/or conflicting remediation efforts. As mentioned above, FLA recognized that Patagonia had made other efforts that are incentives for suppliers and recommended that Patagonia communicate to suppliers their efforts in providing repeat styles. FLA recognized the collaboration between the 4-Fold meetings as a strength of Patagonia's Responsible Purchasing Practices implementation, and supports Patagonia's efforts to develop a balanced scorecard.



FLA's former Associate Director, Business Accountability reviews with Patagonia's Senior Manager of Supply Chain Social Responsibility & Traceability and Manager of Finished Goods Social Responsibility the dashboard that presents the supplier data for each department of the 4-Fold meetings (Business, Quality, Social Responsibility, and Environmental Responsibility).

REMEDIATION, INNOVATION, AND COLLABORATION⁴

Patagonia's Monitoring and Remediation Procedures

Patagonia's SER Standard Operating Procedures, 2012 version, establishes the company's approach to monitoring and remediation, incorporating by reference FLA Principles and procedures. The procedures describe the process by which audit results are reviewed internally and in discussion with the 4-Fold to determine the level of remediation, engagement, and support Patagonia will embark upon. Depending on the complexity of findings, Patagonia and/or third-party consultants may revisit the factory to follow up on the progress of remediation. The procedures also describe the role of the SER Managers to work with the supplier to address findings sustainably, by requiring policies, procedures, training and capacity building implementation.

In 2015, Patagonia established Zero-Tolerance Communication Procedures to apply to all finished goods suppliers and subcontractors. The procedure outlines a process that requires the supplier to commit to full transparency and a remediation process that includes interventions that may come at the supplier's expense. It also details the process that involves the 4-Fold and the potential for this group to veto any further production until the zero-tolerance issues are resolved. Patagonia's continuous improvement model, in particular for zero-tolerance findings, is broken down into three parts:

- 1) Audits & Assessments – findings of noncompliances
- 2) Gap & Root Cause Analysis – determining gaps
- 3) Capacity Building – addressing non-compliances via training and implementation of systems to ensure sustainable solutions.

Risk ratings are reported to Patagonia leadership on a monthly basis, broken down by percentages designated as Zero Tolerance, High Risk, Medium Risk, and Low Risk, and are based on Patagonia's Code Benchmarks. With the top management commitment to review the monthly risk updates, the SER Team works with its suppliers to move higher risk suppliers into lower risk levels.

Remediation Verification of SCI Assessment Noncompliances

In 2014, the FLA conducted an SCI Assessment at a Sri Lanka factory that Patagonia shares with Columbia Sportswear, an FLA Collegiate Licensee⁵. Patagonia and Columbia collaborated on the SCI remediation, holding joint phone calls with the factory and alternating audit and capacity building visits to the factory. Through their joint effort, they were able to close high priority findings, such as training female workers as fire fighters and arranging factory bus pick-up times to coincide with the time workers' shifts end. In addition, the companies ensured that the factory maintained a grievance log and the supervisors were trained on the topic.

⁴ Principle 9 "Consultation with Civil Society (CSO)" articulates how a company can engage with civil society to improve the lives of the workers in its supply chain

⁵ FLA Collegiate Licensees are companies that include only suppliers that produce collegiate products within the scope of their FLA affiliation.

In June 2017, FLA conducted an SCI Verification (SCIV) Assessment into the status remediation of findings from the 2014 SCI Assessment. The critical issues identified by Patagonia on fire fighter training for female workers and the bus-pick up times were verified as remediated by the FLA. In addition, the 2017 SCIV Assessment noted new findings, which Patagonia and Columbia Sportswear will work with the factory to address and remediate⁶.

FLA recognizes the improvements made at the Sri Lanka factory since the last SCI assessment and the challenges suppliers face in remediating non-compliances. Patagonia received the SCIV Assessment in mid-August 2017, and at the time this report was being drafted,⁷ Patagonia was in the midst of working with the factory to clarify and understand the results, as well as planning corrective action and completion dates with the factory and Columbia Sportswear. FLA encourages Patagonia to continue to work with this supplier and Columbia Sportswear to ensure improvement in working conditions.

Remediation Collaboration

Patagonia's SER Procedures include the rationale and process for collaborating with brands on shared assessments and remediation. Patagonia has established criteria to ensure collaborations are mutually beneficial and will ultimately help the factory. Patagonia will discuss which company will lead audits; the funding of additional auditors (when necessary); define the breadth and scope of the collaboration; and come to consensus on remedial actions before discussing with the supplier. Patagonia utilizes the Fair Factories Clearinghouse (FFC) platform to post CAPs in order to share with others. FLA has verified that Patagonia is known for their collaborative efforts with other brands within FLA's membership and with other brands. Additionally, Patagonia is part of the [Social & Labor Convergence Project](#), a collaborative industry audit initiative.

A Multi-Buyer Remediation Collaboration

One of Patagonia's suppliers was assessed several times⁸ and was found to have findings with complicated root causes. Based on the assessments, Patagonia began to explore innovative ways to work with this supplier to remediate these issues over time. The SER team, through the Patagonia Product Development Manager responsible for the factory who had a strong relationship with the supplier, began a process of engagement with the owner of the supplier and the supplier's top management staff. During the reaccreditation audit, FLA interviewed the Product Development Manager who discussed the importance of developing relationships with supplier management to understand how to work together to address issues.

Patagonia's SER Team organized other brands sourcing from this supplier to better understand their concerns and discuss how collaborative engagement could effectively address the labor violations. Patagonia engaged the social compliance teams from several FLA member companies and other outdoor brands sourcing from the supplier. The collaborating brands came together to communicate

⁶ Because this SCIV Assessment Report was still under review at the time of drafting this report, the remediation status results have not been disclosed. FLA will publish the full results of the SCIV Assessment Report once the Corrective Action Plan has been finalized.

⁷ This Reaccreditation report was completed in September 2017.

⁸ This supplier received multiple assessments from the Patagonia, and one SCI Assessment from the FLA.

their shared concerns to the supplier and committed to addressing root causes aimed at long term sustainable remediation. Patagonia also requested the support of FLA's Senior Advisor to support mediation and facilitate the collaboration process.

The supplier and buyers identified that improvement in management systems and human resources (HR) at the factory needed investment to address issues like worker turnover and retention. In addition to addressing these issues, the supplier is working to implement a system to streamline production efficiency. Patagonia has worked with the supplier's management to review HR-related data, such as absenteeism, to try to set the foundation on how to benchmark improvement. Patagonia and the other brands will continue to work with this supplier to ensure improvement of working conditions is achieved.

FLA commends Patagonia and other brands for their efforts to collaborate on remediation of labor violations at this supplier. In February 2017, Patagonia and MEC presented their work with this supplier during the FLA's Audit Collaboration panel.

Participation in the FLA's Fire Safety Initiative

In 2013, the FLA developed the [Fire Safety Initiative](#) to go beyond the auditing of fire safety and building integrity, and focus on empowerment of workers and factory managers through a fire safety training program. As of October 2017, Patagonia has implemented this program in 40 factories, beginning with the training certification of master trainers, who have since gone on to train primarily workers on the factory floor, as well as supervisors and senior management.

Raw Materials Program & Migrant Worker Program

In 2011, the raw materials fabric and trim suppliers were included in the 4-Fold sourcing screening process. By 2013, Patagonia began to see trends in noncompliance particularly around bonded labor amongst migrant workers in Taiwan. At the end of 2014, the Patagonia Migrant Worker program was officially rolled out, including a set of standards to guide the employment of migrant workers in Tier 2 in Taiwan. Patagonia's Chief Operating Officer attended the roll out event in Taiwan and helped to reinforce the importance of the initiative. By April 2015, Patagonia had announced the standards to their Tier 1 supply chain as well as raw material suppliers outside of Taiwan. [The Migrant Worker Employment Standards & Implementation Guidance](#) that Patagonia developed has been utilized by other brands and is considered an important resource for brands seeking further guidance on the topic of migrant labor. In 2015-2016, the program deployed focused assessments on migrant labor and began implementing remediation plans to address these issues. In 2017, Patagonia's leadership set a "No Fees" goal to be achieved by the end of 2019.

FLA interviewed the Manager of Raw Materials, Social Responsibility during the April 2017 HQ Assessment to review Patagonia's program, even though raw material suppliers are not included in the FLA's Principles and factory assessment scope. FLA appreciates Patagonia's transparency with their raw materials program, and supports the growth in addressing labor violations past Tier 1 suppliers

Fair Compensation Initiative

Patagonia has [publicly committed](#) to work with the FLA towards an approach to fair compensation. This public commitment has transformed into action through their efforts to collect wage data effectively and efficiently, in order to better understand how far workers are from taking home a fair wage. Patagonia has partnered with the S-Lab at the MIT-Sloan School of Business to research, test, and find better ways to achieve the goal of wage data collection by identifying ways to enhance the FLA Wage Data Collection Tool. In the summer of 2017, an intern from the MIT-Sloan School of Business supported Patagonia's further testing and implementation of methods to collect compensation data. Patagonia has been actively sharing its learnings with the FLA's Fair Compensation Technical Advisor through the Practitioners Working Group for Fair Compensation. The FLA is actively working to integrate Patagonia's insight to improve the FLA's methods for collecting compensation data.

Patagonia has expanded its Fair Trade certification program substantially since the last FLA reaccreditation to include all men's board shorts and women's swimwear and has developed this [video](#) to inform consumers on their Fair Trade certification program. As part of the program, Patagonia has committed to paying a premium on goods produced in Fair Trade USA Certified factories. In turn, these factories must organize a workers' committee to review and decide how the premium is to be distributed. Workers can vote to receive the premium as a cash bonus, they can choose various projects, investments, or other needs that would benefit the workers. This commitment is a first step towards addressing some worker needs while developing a larger, more comprehensive compensation strategy. Patagonia's public commitment to fair compensation has been followed by concrete steps in gathering wage data, improving data analysis, and implementing worker benefit programs. FLA commends Patagonia's commitment in benchmarking its progress towards its living wage goals.



Disbursement of the Fair Trade USA premium check at a Patagonia T-Shirt supplier in Los Angeles, CA.

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of Patagonia's labor compliance program is intended to help inform the decision of the FLA Board of Directors on whether to reaccredit the affiliate's program.

The FLA staff's conclusion is that since affiliation as a Participating Company, Patagonia has developed an increasingly comprehensive labor compliance program that aligns with FLA standards, benchmarks, and protocols. Reaccreditation is the FLA's continuing assessment of an affiliate's labor compliance program towards ensuring respectful and ethical treatment of workers. The FLA recognizes that no labor compliance program is perfect; the notion of continuous improvement means that there will be instances when a specific principle or benchmark is not met, yet such occurrence does not call into question the integrity of an affiliate's entire program. The FLA will continue to provide programmatic recommendations to further an affiliate's labor compliance efforts in support of the FLA's mission to protect workers' rights and ensure decent working conditions. FLA staff recommends to the FLA Board of Directors the reaccreditation of Patagonia's labor compliance program.

The assessment identified certain areas in which Patagonia's labor compliance program has been strong, and also areas to which improvements are possible.

Strengths of Patagonia's labor compliance program include:

- 1) Commitment from top management and the Board of Directors to improve working conditions beyond Tier 1 suppliers and pursue progress towards achieving living wages and eliminating recruitment fees for workers;
- 2) Focused assessments on functioning grievance mechanisms and support provided to suppliers to improve their own grievance mechanisms for workers;
- 3) Engagement with civil society to support Patagonia's strategic goals in addressing labor issues involving foreign migrant workers, living wages, transparency, and worker voice;
- 4) The collaborative 4-Fold approach, where sourcing, quality, social and environmental teams all have equal sourcing veto power, which ensures all relevant departments have a role and are held accountable for implementing Patagonia's Responsible Purchasing Practices program;
- 5) Collaboration with other brands to address labor violations;
- 6) Pioneering and piloting various methods to address fair compensation for workers; and
Commitment and progress in addressing living wages and fair compensation within Patagonia's supply chain.

Suggestions for strengthening Patagonia's labor compliance program include:

- 1) Continue to expand engagement with local civil society organizations, including trade unions, to address labor issues within the supply chain;
- 2) Continue to work with Tier 1 Suppliers in addressing labor violations in their supply chain; and
- 3) While beyond the scope of the FLA Principles, continue to develop and implement programs to address labor violations beyond Patagonia's Tier 1 supply chain.

APPENDIX A: PATAGONIA'S CODE OF CONDUCT

SUPPLIER WORKPLACE CODE OF CONDUCT

I. LAW AND CODE COMPLIANCE: Our suppliers are expected to comply with and will be monitored to: (1) all relevant and applicable laws and regulations of the country in which workers are employed including those at the federal, state/provincial and local community levels, (2) our Supplier Workplace Code of Conduct, (3) detailed Compliance Benchmark document, and (4) where applicable, Collective Bargaining Agreements.

The Compliance Benchmarks identify specific requirements for meeting each Code standard. When differences or conflicts in standards arise, suppliers are expected to comply with the highest standard that is the most in favor of the employees.

II. CHILD LABOR: No person shall be employed under the age of 15 or under the age for completion of compulsory education, whichever is higher. Juvenile workers (ages 15-17) shall not perform work which, by its nature or the circumstances in which it is carried out, is likely to compromise their health, safety or morals. (ILO Convention 138 and 182)

III. FORCED LABOR: There shall be no use of forced labor, including prison, indentured, bonded, slave or other forms of forced labor. Acts of human trafficking are also prohibited. Suppliers are required to monitor any third party entity which assists them in recruiting or hiring employees, to ensure that people seeking employment at their facility are not compelled to work through force, deception, intimidation, coercion or as a punishment for holding or expressing political views. (ILO Conventions 29, 105, 182)

IV. HARASSMENT, ABUSE AND DISCIPLINARY PRACTICES: Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse or to monetary fines or embarrassing acts as a disciplinary measure.

V. DISCRIMINATION: No person shall be subject to any discrimination in any aspect of the employment, relationship including recruitment, hiring, compensation, benefits, work assignments, access to training, advancement, discipline, termination or retirement, on the basis of race, religious belief, color, gender, pregnancy, childbirth or related medical conditions, age, national origin, ancestry, sexual orientation, gender identification, physical or mental disability, medical condition, illness, genetic characteristics, family care, marital status, status as a veteran or qualified disabled veteran (in the USA only), caste, *socio-economic situation*, political opinion, union affiliation, ethnic group, illness any other classification protected under applicable law. All employment decisions must be made based on the principle of equal employment opportunity, and shall include effective mechanisms to protect migrant, temporary or seasonal workers against any form of discrimination. (ILO Conventions 100 and 111)

VI. FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING: Workers must be free to join organizations of their own choice. Suppliers shall recognize and respect the right of employees to freedom of association and collective bargaining. All suppliers must develop and fully implement effective grievance mechanisms which resolve internal industrial disputes, employee complaints, and ensure effective, respectful and transparent communication between employees, their representatives and management. (ILO Conventions 87, 98 and 135)

VII. EMPLOYMENT RELATIONSHIP: Employers shall adopt and adhere to rules and conditions of employment that respect workers and, at a minimum, safeguard their rights under national and international labor and social security laws and regulations.

VIII. WAGES AND BENEFITS: We seek and favor suppliers who progressively raise employee living standards through improved wage systems, benefits, welfare programs and other services, which exceed legal requirements

and enhance quality of life. Every worker has a right to compensation for a regular work week that is sufficient to meet the worker's and their family's basic needs and provide some discretionary income. Employers shall pay wages which equal or exceed minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law and/or contract. Where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall work with Patagonia and the Fair Labor Association (FLA) to take appropriate actions that seek to progressively realize a level of compensation that does. (ILO Conventions 26 and 131)

IX. OVERTIME WAGES: In addition to compensation for regular working hours, employees must be compensated for overtime hours at the rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding the regular hourly compensation rate by at least 125%. (ILO Convention 1 and 30)

X. HOURS OF WORK: Suppliers shall not require workers to work more than the regular and overtime hours allowed by the law of the country where the workers are employed. The regular work week shall not exceed 48 hours or the maximum allowed by the law of the country of manufacture, whichever is less. Employers shall allow workers at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be consensual. Employers shall not request overtime hours on a regular basis. The sum of regular and overtime hours in a week shall not exceed 60 hours or the maximum allowed by the law of the county of manufacture, whichever is less. (ILO Convention 1)

XI. HEALTH AND SAFETY: Suppliers shall provide a safe and healthy workplace to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employers' facilities. The employer shall take a proactive approach to health and safety by implementing policies, systems and training designed to prevent accidents, injuries and protect worker health. (ILO Convention 155)

XII. ENVIRONMENT: Suppliers shall maintain written environmental policies and standards and must comply with all applicable environmental laws, our Code and Benchmarks, and agree to be monitored separately for environmental responsibility. Factories shall continuously monitor, and disclose to Patagonia, their energy and natural resource usage, emissions, discharges, carbon footprint and disposal of wastes and take a progressive approach to minimize negative impacts on the environment.

XIII. COMMUNITY: Patagonia encourages all suppliers and their employees to get involved in local social and environmental community charity efforts by volunteering time and/or providing other types of support. Patagonia has a solid history of supporting grass roots environmental non-profits and co-founded 1% for the Planet, an environmental advocacy organization in 2002. We seek long-term partnerships with suppliers that share these same philanthropic values.

XIV. SUBCONTRACTING: Patagonia does not permit subcontracting without our prior written approval. All salesman-sample and bulk production orders must be placed within facilities that have been pre-approved by Patagonia, without exception. Direct suppliers are required to continuously monitor approved subcontractors and sub-suppliers for social and environmental responsibility using standards that meet or exceed our Code and Benchmarks.

XV. ANIMAL WELFARE: Suppliers must respect animal welfare and work progressively towards adopting healthy and humane practices towards animals based on best available technology and standards.

XVI. TRACEABILITY: Patagonia and our suppliers are jointly responsible for ensuring social and environmental responsibility and the integrity of our product content claims from the farm through the finished goods factory level. The only way to work towards this goal is to have transparency and traceability into all levels of our supply chain. Patagonia requires suppliers to map and continuously track and monitor all locations in all levels of their supply chain and upon request provide transparency information into the owned and/or subcontracted farms, mills, plants, factories and other sites that are involved in the production of our products.

XVII. CODE COMMUNICATION: All suppliers are required to: (1) post the Patagonia Code standards and separate Patagonia grievance phone number document in a conspicuous place frequented by all employees in the local languages spoken by employees, supervisors and managers; (2) undertake annual, documented training efforts to educate current and new employees about the Patagonia Code standards and use of the Patagonia grievance phone number.

XVIII. QUALITY: Quality is the result of clarity, capable and well-integrated systems, and good communication. To achieve this, factories must have a clearly documented quality system and quality improvement plan. That system must include reliable "in process" and final finished goods audits and procedures that meet Patagonia's quality standards. These audits must be performed by a trained QA staff person provided by the factory. The QA staff person must be granted the autonomy and support he/she needs in order to provide an unbiased report on the quality of every shipment of finished goods. Compliance with our quality requirements is monitored by Patagonia's Quality Department.

CONTACT US: If suppliers are violating any of these Code elements, we would like to know about it. Please bring these issues to our attention by contacting us at the free phone number posted next to this Code or you can email us at social_responsibility@patagonia.com. Please feel free to write in your local language. All information we receive will be kept in strict confidence and your identity protected.