



FAIR LABOR
ASSOCIATION™

2007 Annual Report

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Foreword

It is a pleasure to write a few words of introduction to the 2007 Annual Report of the Fair Labor Association (FLA).

I have known the FLA and worked with this organization for many years. In 2002, the FLA asked me to serve, in a personal capacity, as ombudsman regarding a number of disputes between the management of an enterprise in the Dominican Republic that supplied products to companies affiliated with the FLA and a union that had been legally established in that factory. The efforts of the FLA and its brands, and the mediation they promoted, were instrumental in getting labor and management to work together to resolve differences and protect the freedom of expression and association rights of the workers.

The expiration of the Multi-Fiber Arrangement (MFA) at the end of 2004 has brought about tremendous shifts in the patterns of international trade in textiles and garments. The Dominican Republic, which built an extensive garment industry in the 1990s that served as a source of jobs and livelihood to tens of thousands of Dominican workers, has been deeply affected by the movement of production to the Far East and other regions of the world.

Earlier this year, I asked the FLA to assemble a group of experts to conduct an assessment of the Dominican garment industry and identify possible avenues to improve its situation and prospects, within the context of full respect for international labor standards. Since the FLA works to secure a fair and equitable global garment industry that is capable of providing quality and stable employment to workers, it shares our government's concern about the negative effects that shifts in the global garment trade have had on Dominican workers, their families and their communities.

While there are no easy solutions, the FLA's response in organizing the mission and producing a report based on sound analysis and containing practical suggestions on strategies to stabilize the industry and reverse its decline was extremely valuable. I was pleased to attend a multi-stakeholder meeting in June 2007 in Santiago organized by the FLA where that report was presented. The meeting brought together parties that are often at odds in labor negotiations and on other issues but are united on the priority to maintain and expand the garment industry in our nation.

I also had the opportunity the next day to address the FLA Board of Directors, the first time it met outside in the Americas outside of the United States, and to discuss with Board members the efforts of our government to improve the rights of workers and promote social dialogue.

The FLA's Annual Public Report documents the important work done by this organization and also highlights a number of labor issues relevant for our country and other nations in our region. I wish the FLA well in its objective of promoting adherence to international labor standards and improving working conditions around the world and look forward to opportunities to work together again in the future.

Dr. Rafael Alburquerque de Castro
Vice President of the Dominican Republic



Vice President Alburquerque and FLA Executive Director Jorge Perez-Lopez
at the FLA sponsored Stakeholders Forum in the Dominican Republic in June 2007.

President's Message

For ten years, the FLA's unique collaboration of committed stakeholders has been working to strengthen conditions for workers around the world and help bring an end to sweatshop conditions. Each year changes in the global economy create new challenges to our efforts. The FLA has addressed these challenges not only by trying to do what we do better, but also by improving on those methods through the creation of new approaches that will increase our short-term effectiveness in improving labor conditions and also enhance those methods and build long term solutions to the problems we encounter.

Any initiative to promote corporate social responsibility has to ask itself the vital question "are these actions sustainable"? I would suggest that most initiatives in the corporate social responsibility arena are not sustainable for the simple reason that they require the repetitive and often significant input of external resources. Moreover, if those external resources are withdrawn the activities would soon cease. Even the best resourced programs have to ask themselves whether it makes sense to continue on that basis. The logical follow-up question then becomes – "could these programs and actions be designed and executed in such a way as to be sustainable"? The key to doing that is to harness local resources in such a way that they be deployed in an ongoing fashion, even after the withdrawal of the external resources. Our CSR initiatives would then be aimed at enlisting local actors in such a way that they assume ownership of the activities and continue them independently. We in the FLA decided in 2005 to pursue this idea and launched a series of project activities to develop the individual components of such an approach.

The starting point of a sustainable program of corporate social responsibility has to be a broad consensus among key actors about what needs to be done. That discussion has to be inclusive and participatory and has to define the major challenges, their root causes, the appropriate responses and the potential delivery mechanisms or agents. To capture these details the FLA developed a Monitoring Matrix that included input from buyers, universities, and NGOs from importing and supplying countries. We tested it in the FLA Soccer Project in China and Thailand and, in the future, we will expand the process to include suppliers, and possibly even government agencies, in drawing-up the Matrix.

New Tools

The FLA Monitoring Matrix tells us which code issues are prevalent in a particular labor market, and how the stakeholders analyze and rate them. Those priority issues should then be the subject of specific needs assessments at the workplace level. This is not only to determine the exact shape and form of specific workplace issues, but also to establish a baseline from which

progress can be measured. We found that compliance questionnaires were not an appropriate tool for assessing needs or creating baselines and so we developed a new set of assessment tools in the course of the Sustainable Compliance Project and refined them in the Soccer Project. Any needs assessment obviously needs a 360° perspective and so we developed versions for management and workers.

The needs assessment allows one to develop a capacity building plan based on a real understanding of what policies, procedures, training or communication is lacking in that workplace. In order to help factories design and implement such plans, we offered factories participating in the Sustainable Compliance and Soccer Projects the Balanced Scorecard Tool (BSC), with tailor-made training modules and software to enable even basic management structures to use it effectively. We also realized that there was a dearth of useful capacity-building resources in most labor markets and so we set about developing modules on key issues. The Central America Project provided a vehicle for drafting Guidelines of Good Practice on topics such as hiring, firing, discipline and grievance handling. We found that the mismanagement of those functions often generates code violations while their correct handling can help prevent many compliance issues. In response, we held training programs for human resource managers of supplier factories across Central America.

As a capacity-building plan is implemented, all parties concerned – supplier management and workers, buyers, external stakeholders – need feedback on how it is progressing and so we developed what we call Sustainable Compliance Indicators to measure performance. Those readings provide information about the functioning of key elements of capacity-building and give all parties early warning of any breakdown or change in their functioning. As such they provide a very useful tool for buyers, suppliers, stakeholders and service providers to assess whether the capacity-building program has been assimilated and maintained.

Once the capacity-building program is complete it is necessary to conduct an impact assessment to establish whether things have actually changed. The original baseline assessment provides a starting point for qualitative and quantitative measures of change. If the Sustainable Compliance Indicators are regularly reported, that progress can be measured over time and its sustainability verified.

Delivering Results

The Sustainable Compliance, Central American and Soccer Projects yielded a set of tools that needed a delivery mechanism – one which did not depend on international consultants or an FLA presence in-country. To that end we created two Internet platforms – the Assessment Portal and the Training Portal. These allow FLA constituents to download and complete self-assessments and

then to access capacity-building materials or enroll in courses about specific topics. At the same time we began to train local service providers to deliver or support the tools available on those platforms.

The Assessment and Training Portals also demonstrated that it is possible to survey large numbers of suppliers and to automatically generate profiles of their compliance status. We realised that large institutions or companies could use our assessment tools to survey the compliance readiness or status of their business partners and suppliers, regardless of the numbers involved, something that would be cumbersome and expensive using normal audit techniques. In addition, small companies, who do not have the resources to conduct relatively large numbers of audits, could also use the assessment tools to survey their suppliers. We envisage a number of new applications for these tools and are already piloting a version for use by small university licensees.

The Enhanced Licensee Program, which is summarized later in this report, is designed to provide new resources to universities and licensees in their efforts to improve compliance with labor standards. It will help close some gaps that previously existed in the ability of university licensees to comply with university codes of conduct.

The program will apply FLA's new web-based tools to assess the compliance capacity of these licensees and help with the development of an implementation plan that will improve over time. In-person trainings, already underway, are helping to enhance understanding and adoption of, as well as compliance with codes of conduct and FLA company obligations.

The program offers innovative approaches for smaller companies to meet their obligations. In 2008, the FLA will begin verification of company progress based on this new system, including headquarters visits designed to address capacity-building issues.

This brief description of the tools and techniques we have developed in response to the sustainability question provides some insight into the role and value of our projects. They have been combined into a coherent program code-named FLA 3.0 that we hope will generate workplaces that can manage code issues on a self-sufficient basis. We recognize that code self-sufficiency cannot simply be decreed. It has to be built in a very deliberate and purposeful manner. We need to know exactly which capacity gaps exist at factory level and we need to facilitate the filling of those gaps. That involves processes of change, which take time, but that can be tracked and accounted for. All the developmental processes described above are based on stakeholder engagement – beginning with the definition of the issues and ending with accountability in terms of progress and impact.

Factory Closures

While these project activities were unfolding, another set of issues kept intervening and demanding urgent response – namely the issues surrounding factory closures. This issue, particularly as it relates to the expiration of the Multi-Fibre Agreement (MFA) and its impact on Central America, is discussed in more detail in a chapter in this report, but it is worth mentioning here that the number of cases of downsizing or closure appears to have increased and the collateral effects are increasingly debilitating. Some have involved allegations that trade union members were unfairly laid-off in the process, while others have concerned unpaid wages and termination benefits. Benefit and wage issues are particularly difficult to resolve in that they often involve after-the-fact recovery efforts.

In many labor markets the social security system is based on insurance – for unemployment, accident, old age – whose premiums are paid monthly. The advantage of such systems is that the money is accumulated over time and in the event that a worker qualifies for a payment, the money is normally there to meet the need. However, some countries provide for severance pay and do not require factories to save for that eventuality. This means that factories are often called upon to pay severance at a moment when their activities are no longer financially viable and they are moving or closing permanently. Many factories are unable or unwilling to pay and, given the failure of the local factory to meet its obligations, workers and their supporters turn their attention to the buyers. The buyers, of course, have no employment contract with the workers and hence no legal liability, but they face strong moral pressure to make good on the debts to workers.

The FLA Board and Monitoring Committee have, on several occasions, discussed this issue and, in 2006, adopted a set of Retrenchment Guidelines to try and ensure that any downsizing or closure is handled in a way consistent with ILO Conventions, as well as legal and code obligations.

Many commentators believe that the real shake-out in the export garment industry was postponed to 2008 by the extension of quotas on China's garment exports. If that view is correct, we can expect to see many more closures in less competitive countries as China expands its global market share. FLA-affiliated companies therefore face a huge challenge to ensure that their suppliers are making provisions for any termination benefits they may have to pay. We have noticed that even in cases where the supplier handled the downsizing or closure in strict compliance with the law, the lack of consultation and negotiation with workers led to conflict. The need for good industrial relations process in handling an issue as controversial and conflicted as a downsizing or a closure is fundamental. It is an unfortunate fact that many enterprises do not have the skills, experience or even the mindset to adopt a consultative approach to an issue such as closure and so buyers and organizations like the FLA have an important role to play in promoting such an approach.

Interestingly enough, China recently adopted a law on labor contracts that provides specific procedures to be followed when retrenching workers. It enters into force on January 1, 2008, and is intended to protect workers against unfair dismissal or, in the case of enterprise restructuring that involves the no-fault dismissal of more than 20 people or 10% of the workforce, to ensure that certain procedural requirements are met. In the latter case the employer must explain the circumstances to the union or to a general assembly of workers, consider their opinions and report the workforce reduction plan to the labor department. The employer shall also give priority to retaining long-term employees or those who have open-ended contracts and/or are the sole wage earners in their family. The Chinese law lists specific circumstances in which either the worker or the employer may terminate the employment contract with 30 days notice. The employer also has the option of paying one month's wage in lieu of notice. There are also circumstances in which workers are entitled to severance pay, but no requirement that the enterprise set aside funds to cover any eventual severance obligations. If an employer terminates a contract in violation of this law, the rate of severance pay is doubled. The labor department also has the power to impose penalty rates of severance pay of up to 100% if the severance is not paid in full and on time.

The changes in China are representative of economic developments across the globe, some of which are positive and some which are more problematic. All of them are issues that the FLA and its affiliates seek to better understand and address in ways that will strengthen our continuing efforts to improve conditions for workers and eliminate sweatshop labor in factories around the world. In documenting the FLA Program and the work of its affiliates, this year's Annual Report takes a closer look at these efforts, from the development of some of the new tools and methods used, to the special projects that put them into practice, to the individual work done by the socially responsible companies affiliated with the FLA. It is all part of a constantly evolving process that requires vigilance, creativity and the support and involvement of the companies, universities and colleges, and NGOs and trade unions who have made the commitment to work with the FLA and uphold fair labor standards.

Auret van Heerden
President and CEO,
Fair Labor Association

Executive Summary

The mission of the unique collaboration of stakeholders that comprises the Fair Labor Association is to promote international labor standards and help bring an end to sweatshop labor. It does this through a system that holds factories and the manufacturers who produce in them accountable to the FLA Workplace Code of Conduct, which is based on International Labor



Organization standards, and by the development and implementation of numerous programs and projects that help improve conditions for workers and build sustainable methods for code compliance.

This 2007 Annual Public Report is the fifth such report to be published by the FLA. It both documents the many activities of the FLA in working to achieve these goals and provides reports of the labor activities of 39 affiliated companies that examine their compliance programs in the

more than 5,000 factories from which they sourced production.

The report is divided into several sections. These are:

- Foreword by Dr. Rafael Alburquerque de Castro, Vice President of the Dominican Republic
- Message from Aurret van Heerden, President and CEO of the FLA
- The FLA Program, which includes:
 - A look at the FLA's Independent External Monitoring (IEM) program, with statistics on 147 independent factory audits conducted in 2006
 - An examination of the FLA's Independent External Verification (IEV) program, with statistics on verification audits
 - An update on FLA special projects
 - A summary of the year's Third Party Complaints
 - A look at the FLA's new Enhanced Licensee Program
- A feature article "Retrenchment and Plant Closures: Challenges for Worker Rights and Industrial Relations," by Prof. Halton Cheadle and Aurret van Heerden

- Updated progress reports on labor compliance programs for:
 - 18 FLA Participating Companies
 - 20 FLA Category B University Licensees

Highlights of Main Sections

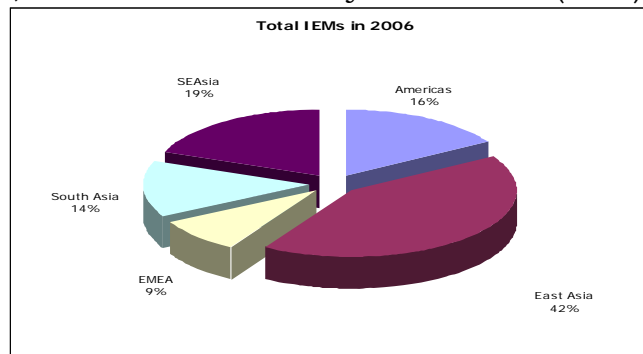
1) The FLA Program

A) FLA Independent External Monitoring and Remediation

In 2006, FLA-accredited monitors conducted Independent External Monitoring (IEM) visits to 147 facilities worldwide. Twenty one of those factory visits were conducted in factories where two or more FLA companies – Participating Companies (PCs) or Category B Licensees – were sourcing. Of those 21, 18 of the IEMs were shared by two FLA companies and the other three were shared by three FLA companies.

Factory Visits	147
IEMs Including Shared Facilities	171
Number of Factories (2006 factory list)	5,178
Estimated Number of Workers (2006 factory list)	3.76 million
Estimated Number of Workers in Factories that Received IEMs in 2006	110,326

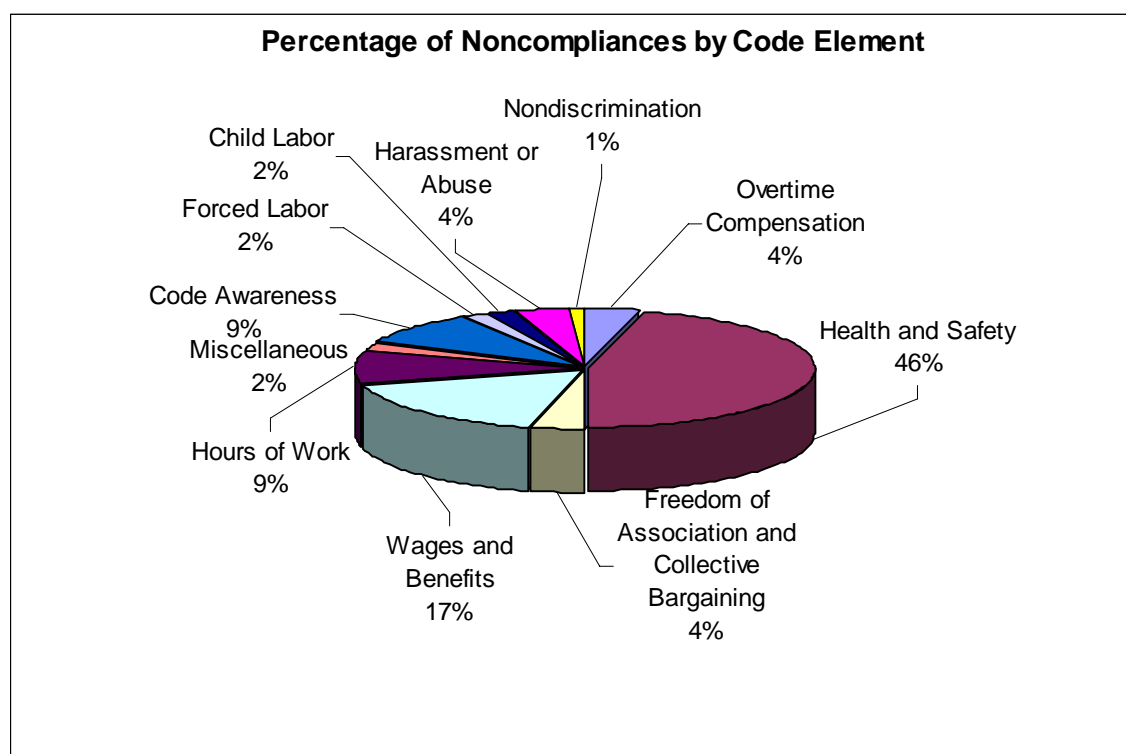
The chart below displays the breakdown in the percentages of IEMs by geographic region. More than 75% of the IEMs were conducted in Asia, with the largest block (42%) in East Asia, followed by Southeast Asia (19%). The Americas was third, with 16% followed by South Asia (14%).



The 2007 Annual Public Report examines the results of all 147 IEM visits conducted in 2006. Overall, 2,511 noncompliance issues were discovered by accredited monitors and reported to the FLA. These noncompliances varied widely in terms of severity, significance and subject matter. The largest

number of noncompliances, by element within the FLA Workplace Code of Conduct, is shown in the table below.

By far, the largest number of reported noncompliances referred to the Health and Safety code element (1,151 noncompliances or 46%), followed by Wages and Benefits (419 noncompliances or 17%), Code Awareness (230 noncompliances or 9%), Hours of Work (210 noncompliances or 8%), Harassment or Abuse (106 noncompliances or 4%), Overtime Compensation (98 noncompliances or 4%), Freedom of Association and Collective Bargaining (98 noncompliances or 4%), Forced Labor (61 noncompliances or 2%), Miscellaneous (54 noncompliances or 2%), Child Labor (49 noncompliances or 2%), and lastly Nondiscrimination (35 noncompliances or 1%).



The 2,511 noncompliances translate into about 17.1 instances of noncompliance per factory subject to an IEM, and compares with 16.0 instances of noncompliance per IEM in 2005, 18.2 instances of noncompliance in 2004, and 15.1 instances of noncompliance in 2003. The reader is cautioned not to interpret increases or declines in the average number of noncompliances per IEM over time as indicating a deterioration or improvement in working conditions in the supply chain subject to IEMs because the number of noncompliances can be affected by a number of factors, including changes in the quality of monitors used by the FLA, the degree of

familiarity of monitors with the audit instrument, and the level of monitors' experience with FLA monitoring requirements.

After an IEM is conducted and noncompliances are observed, FLA companies are obligated to conduct internal monitoring and remediate noncompliances found in their supply chains through the development and implementation of Corrective Action Plans. The FLA process requires companies to work with their suppliers to develop a plan within 60 days, at which point the company must report the correction of the issue back to the FLA, which evaluates the company's Corrective Action Plan, advises it on necessary actions and improvements, collects evidence and, when determined by FLA staff to be necessary, conducts a follow-up visit and verification audit to ensure that the company has taken the necessary steps to remediate the noncompliance issue.

B) FLA Independent External Verification

In this report, the FLA is again publishing data on its Independent External Verification (IEV) audits, a growing part of the FLA program. In 2006, 20 verification audits were conducted for IEMs that occurred between 2002 and 2004. Of the 20 factories involved in the verification audits, 19 continue to produce for the brands that participated in the original IEM. Seven of the IEVs took place in East Asia (all in China); 5 in Southeast Asia (Thailand and Vietnam); 4 in South Asia (India, Sri Lanka and Bangladesh); and 4 in the Americas (El Salvador and Mexico).



In returning to these factories, monitors were asked to focus on the original noncompliances and to evaluate the progress made toward remediation. The monitors also were asked to cite new noncompliance issues that were not included in the original IEM report. The IEVs were consciously selected based on the severity of the issues that emerged from the IEMs, in particular, challenging findings related to nonpayment of wages, egregious health and safety violations, freedom of association, discrimination, and harassment or abuse issues.

In total, there were 417 findings in the verification audits, an average of almost 21 findings per verification. Not surprisingly, the majority of findings related to health and safety, reflective of the distribution of findings across benchmarks for all IEMs in general. However, since the IEVs were selected because of the complicated and critical issues that had emerged in the IEM, there is a higher incidence of noncompliances in these factories pertaining to more elusive issues such as Harassment or Abuse (9% in the IEVs versus 4% in the IEMs), Freedom of Association (6% versus 2%) and Discrimination (3% versus 1%).

It is important to understand that different forms of noncompliance lead to significant differences in the approach and timing of remediation plans. Some noncompliances may be relatively easy to fix, as with fire extinguishers found to have expired. Other, more pervasive problems such as freedom of association or excessive overtime, typically require longer-term initiatives. Thus, in many cases remediation plans can take many months to complete, which leads to a delay in the data compilation.

C) FLA Enhanced Licensee Program

Many FLA affiliates have as the main part of their business licensing for universities and colleges. Over time, we have discovered significant gaps in the capacity of licensees to comply with the codes of conduct of FLA-affiliated universities and colleges. Over the course of 2006, the FLA sought to find ways to upgrade its program for licensees and provide resources to both universities and licensees seeking to improve compliance with labor standards tailored to their specific needs. This section of the report describes this program and the pilot version of it that was launched in the fall of 2007, with a group of volunteer universities and colleges.

D) FLA Special Projects

The FLA's special projects are initiatives intended to address individual industries, countries, methods of labor compliance and persistent problems have proven especially problematic or that do not fall within the traditional FLA program. These initiatives, which are often multi-year efforts, allow the FLA to develop and test a variety of new concepts, compliance tools, training methods and collaborative programs. This year's Report includes descriptions of the following FLA special projects:

- 1) The Soccer Project and Sustainable Compliance;
- 2) The Freedom of Association (China Social Dialogue) Project;
- 3) The Syngenta Seeds Project;
- 4) The Central America Project; and
- 5) The Joint Initiative for Corporate Accountability and Workers Rights (Jo-In) Project

E) FLA Third Party Complaints

Through the Third Party Complaint process, any person or organization may report to the FLA allegations of significant or persistent patterns of noncompliance with the FLA Code of Conduct or individual incidents of serious noncompliance. This reporting year saw 23 Third Party Complaints received from interested parties. Although the bulk of these complaints were not

actionable, this section describes the four-step FLA process and their resolution as well as highlighting two individual Third Party Complaints.

2) Compliance Programs of FLA-Affiliated Companies

The 2007 Annual Public Report provides detailed reports on the efforts of 38 affiliated companies during 2006 to strengthen labor conditions in the factories from which they source. This represents an increase of seven companies from last year. The Annual Public Report covers both FLA Participating Companies and Category B licensees.

Each report provides an overview of the company, including its size, brands covered by the FLA affiliation, the number and location of facilities and monitoring visits, a description of the staff and program responsible for promoting FLA standards. In addition, the reports include examples of treatment of labor compliance by that company, at times including changes in the program since last year's Annual Public Report.

Participating Companies commit to implement the FLA code of Conduct in factories throughout their supply chains. The companies included range in size from major publicly traded multi-national companies to small, privately held companies. Approximately half of the participating companies are also FLA university licensees. The Participating Companies included in this report are:

adidas Group
ASICS Corporation
Eddie Bauer Holdings, Inc.
GFSI, Inc. (Gear for
Sports/Champion Custom
Products)
Gildan Activewear, Inc.
H&M (Hennes & Mauritz AB)
Liz Claiborne, Inc (LCI)
Mountain Equipment Co-op
(MEC)

New Era Cap Company, Inc.
Nike, Inc.
Nordstrom, Inc.
Outdoor Cap Company, Inc.
Patagonia
Phillips-Van Heusen Corporation
PUMA AG
Top of the World
Twins Enterprise, Inc.
Zephyr Graf-X

Concept-One Drew Pearson Marketing and Umbro Plc failed to submit their reports pursuant to their obligations as affiliated companies.

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 Category B Licensees included in the report are:

American Pad and Paper LLC
Ashworth, Inc.
A.T. Cross Company
Columbia Sportswear Company
Commemorative Brands Inc.
Cutter and Buck
Deluxe Corporation
(report incomplete)
Fossil, Inc.
Herff Jones, Inc.
Jostens, Inc.

Majestic Athletic
MBI, Inc.
MeadWestvaco Consumer &
Office Products
M.J. Soffe Company
Ping, Inc.
Easton-Bell Sports
Russell Corporation
Under Armour, Inc.
V.F. Corporation.

Global Accessories, Inc. and John H. Harland Company failed to submit their reports and Deluxe Corporation failed to submit a full report pursuant to their obligations as affiliated companies.

3) Feature Article

“Retrenchment and Plant Closures: Challenges for Worker Rights and industrial Relations,” by Prof. Halton Cheadle and Aurret van Heerden.

1. The FLA Program: The Next Generation of Labor Rights Protection and Factory Compliance

The FLA begins its second decade as an increasingly vibrant, creative, effective and growing organization. Its maturation is increasingly evident on every front, through the application of both its core program and the growing number of new initiatives, tools, and methodologies that are strengthening the nature of monitoring and labor compliance and working to achieve the goal of more sustainable solutions.

Introduction

The group of forward-looking companies, human, labor rights and civil society groups that banded together in 1996 to create the Apparel Industry Partnership (the predecessor to FLA), and which were subsequently joined by universities and colleges, were responding to a bold challenge from President Bill Clinton. That challenge was to bring to an end the problem of sweatshop labor, which had been thrust so dramatically into the public eye the previous year.

Those representatives who gathered to create the new organization understood that the most successful way of achieving change within the industry and the factories used to manufacture their products was through the influence that companies and brands can have on those factories. That initial strategy was an effective one.

Nevertheless, that early response was, by virtue of its nature and timing, a largely reactive effort. Consequently, the FLA's initial focus and approach to ending sweatshops and improving workers rights were largely reactive as well. The focus was primarily on developing immediate answers to stopping sweatshop labor and creating a



system of factory monitoring intended to catch and put an immediate end to the flagrant and tragic violations of human and labor rights that were occurring.

When the FLA's work began in the late 1990s, the greatest challenges were evaluating the situation in a particular factory and determining how best to target efforts to improve workplace conditions. The most effective tool at the time, the unannounced audit, exposed existing violations. It was followed up with the creation of a corrective action plan that included remediation and subsequent verification that the necessary changes had been made. This has been the core of the FLA system and makes it unique as compared with other initiatives. In the years that followed, that core was refined, expanded and improved, with more companies, as well as universities and colleges and their licensees committing their manufacturing processes to the regimen of, and compliance with, the FLA Workplace Code of Conduct.

Today, the FLA includes hundreds of companies who have committed themselves to FLA's Workplace Code of Conduct. In addition, many of the largest brands who have affiliated with FLA are subject to unannounced random audits of the factories from which they source. To ensure accountability and transparency to the public, the results of these audits are published, as are documentation of the remediation plans that are developed and the verification audits that are done subsequent to that.

The first part of this section of the Annual Report includes a detailed summary of the statistics from the Independent External Monitoring (IEM) program. It examines not only the initial audit and the violations found, but through its discussion and documentation of the remediation and verification stages of the process, documents the overall strategy and success of the FLA inspection program. In addition it includes a section on the new Enhanced Licensee Program designed especially for University and College licensees.

Following this compilation of IEM data, Part II of this section examines a number of the other compliance pieces of the FLA program, including Special Projects and Third Party Complaints.

Part I: The FLA Core Program – Independent External Monitoring. Remediation and Verification

A) Independent External Monitoring and Remediation

One of the primary obligations of a Participating Company and Category B Licensee affiliating with the FLA is to submit to the Independent External Monitoring (IEM) program. Specifically, the affiliated company is to provide the FLA with an accurate, up-to-date factory list, access letters to facilitate entry into the factories by accredited monitors, and other documentation. The companies are also to ensure that the suppliers selected for IEMs cooperate with FLA monitors and respond to FLA requests for information, clarification and follow-up in the IEM process, a two step course of



action which includes remediation (corrective action) of the problems discovered and verification to ensure that the remediation plans are implemented and completed.

At its core, an IEM is a

status check on conditions of work at the factory level. The report issued as a result of the IEM provides the factory, the company or companies sourcing from this factory, and the FLA a clear understanding of remediation needs. Further, because of the transparency resulting from the regular posting of these inspection reports on the FLA website, IEMs also provide interested members of the public with knowledge about sourcing issues for FLA affiliated companies.

The basic purpose of an IEM is three-fold:

1. To determine the compliance status of the monitored facility in relation to the elements of the FLA Code of Conduct and applicable labor laws;
2. To report on issues of Code noncompliance in a manner that allows the FLA-affiliated Company to remediate them in an appropriate and timely fashion; and
3. To enable the FLA to evaluate the implementation of the affiliated Company's Monitoring Plan.

Factory lists and other relevant documentation are collected from Participating Companies and Category B Licensees at the start of each year. Each company's list of applicable facilities is then subject to a selection process. IEMs are randomly selected after a "weighting" process which assigns weight to high-, medium-, and low-risk countries. In addition, the number of facilities inspected for each company is directly correlated with the total number of factories it has in each region. FLA Regional Managers are notified of the IEMs in their region (Americas, East Asia, Europe, Middle-East and Africa, South Asia and Southeast Asia). Accredited independent external monitors are then assigned to conduct specific IEMs and may be accompanied by FLA regional managers when the inspections are conducted.

Remediation

After each IEM, the monitoring organization provides a report directly to the company or companies sourcing from the factory and to the FLA. This report highlights any violations of the FLA Code of Conduct and is the basis for a company's required and appropriate Remediation or Corrective Action Plan (CAP) addressing the noncompliance issues and developed in consultation with the audited factory. The plan should be both sustainable and preventative in nature.

A CAP in good form should:

1. Be a concise but detailed plan as to *how* the problem was/will be remediated, being as specific as possible. *For example, if hours are reduced, how will the factory achieve this: By installing a new shift? Reducing orders? Training on productivity? The creation and implementation of policies and procedures on hours of work?*

2. Demonstrate that remediation actions are not temporary, but rather have an integrated, sustainable approach.
3. Demonstrate a verification process to ensure that remediation will occur. Supporting documents should always be referenced and documents that are easy to send (such as digital photos) should be sent to the FLA.
4. Include completion dates (either targeted or actual). Pending remediation items should be addressed in subsequent updates.
5. Be clear and use straightforward language.

Case Study: Remediation

In a Honduras apparel factory, independent auditors working for the FLA found that workers were being discouraged from forming a union through possible management interference in violation of the Freedom of Association and Collective Bargaining provision of the FLA Workplace Code of Conduct. The findings included: 1) petitions found in the factory asking for worker signatures stating that they did not want to join a union; 2) allegations filed stating that a worker was terminated for union participation; 3) complaints from union members that they were harassed by a line supervisor and a written complaint to that effect filed with HR management; and 4) no factory policies addressing freedom of association.

The factory management challenged some of the monitor's findings, stating that workers had initiated the petition themselves and that the employee that left the factory had made the decision following discussions with management. Upon receiving the IEM report, the FLA-affiliated companies sourcing from the factory specified a number of remediation measures to the factory, centered on the development by the factory of policies and procedures to prevent the occurrence of such issues in the future. Specifically, they outlined a multi-pronged plan for increasing communications within the plant about the freedom of association policy in a manner that

would increase worker awareness. This plan included: 1) defining a worker-management communication channel for dealing with production and welfare issues as well as a worker non-retaliation policy to protect workers using the systems; 2) defining the conditions under which employees are able to select representatives and/or participate in factory problem-solving mechanisms; 3) assigning someone responsible for policy/procedures implementation; and 4) creating an employee training plan.

The companies subsequently asked for documentation to be submitted to examine the policies and procedures on freedom of association and worker representation, including an employee training plan, which will be verified in subsequent follow-up visits.

The following detailed analysis of the IEMs conducted in 2006 includes additional case studies that provide examples of the range of problems and the sustainable corrective action plans developed by companies to prevent them from recurring.

In reviewing these reports, it is important to understand that corrective action plans can take very different forms and lengths of time to implement and complete as a result of the differing severity of the violations. The final part of this section addresses the link between remediation and verification, and includes statistics on this aspect of the FLA process.

The 2006 Supply Chain

Participating Companies and Category B Licensees reported 5,178 factories as applicable facilities in 2006. These factories employed an estimated 3.76 million workers. This compares with 3,753 factories employing 2.9 million workers in 2005. The distribution of workers by country location (the top 20 countries with factories producing for FLA brands) in 2006 is presented in Chart 1.

Chart 1: 2006 Estimated Number of Workers in FLA Affiliated Factories (top 20 countries)

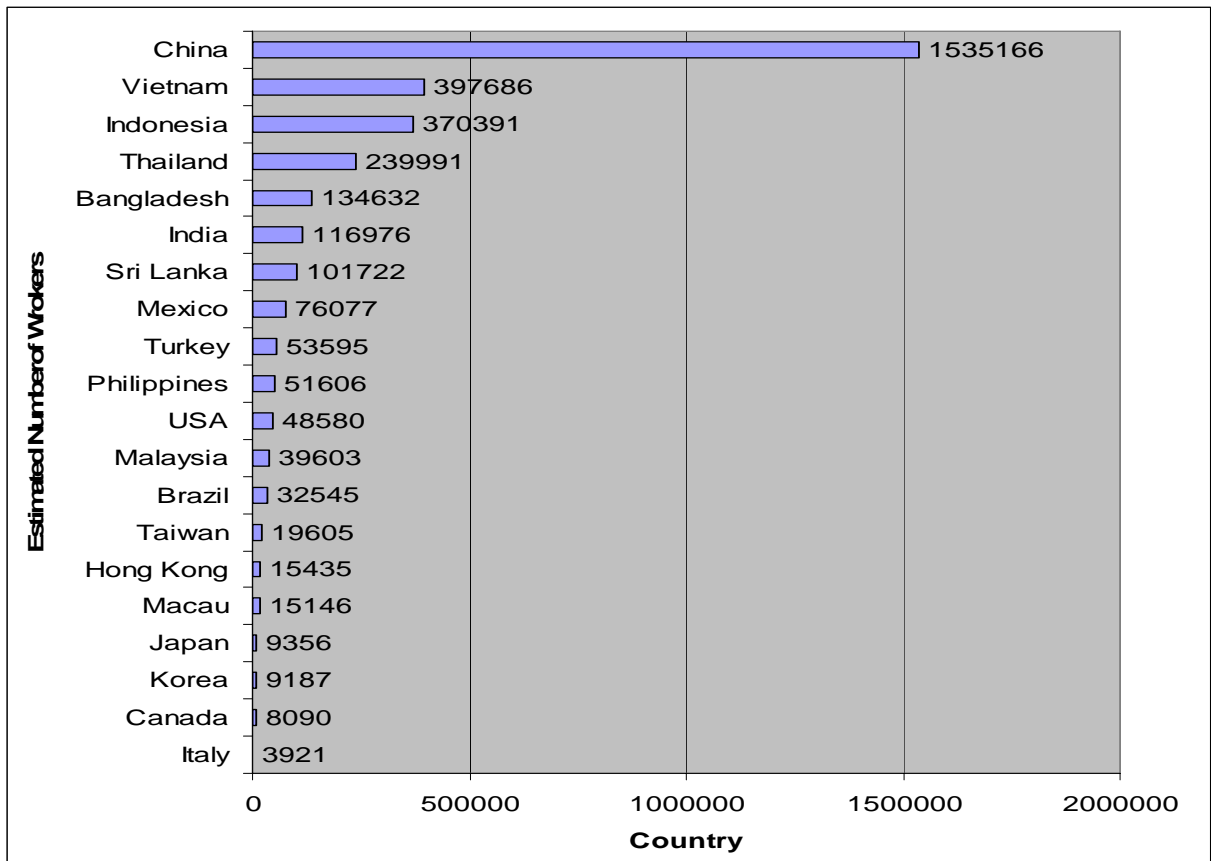
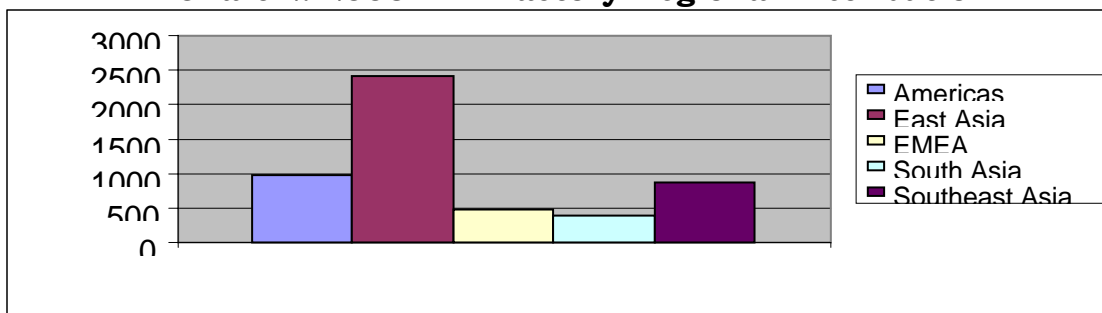


Chart 2 shows the distribution of the 2006 FLA factory base by FLA regions: Americas; Europe, Middle East, and Africa (EMEA); South Asia; Southeast Asia; and East Asia. The largest concentration of factories used by FLA companies in 2006 was in East Asia, where 2,419 factories or 47% of the total facilities were located, followed by the Americas, with 985 or 19%, Southeast Asia, with 875 or 17%, EMEA with 497 or 9.6%, and South Asia with 391 or 7.5%.

Chart 2: 2006 FLA Factory Regional Distribution



This section provides an overview of the aggregate findings of IEM visits conducted by FLA accredited monitors in 2006. As is evident from the tracking charts reporting on each IEM, the information collected by the FLA during monitoring visits is qualitative in nature.¹ The example provided below offers an explanation of how the data was collected and interpreted – that is, how the FLA translates qualitative information collected during IEM visits into quantitative data.

Understanding IEM Data

To understand the data reported in this section, it is useful to give an example. The FLA Workplace Code of Conduct provision relating to Harassment or Abuse states:

Every employee will be treated with respect and dignity. No employee will be subject to any physical, sexual, psychological or verbal harassment or abuse.

The FLA Benchmarks for Harassment or Abuse are the following:

- Employers will utilize progressive discipline, e.g., escalating discipline using steps such as verbal warning, written warning, suspension, termination. Any exception to this rule, e.g., immediate termination for theft or assault, shall be in writing and clearly communicated to workers.
- Employers will not use physical discipline, including slaps, pushes or other forms of physical contact (or threats of physical discipline).
- Employers shall not offer preferential work assignments or other preferential treatment of any kind in actual or implied exchange for a sexual relationship, nor subject employees to prejudicial treatment of any kind in retaliation for refused sexual advances.
- Employers will utilize consistent written disciplinary practices that are applied fairly among all workers.
- Employers will provide training to managers and supervisors in appropriate disciplinary practices.
- Management will discipline (could include combinations of counseling, warnings, demotions, and termination) anyone (including managers or fellow workers) who engages in any physical, sexual, psychological or verbal harassment or abuse.
- Employers will maintain written records of disciplinary actions taken.
- Employers will prohibit screaming, threatening or demeaning verbal language.
- Security practices will be gender-appropriate and non-intrusive.
- Access to food, water, toilets, medical care or health clinics or other basic necessities will not be used as either reward or punishment.
- Employers will not unreasonably restrain freedom of movement of workers, including movement in canteen, during breaks, using toilets, accessing water, or to access necessary medical attention.
- Employers will not use monetary fines and penalties for poor performance.

Suppose that in the context of an IEM, a monitor observed that:

- (1) workers in a factory were not allowed access to toilets; and
- (2) a manager was abusive to workers.

¹ Tracking Charts can be found at <http://www.fairlabor.org/pubs/tracking>

The monitor would report to the FLA noncompliance with two benchmarks – that is, two noncompliances within the Harassment or Abuse code element. If the monitor were to observe several instances of noncompliance with the same benchmark (e.g. restrictions regarding access to toilets in several areas of a plant), this would be recorded as a single noncompliance. Thus, the frequency of noncompliance with a given code element can provide some general sense of factory conditions, but does not necessarily present the whole story. Additionally, because the IEMs are qualitative in nature, the data provided in this section should not be taken as hard statistics but rather as indications of trends in compliance within the supply chain.

In 2006, FLA accredited monitors conducted IEM visits at 147 facilities worldwide. Twenty-one of those factory visits were conducted in factories where two or more FLA companies – Participating Companies (PCs) or Category B Licensees – were sourcing. Of those 21, 18 IEMs were shared by two FLA companies and three IEMs were shared by three FLA companies (Chart 2). Thus, a total of 171 audits were conducted, including shared facilities.

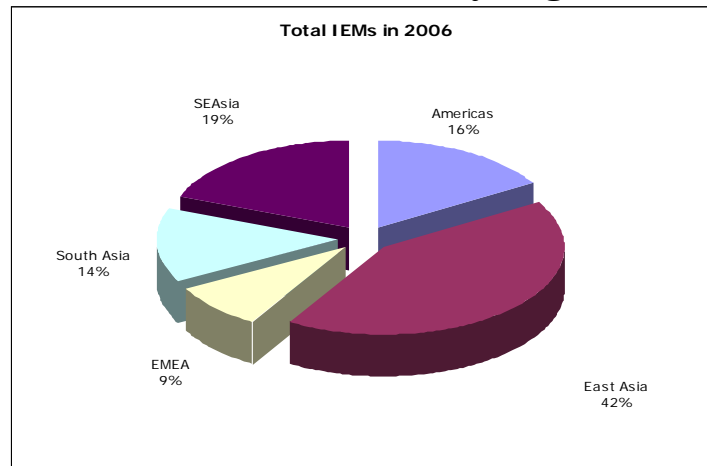
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Table 2: 2006 IEM and Supply Chain Facts

Factory Visits	147
IEMs Including Shared Facilities	171
Number of Factories (2006 factory list)	5,178
Estimated Number of Workers (2006 factory list)	3.76 million
Estimated Number of Workers in Factories that Received IEMs	110,326

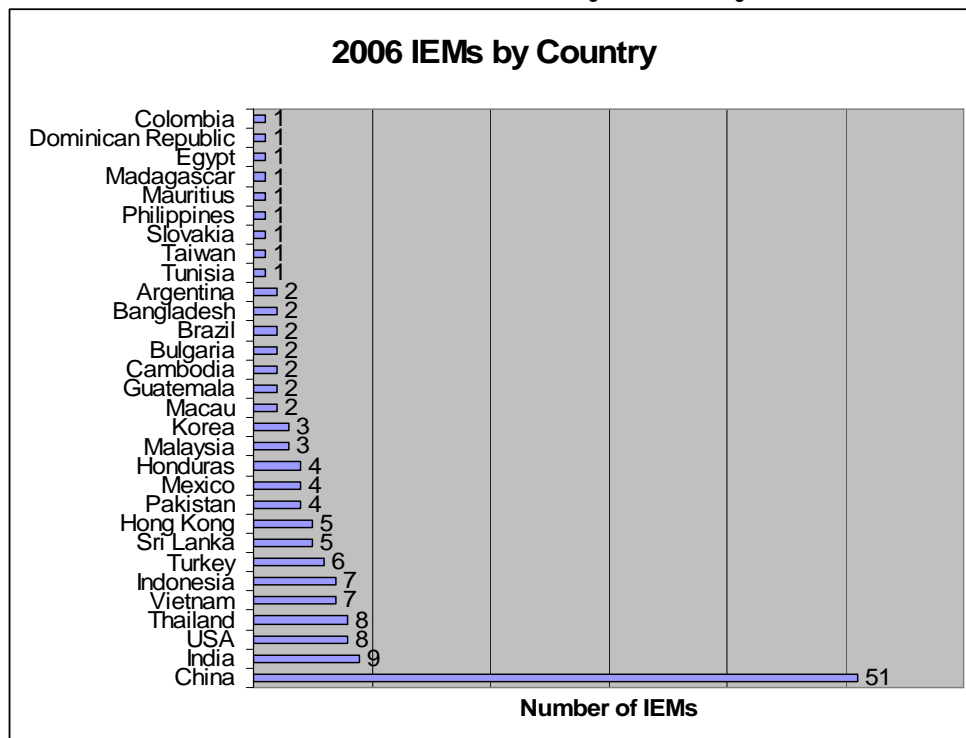
In 2006, 62 IEMs (42%) were conducted in East Asia, 28 (19%) in Southeast Asia, 24 (16%) in the Americas, 20 (14%) in South Asia, and 13 (9%) in EMEA (see Chart 2). This compares with 33% of applicable factories in East Asia, 22% in Southeast Asia, 19% in the Americas, 20% in South Asia, and 6% in EMEA.

Chart 2: 2006 IEMs by Region



As shown in Chart 3, the 147 IEM visits conducted in 2006 were distributed across 30 countries. Fifty-one of the IEMs, or 34.7%, were in China, with an additional 5 in Hong Kong and 2 in Macau, for a total of 58 or 39.5% in greater China. The second largest number of IEM visits was in India, with 9 (6.1%), followed by Thailand and the United States with 8 (5.4% each), Indonesia and Vietnam with 7 (4.8%), and Turkey with 6 (4.1%).

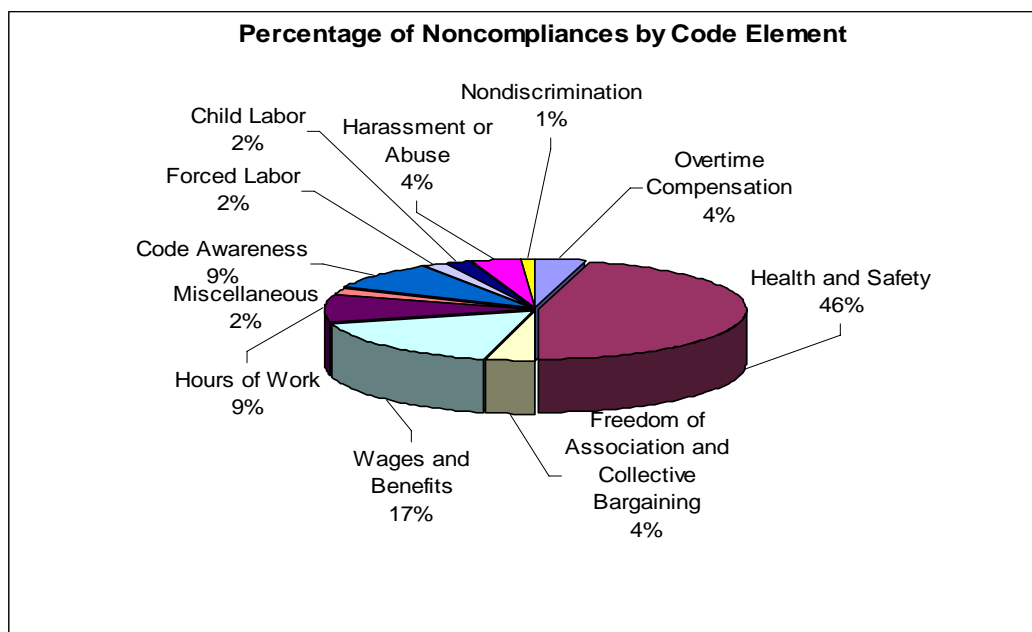
Chart 3: 2006 IEMs by Country



2006 IEM FINDINGS

Overall, 2,511 noncompliances were observed by accredited monitors and reported to the FLA during the 147 factory audits conducted in 2006. The distribution of noncompliances by code element is shown in Chart 4. By far, the largest number of reported noncompliances referred to the Health and Safety code element (1,151 noncompliances or 46%), followed by Wages and Benefits (419 noncompliances or 17%), Code Awareness (230 noncompliances or 9%), Hours of Work (210 noncompliances or 9%), Harassment or Abuse (106 noncompliances or 4%), Overtime Compensation (98 noncompliances or 4%), Freedom of Association and Collective Bargaining (98 noncompliances or 4%), Forced Labor (61 noncompliances or 2%), Miscellaneous (54 noncompliances or 2%), Child Labor (49 noncompliances or 2%), and lastly Nondiscrimination (35 noncompliances or 1%).

Chart 4: 2006 IEMs--Percentage of Noncompliances by Code Element



The 2,511 noncompliances translate into about 17.1 instances of noncompliance per factory subject to an IEM, and compares with 16.0 instances of noncompliance per IEM in 2005, 18.2 instances of noncompliance in 2004, and 15.1 instances of noncompliance in 2003. The reader is cautioned not to interpret increases or declines in the average number of noncompliances per IEM over time as indicating a deterioration or improvement in working conditions in the supply chain subject to IEMs because the

number of noncompliances can be affected by a number of factors, including changes in the quality of monitors used by the FLA, the degree of familiarity of monitors with the audit instrument, and the level of monitors' experience with FLA monitoring requirements.

The current FLA benchmarks are a combination of:

- *Substantive benchmarks*, which define the rights and duties contained in the FLA code, and describe issues that, if found in the factory, would constitute a direct violation of a code provision.
- *Procedural benchmarks*, which include instances that flag a lack of systems or administrative processes that could lead to violation of a code provision.
- *"Other" benchmarks*, which refer to issues that do not fall squarely under existing FLA benchmarks. An example of a noncompliance which is not covered by an FLA benchmark is a law in Indonesia which states that the minimum wage only applies to workers with less than one year of service at a workplace. Therefore, if a factory pays minimum wage to all workers, regardless of how many years they have worked at a factory, they are in violation of the national law.

Table 4 shows the distribution of noncompliances among the three categories.

**Table 4: 2006 IEMs--Distribution of Noncompliances by
Substantive
and Procedural Benchmarks
(% of code element noncompliances)**

Code Element	Substantive Noncompliances	Procedural Noncompliances	“Other” Noncompliances
Forced Labor	16%	67%	17%
Child Labor	4%	94%	2%
Harassment or Abuse	28%	62%	10%
Nondiscrimination	63%	20%	17%
Health and Safety	76%	15%	9%
Freedom of Association and Collective Bargaining	76%	2%	22%
Wages and Benefits	46%	47%	7%
Hours of Work	82%	11%	7%
Overtime Compensation	94%	5%	1%

Table 5 shows the number of noncompliances by region. The highest number of noncompliances per IEM visit was found in South Asia, with 37.4 noncompliances identified by accredited monitors on average during each factory visit, followed by 18.9 noncompliances per IEM in Southeast Asia. The average number of noncompliances in EMEA was 14.8 per IEM, while the average number of noncompliances for East Asia and the Americas was 12.4 and 11.4, respectively. These regional differences should be interpreted with care, as many factors – including differences in the quality of monitors used by the FLA, the degree of familiarity that the monitors have with the audit instrument, and the level of the monitors’ experience with FLA monitoring requirements – can all affect these results.

Table 5: 2006 IEMs—Avg. # of Noncompliances by Region

Region	Number of Noncompliances	Number of Factory Visits	Average Number of Noncompliances per Factory
Americas	274	24	11.4
East Asia	768	62	12.4
EMEA	192	13	14.8
South Asia	748	20	37.4
Southeast Asia	529	28	18.9

Finally, Table 6 shows the percentage distribution of noncompliances reported by accredited monitors in 2006 by element of the FLA Workplace Code of Conduct and by region. This table is drawn on throughout this section.

Table 6: 2006 IEMs--Noncompliances by Code Element and Region

Code Element	Americas		East Asia		EMEA		Southeast Asia		South Asia		TOTALS
	# of NCs	% of Region	# of NCs	% of Region	# of NCs	% of Region	# of NCs	% of Region	# of NCs	% of Region	
Code Awareness	38	13.9	88	11.5	19	9.9	49	6.6	36	6.8	230
Forced Labor	5	1.8	12	1.6	10	5.2	18	2.4	16	3.0	61
Child Labor	6	2.2	27	3.5	5	2.6	7	0.9	4	0.8	49
Harassment or Abuse	8	2.9	30	3.9	4	2.1	45	6.0	19	3.6	106
Nondiscrimination	1	0.4	9	1.2	3	1.6	6	0.8	16	3.0	35
Health & Safety	146	53.3	264	34.4	114	59.4	364	48.7	263	49.7	1151
FOA and Collective Bargaining	6	2.2	65	8.5	0	0.0	15	2.0	12	2.3	98
Wages and Benefits	34	12.4	144	18.8	14	7.3	140	18.7	87	16.4	419
Hours of Work	14	5.1	80	10.4	17	8.9	50	6.7	49	9.3	210
Overtime Compensation	10	3.6	37	4.8	4	2.1	26	3.5	21	4	98
Miscellaneous	6	2.2	12	1.6	2	1.0	28	3.7	6	1	54
TOTALS	274	100	768	100	192	100	748	100	529	100	2511

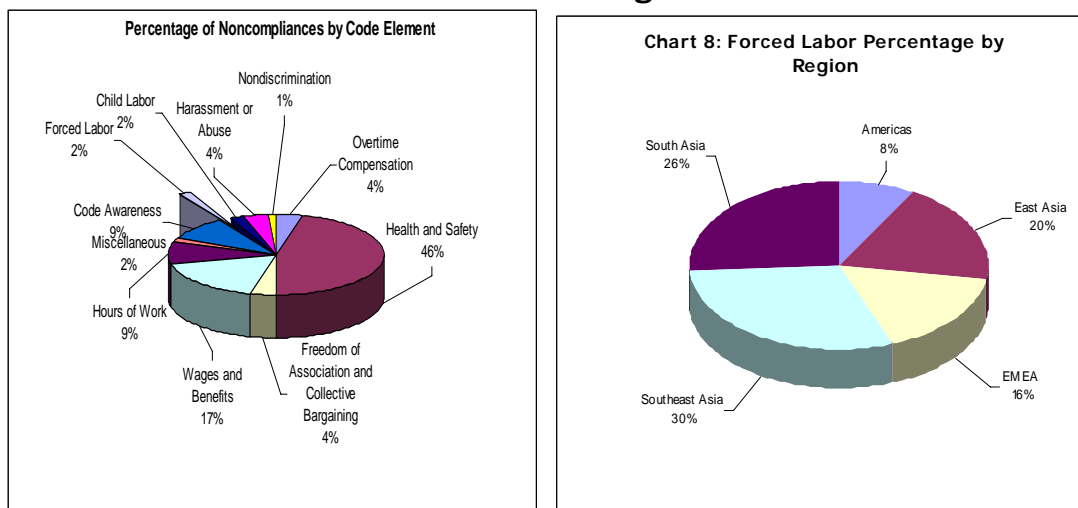
REVIEW OF NONCOMPLIANCES BY CODE ELEMENT

Forced Labor

WORKPLACE CODE OF CONDUCT PROVISION: There will not be any use of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise.

FLA-accredited monitors identified 61 noncompliances with the Forced Labor code provision during the 2006 IEM cycle. These incidents represented 2% of all noncompliance issues identified (Chart 5). The distribution of Forced Labor noncompliances by region was as follows: Southeast Asia, 38%; South Asia, 26%; East Asia, 20%; EMEA, 16%; and Americas, 8% (Chart 6). The highest incidence of Forced Labor noncompliances was found in EMEA, where 5.2% of noncompliances corresponded to Forced Labor benchmarks. Following EMEA, 3.0% of South Asia's total noncompliances were related to Forced Labor, 2.4% in Southeast Asia, 1.8% in the Americas, 1.7% in East Asia

Charts 5 and 6: 2006 IEM Findings – Forced Labor



As is clear from Table 7, two-thirds (66%) of noncompliances related to Forced Labor occurred with regard to procedural benchmarks, while 16% were substantive. The most common noncompliances involved recordkeeping practices that did not meet FLA standards (36%), issues related to employment terms (15%), and irregularities in recruitment contracts (11%). With regard to substantive benchmarks, there were no reported instances of forced labor or bonded labor, but there were some instances of noncompliance with the freedom of movement benchmark (8%) and with financial issues related to freedom of movement (7%).

Table 7: 2006 IEMs--Forced Labor Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Prison Labor	0	0
Indebtedness	0	0
Freedom of Movement	5	8
Freedom of Movement: Financial	4	7
Confiscated Original Documentation	1	2
Subtotal	10	16
Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Inkind Compensation	0	0
Debt / Bonded Labor	0	0
Employment Records	22	36
Freedom of Movement: Facilities	0	0
Employer Controlled Residence	0	0
Freedom of Movement: Residences	0	0
Freedom in Employment	1	2
Employment Terms	9	15
Freedom of Movement: Financial	0	0
Accessible Records / Documents	1	2
Recruitment Contracts	7	11
Recruitment Fees	0	0
Subtotal	40	66
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	1	2
Other	10	16
Subtotal	11	18
TOTAL	61	100

Case Study: Forced Labor

At a t-shirt factory in Honduras, an FLA audit revealed that company policy requires employees to get written permission from management to be allowed by security guards to leave the facility during their lunch break, which is unpaid. The FLA Workplace Code of Conduct states that employees are to have free egress at all times, even in those cases where factory entrances are locked or guarded for security reasons to prevent non-employee access to the premises. The FLA-affiliated company met with factory representatives and the policy was subsequently changed so that employees do not need permission to leave the factory during their lunch break.

Child Labor

WORKPLACE CODE OF CONDUCT PROVISION: No person will be employed at an age younger than 15 (or 14 where the law of the country of manufacture allows) or younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

In 2006, FLA-accredited monitors identified 49 noncompliances with the Child Labor code provision. These findings represented 2% of all noncompliance issues identified (Chart 7). The distribution of Child Labor noncompliances by region was as follows: Southeast Asia, 42%; East Asia, 28%; South Asia, 18%; Americas, 8%, and EMEA, 4% (Chart 8). The highest incidence of Child Labor noncompliances was found in East Asia, where 3.7% of all noncompliances corresponded to Child Labor benchmarks. In EMEA, 2.6% of all noncompliances were related to this code element, 2.2% in the Americas, 0.9% in Southeast Asia and 0.8% in South Asia.

Charts 7 and 8: 2006 IEM Findings – Child Labor

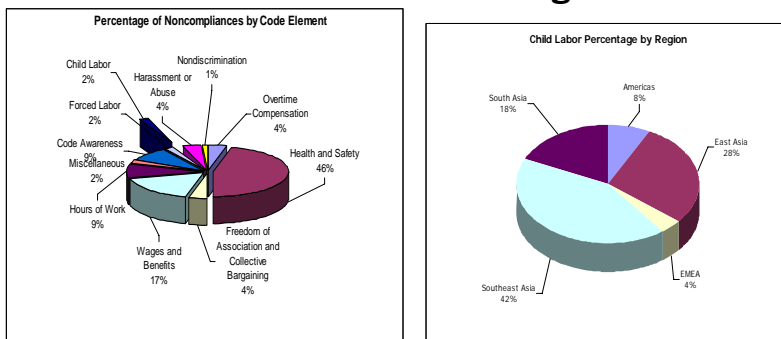


Table 8 shows the distribution by benchmarks of noncompliances related to the Child Labor code element. It is clear from the data reported that the vast majority (94%) of noncompliances related to this code element involved procedural benchmarks, chiefly among them legal compliance with laws and regulations for juvenile workers, typically employing juvenile workers who are not registered with the local labor bureau or employing juvenile workers without providing the physical examinations required by law (35%), and failure to maintain age documentation systems (35%) and age verification systems (12%) that meet FLA standards.

Table 8: Child Labor Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Legal Working Age (Vocational)	0	0
Lack of Protection of Under-Age Workers	2	4
Subtotal	2	4
Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Parent Consent Documentation	0	0
Age Documentation	17	35
Age Verification	6	12
Legal Compliance (Apprenticeships)	1	2
Childcare Facilities	0	0
Children on Premises	0	0
Legal Compliance for Juvenile Workers	17	35
Juvenile Worker Identification System	5	10
Subtotal	46	94
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	0	0
Other	1	2
Subtotal	1	2
TOTAL	49	100

CASE STUDY: Child Labor

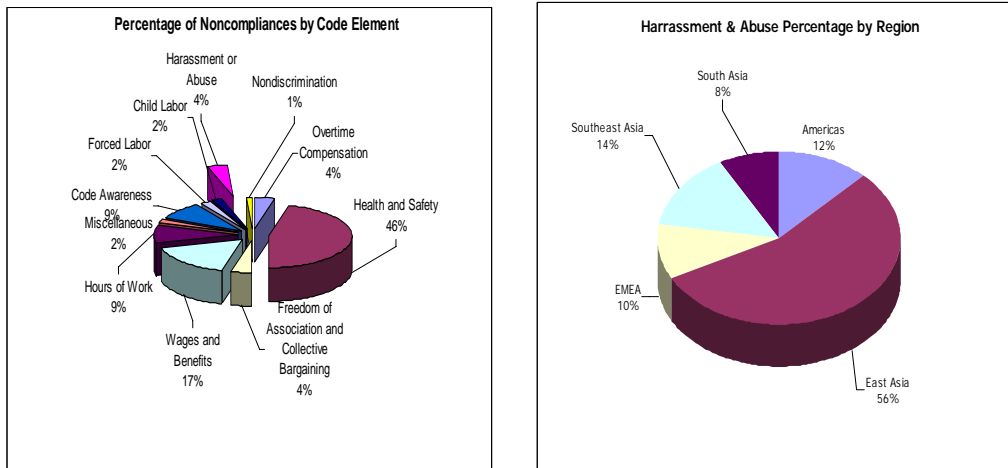
In a factory in China, FLA monitors discovered that no policy existed regarding the protection of (legal) juvenile workers between the minimum working age and 18. Additionally, the employer was failing to provide and pay for regular pre-employment physical examinations for these workers as required by the FLA Code and local law. In response, the FLA-affiliated company put in place a juvenile protection policy at the factory to ensure that every juvenile worker was registered with the local labor bureau and that each was provided with a physical check up at no cost to the worker through the time they turned 18. The result has been heightened awareness by the company and the factory and increased protection of young, legal workers.

Harassment or Abuse

WORKPLACE CODE OF CONDUCT PROVISION: Every employee will be treated with respect and dignity. No employee will be subject to any physical, sexual, psychological or verbal harassment or abuse.

One of the goals of this provision in the FLA Code of Conduct is to prevent random, unsupported, and undocumented reprimands or punishment for such treatment undermines an essential right of a worker to be treated fairly, even in cases in which allegations of inappropriate conduct are made. In 2006, 106 individual incidents related to noncompliance with the Harassment or Abuse code provision were identified by monitors. These incidents represented 4% of all noncompliance issues identified (Chart 9). The distribution of Harassment or Abuse noncompliances by region was as follows: East Asia (56%); Southeast Asia (14%); Americas (12%); EMEA (10%); South Asia (8%) and the Americas (7%) (Chart 10). The highest incidence of Harassment or Abuse noncompliance was found in Southeast Asia where 6% of noncompliances corresponded to Harassment or Abuse benchmarks. The percentages in the other regions were: East Asia (4.1%); South Asia (3.6%); the Americas (2.9%); and EMEA (2.1%).

Charts 9 and 10 : 2006 IEM Findings – Harassment or Abuse



Sixty-two percent of the noncompliances for this code element related to procedural benchmarks; 32% related to substantive benchmarks, and 6% were categorized as noncompliances with “other” benchmarks (see Table 9). Overall, 18% of the Harassment or Abuse noncompliances related to each of the procedural benchmarks of inadequate training of management in disciplinary practices and record maintenance, 13% involved progressive discipline, and 12% involved disciplinary practices. Two substantive benchmarks, the use of fines and penalties as disciplinary actions towards workers and verbal abuse of workers by supervisors, involved 11% and 8%, respectively, of total noncompliances with the Harassment or Abuse code element.

Table 9: 2006 IEMs--Harassment or Abuse Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Physical Abuse	1	1
Sexual Harassment	0	0
Disciplinary Practices	3	3
Verbal Abuse	8	8
Gender Sensitive Security	4	4
Access to Facilities	2	2
Freedom of Movement	4	4
Monetary Fines and Penalties	12	11
Subtotal	34	32
Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Progressive Discipline	14	13
Disciplinary Practices	13	12
Training of Management in Disciplinary Practices	19	18
Disciplinary Action Punishment of Abusive Supervisors / Manager	1	1
Record Maintenance	19	18
Subtotal	66	62
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	1	1
Other	5	5
Subtotal	6	6
TOTAL	106	100

CASE STUDY: Harassment or Abuse

In confidential interviews with workers and a review of workers' personnel records, associated with an FLA independent audit, it was discovered that the employer at a footwear factory in India was issuing

inappropriate verbal criticisms of workers, including abusive language, rather than abiding by an established disciplinary policy. In response to the findings, the company created a remediation plan for the factory whereby the factory will issue written instructions in the form of orientation materials for workers and a handbook to all supervisory staff. These materials will include directives to refrain from any form of verbal or physical abuse and will provide and communicate appropriate punitive and due process measures for inappropriate conduct, including the broad disciplinary policies, the differing levels of discipline and the hierarchy of authority for implementation of discipline.

Nondiscrimination

WORKPLACE CODE OF CONDUCT PROVISION: No person will be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

In 2006, 35 noncompliances with the Nondiscrimination code provision were identified by FLA-accredited monitors. These findings represented 1% of all noncompliance issues identified (Chart 11). The distribution of Nondiscrimination noncompliances by region was as follows: South Asia, 45%; East Asia, 26%; Southeast Asia, 17%; EMEA, 9%; and Americas, 3% (Chart 12). The highest incidence of Nondiscrimination noncompliance was found in South Asia, where 3.0% of noncompliances corresponded to Nondiscrimination benchmarks. In EMEA, this rate was 1.6% and in East Asia 1.2%. In Southeast Asia and the Americas, the noncompliances related to Nondiscrimination comprised less than 1% of those regions' total noncompliances.

Charts 11 and 12: 2006 IEM Findings – Nondiscrimination

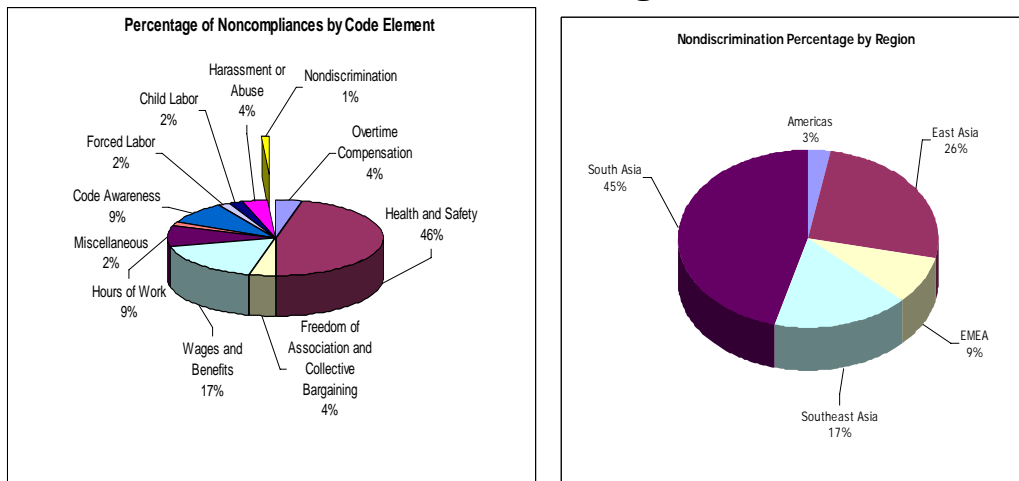


Table 10 shows the 2006 distribution of noncompliances related to the Nondiscrimination code element by benchmark. Sixty-three percent of the noncompliances related to substantive benchmarks, 20% related to procedural benchmarks, and 17% to other benchmarks. The most common area of noncompliance was hiring practices, with 26% of the noncompliances relating to substantive benchmarks and an additional 11% relating to procedural benchmarks. Seventeen percent of the noncompliances related to sex discrimination and 9% to failure to make required accommodations for pregnant workers. FLA-accredited monitors also identified 2 substantive violations of the pregnancy testing benchmark (6% of noncompliances) and 3 noncompliances relating to procedures relating to pregnancy discrimination (9%).

Table 10: 2006 IEMs--Nondiscrimination Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Hiring Discrimination Practices	9	26
Sex Discrimination	6	17
Marital Discrimination	1	3
Pregnancy Testing	2	6
Pregnancy Discrimination	0	0
Pregnancy Accommodation	3	9
Pregnancy Dismissal	1	3
Reproductive Health	0	0
Subtotal	22	63
Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Hiring Discrimination Practices	4	11
Pregnancy Risk	3	9
Subtotal	7	20
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	0	0
Other	6	17
Subtotal	6	17
TOTAL	35	100

CASE STUDY: Nondiscrimination

An FLA independent inspection of an apparel factory in the Chinese province of Zhejiang a recruiting preference for workers between the ages of 18 to 35. The FLA benchmark is that employment decisions will be made solely on the basis of education, training and demonstrated skills or abilities. (In addition to hiring decisions, these nondiscrimination criteria encompass job assignment, wages, bonuses, allowances, and other forms of compensation, promotion, discipline, assignment of work, termination of employment and provision of retirement.) The FLA-affiliated company developed a remediation plan in which the factory would develop and adopt a non-discrimination policy. This included changing advertisements/entrance signs to exclude the age preference. This policy and the remediation action are important, since age discrimination in China is common. The development of this kind of sustainable compliance policy includes communication of the understanding that such a human resources policy also makes good sense as a response to labor shortages in China and will also help produce a more stable, loyal workforce.

Health and Safety

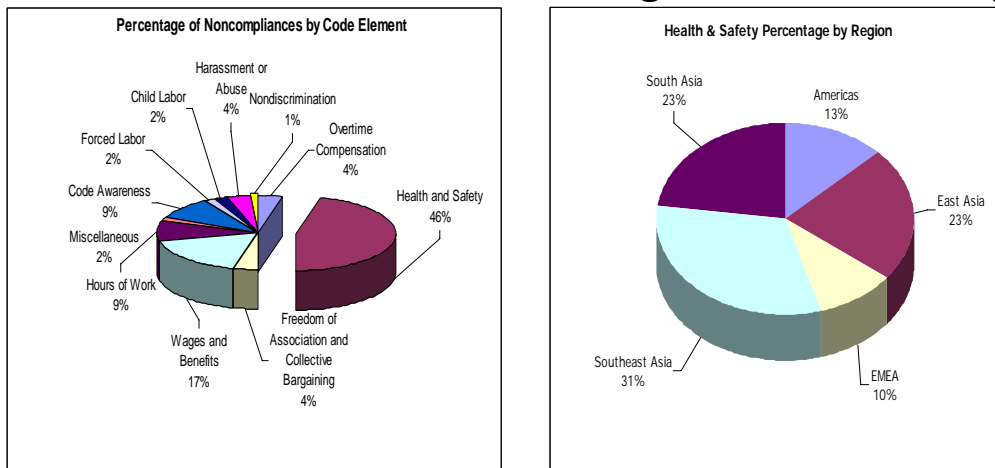
WORKPLACE CODE OF CONDUCT PROVISION: Employers will provide a safe and health working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employer facilities.

As compared to other code provisions such as Freedom of Association or Nondiscrimination, Health and Safety issues are more readily detectable through physical inspection and subsequently sometimes more easily resolved. This accounts, in part, for the very high number of noncompliances with this code provision identified by monitors. Despite the extensive remediation efforts of FLA-affiliated companies, the 2006 IEM findings clearly

indicate that Health and Safety issues continue to be pervasive around the globe.

The most common noncompliance issues reported and remediated in 2006 related to Health and Safety. A total of 1,151 noncompliances, making up a total of 46% of the total number of all reported noncompliances related to this code provision (Chart 13). Chart 14 presents the distribution of Health and Safety noncompliances by region: 31% in Southeast Asia, 23% in both East Asia and South Asia, 13% in the Americas, and 10% in EMEA. The dominance of health and safety noncompliance issues occurred in each of the regions. The highest was in the EMEA region, where 59.4% of the region's total noncompliances involved health and safety benchmarks. The lowest was the East Asia region, where 36.5% of noncompliances were Health and Safety-related.

Charts 13 and 14: 2006 IEM Findings – Health and Safety



As Table 11 documents, of all of the noncompliances related to Health and Safety, 76% related to substantive benchmarks, 15% to procedural benchmarks, and 9% to other benchmarks. The highest concentration of violations of substantive benchmarks related to violations of the evacuation procedures benchmark (17%), followed by safety equipment (12%), personal protective equipment (10%), and chemical management and ventilation/electrical/facility maintenance (9% each). The most frequently found noncompliances related to procedural benchmarks referred to fire safety, health and safety legal compliance and document maintenance/accessibility.

Table 11:
2006 IEMs--Health and Safety Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Evacuation Procedure	197	17
Safety Equipment	133	12
Personal Protective Equipment	115	10
Chemical Management	99	9
Chemical Management for Pregnant Women and Juvenile Workers	2	1
Ventilation / Electrical / Facility Maintenance	104	9
Machinery Maintenance	74	6
Sanitation in Facilities	96	8
Sanitation in Dining Area	43	4
Sanitation in Dormitories	12	1
Subtotal	875	76
Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Fire Safety Health and Safety Legal Compliance	70	6
Document Maintenance / Accessibility	50	4
Personal Protective Equipment	4	1
Record Maintenance	17	1
Machinery Maintenance	4	1
Worker Participation	31	3
Subtotal	176	15
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	4	1
Other Benchmarks	96	8
Subtotal	100	9
TOTAL	1151	100

CASE STUDY: Health and Safety

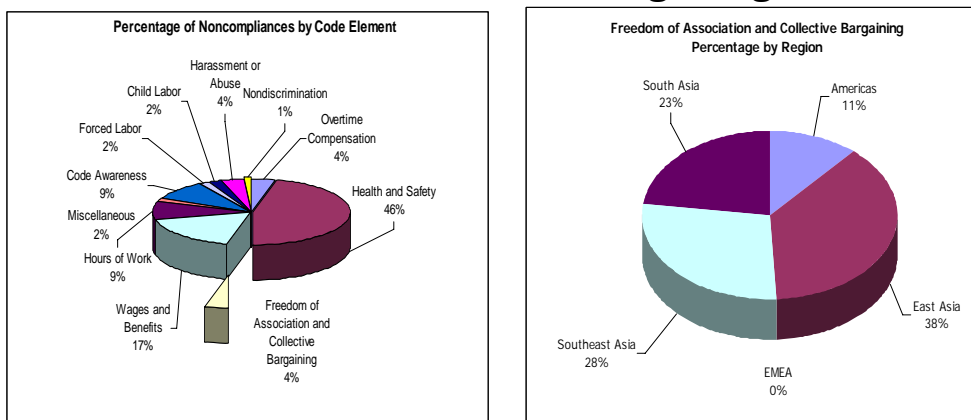
In an apparel factory in Thailand, an FLA audit found no workers to be members of a legally mandated Safety and Health Committee nor any records of committee work. This contradicts the FLA benchmark, which calls for workers to be involved in these types of committees in order to strengthen their involvement in improving the work environment safety provisions. Not only is such involvement required by law, but an important goal of this approach is to increase worker participation in these types of committees as a means of promoting labor-management dialogue and a better work environment. Following the audit, the company, FLA and factor management developed a plan to ensure workers are active in the safety committee as well as on existing occupation, safety and working environment committees. Furthermore, the plan promotes precise record-keeping of meetings.

Freedom of Association and Collective Bargaining

WORKPLACE CODE OF CONDUCT PROVISION: Employers will recognize and respect the right of employees to freedom of association and collective bargaining.

In 2006, 98 violations or 4% of the total IEM noncompliance findings related to Freedom of Association and Collective Bargaining (Chart 15). The distribution of Freedom of Association and Collective Bargaining noncompliances by region was as follows: East Asia, 66%; Southeast Asia, 15%; South Asia, 12%; and Americas, 6%; zero noncompliances with regard to this code element were reported in the EMEA region (Chart 16). The highest incidence of Freedom of Association and Collective Bargaining noncompliances was found in East Asia where 8.5% of noncompliances corresponded to Freedom of Association and Collective Bargaining benchmarks, reflecting the limitations on freedom of association in China. In South Asia this percentage was 2.3, 2.2 % in the Americas, 2.0% in Southeast Asia, and 0% in EMEA.

Charts 15 and 16: 2006 IEM Findings – Freedom of Association and Collective Bargaining



As we have discussed in previous FLA Annual Public Reports, Freedom of Association is an essential, yet challenging, code provision to enforce, due in part to the complex nature of this international standard, which accords workers the right to form or join organizations of their own choosing. Because workers are given this choice, it is often difficult to identify and document the reasons for workers not forming or joining an organization and whether the absence of a union may constitute noncompliance. These complexities also make remediation challenging.

Seventy-six percent of all Freedom of Association noncompliances corresponded to substantive benchmarks, 2% were procedural, and 22% related to other benchmarks (Table 12). The substantive benchmark most commonly breached was the right to freely associate with 54%.

It should be noted that all of the IEMs in China have the following language included on the tracking charts to reflect the systemic noncompliance with the FLA benchmark on Freedom of Association.

“The Chinese constitution guarantees Freedom of Association (FOA); however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union - the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of FOA, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. However, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms.

The Amended Trade Union Act of October 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. Trade unions also have an enhanced role in dispute resolution.”

Table 12: 2006 IEMs – Freedom of Association and Collective Bargaining -- Noncompliances by Benchmark

Substantive Benchmarks	# of Noncompliance Issues	% of Total
Right to Freely Associate	53	54
Employer Interference in Registration	2	2
Unfair Dismissal	2	2
Employer Interference / Intimidation	0	0
Employer Interference / External Forces	2	2
Employer Control / Favoritism	2	2
Discrimination	0	0
Employer Interference / Formation of Alternative Organizations	0	0
Retaliation Against Union Formation	0	0
Employer Interference / Elections	11	11
Union Negotiation	1	1
Victimization	0	0
Access to Unions	1	1
Blacklisting	0	0
Severance	0	0
Subtotal	74	76
Procedural Benchmarks	# of Noncompliance Issues	% of Total
Retaliation Against Union Formation	0	0
Union Harassment	2	2
Subtotal	2	2
Other	# of Noncompliance Issues	% of Total
Legal Compliance	0	0
Other	22	22
Subtotal	22	22
TOTAL	53	100

CASE STUDY: Freedom of Association

At an apparel factory in Thailand an FLA independent audit uncovered the factory's complete lack of a policy on freedom of association or of any type of communication to workers on this issue. The FLA-affiliated company worked quickly to ensure that the factory adopted a policy that embraced this core element of the FLA Code of Conduct. Working with the factory, it developed a Freedom of Association Policy as part of internal factory rules and regulations, which also includes a statement of respect for workers to form or join organizations of their own choosing. The local labor bureau subsequently endorsed the new regulations and the revised internal rules have been posted on factory notice boards at the main building. In addition, division supervisors were delegated to verbally communicate the revised rules and FOA policy to workers. The result is a sustainable approach to ensuring that this most essential element of a workplace is satisfied.

Wages and Benefits

WORKPLACE CODE OF CONDUCT PROVISION: Employers recognize that wages are essential to meeting employees' basic needs. Employers will pay employees, as a base, at least the minimum wage required by local law or the prevailing industry wage, whichever is higher, and will provide legally mandated benefits.

The Wages and Benefits provision had the second highest rate of reported noncompliances in 2006, after Health and Safety, with 17% of all noncompliances (Chart 17). Chart 18 shows the distribution of Wages and Benefits noncompliances by region: 35% in East Asia, 33% in Southeast Asia, 21% in South Asia, 8% in the Americas, and 3% in EMEA. The incidence of Wages and Benefits noncompliances was highest in East Asia, with 19.9% of the region's total noncompliances, closely followed by Southeast Asia (18.7%), and South Asia (16.4%).

In all, 410 Wages and Benefits noncompliances were identified. They were almost equally divided between substantive (46%) and procedural (47%), with violations of other benchmarks representing 7%. The most common noncompliances related to legal benefits (13% of the noncompliances with this code provision), time recording systems (11%), not allowing workers to take annual leave during holidays (7%), and minimum wage (6%).

Charts 17 and 18: 2006 IEM Findings – Wages and Benefits

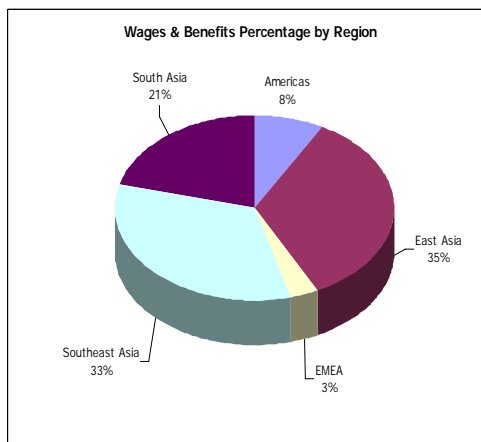
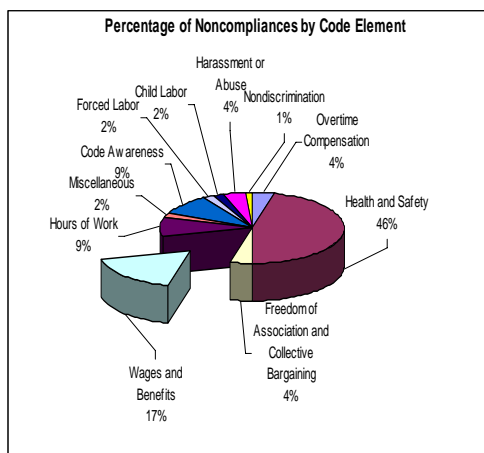


Table 13: Wages and Benefits Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Minimum Wage	25	6
Training Wage	2	1
Legal Benefits	54	13
Payment of Wages	8	2
Payment of Legal Benefits	19	5
Timeline Payment of Benefits	4	1
Illegal Holding of Funds	3	1
Legal Compliance for Holiday / Leave	28	7
Accurate Recording of Wage Compensation	18	4
Timely Payment	11	3
Minimum Wage / Quotas	5	1
Minimum Wage / Incentives	4	1
Accurate Benefit Compensation	13	3
Subtotal	194	46

Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Wage Benefits Awareness	15	4
Wage and Benefits Posting	17	4
Wage and Benefits Information Access	5	1
Voluntary Use of Benefits	1	1
Deduction for Services	9	2
Payroll Reporting	12	3
Pay Statement	18	4
Time Recording System	45	11
Record Maintenance 1	31	7
Legal Compliance for Holiday / Leave	11	3
False Payroll Records	23	5
Record Maintenance 2	8	2
Subtotal	195	47
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	4	1
Other	26	6
Subtotal	30	7
TOTAL	419	100

Despite the high rate of noncompliance with Wages and Benefits identified by the monitors, there remains strong concern that the noncompliances remain underreported for this benchmark. Factory personnel have become accustomed to concealing real wage documentation and providing falsified records at the time of compliance audits, making noncompliances difficult to detect. In 2006, 11% of the incidents of noncompliance regarding the Wages and Benefits code element related to time recording systems, the same level as in 2005 and substantially higher than in 2004. The increase may reflect the monitors' increased ability to identify falsified records during the IEM process. It is important to keep in mind that the findings may reflect a confirmed finding of noncompliance or an indication of noncompliance that is not backed by verifiable evidence; nonetheless, it is likely that the rate of incidence of falsified records relating to hours and wages (i.e., Wages and Benefits, Hours of Work and Overtime Compensation) is even higher than actually reported.

CASE STUDY: Wages and Benefits

In Xiamin, China, an FLA independent audit of an apparel factory supplying an FLA-affiliated company found that even though the local minimum wage had increased, the factory was still calculating workers' base wages and overtime wages based on the lower figure. The company developed and put in place a remediation plan that ensured that factory policy was consistent with local law, provided back pay for the two months the workers had been underpaid, and further revised and strengthened the process to ensure that the local union has regular, monthly contact so that these errors can be caught by workers rather than through an audit.

Hours of Work

WORKPLACE CODE OF CONDUCT PROVISION: Except in extraordinary business circumstances, employees will (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country will not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.

In 2006, monitors identified 210 individual incidents related to noncompliance with the Hours of Work Code provision. These incidents represented 9% of all noncompliance issues identified (Chart 19). The distribution of Hours of Work noncompliances by region was as follows: East Asia, 38%; Southeast Asia, 24%; South Asia, 23%; EMEA, 8%; and the Americas, 7% (Chart 20). The highest incidence of Hours of Work noncompliances was found in East Asia where 11.1% of noncompliances corresponded to Hours of Work benchmarks. In South Asia, Hours of Work noncompliances made up 9.3% of the region's total noncompliances, 8.9% in EMEA, 6.7% in Southeast Asia and 5.1% in the Americas.

Eighty-two percent of the noncompliances for this code element related to substantive benchmarks; 11% related to procedural benchmarks, and 6% were categorized as noncompliances with "other" benchmarks (see Table 14). Seventy-two percent of all noncompliances with the Hours of Work code provision related to excessive hours being worked at the factories; 5% were related to respecting local laws with regard to work hours for protected workers (e.g., pregnant women or young workers); and 4% dealt with voluntary overtime stipulations.

Charts 19 and 20: 2006 IEM Findings – Hours of Work

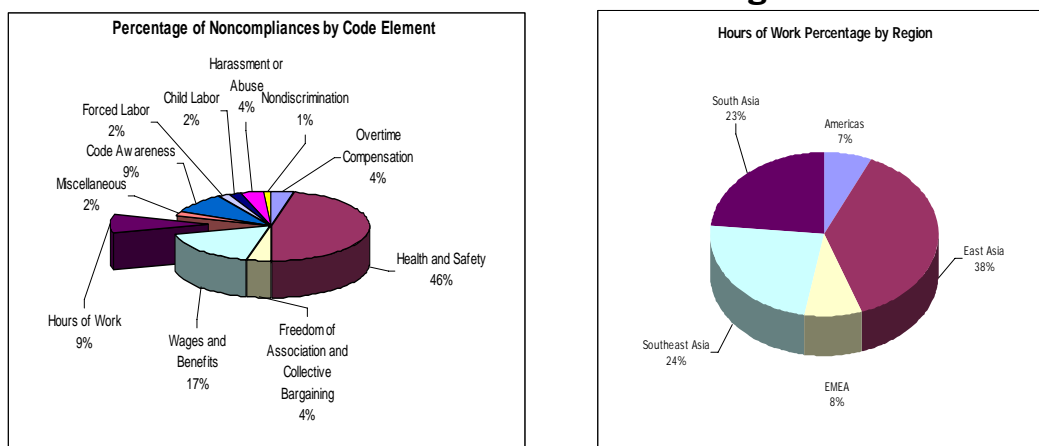


Table 14: 2006 IEMs--Hours of Work Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Overtime Limitations	152	72
Legal Compliance with Protected Workers	11	5
Voluntary Overtime	9	4
Subtotal	172	82
Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Forced Overtime	9	4
Positive Incentives	1	1
Negative Incentives	1	1
Reasonable Maintaining of Staff	2	1
Reduce Mandated Overtime	5	2
Explanation of Continued Required Overtime	3	1
Overtime Explanation	2	1
Subtotal	23	11
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	2	1
Other	13	6
Subtotal	15	7
TOTAL	210	100

It is not surprising, given the technical nature of this Code element and the potential ease of falsification of records without the knowledge of workers, that many experts believe that Hours of Work noncompliances, like wage issues, are vastly underreported. Indeed, the FLA's work has confirmed the lack of transparency in this area. In all countries monitored, this has been a major challenge, addressed in meetings and discussions with a broad range of stakeholders, including local brand compliance officers, suppliers, and local civil society organizations.

The FLA has sought to develop sustainable responses and answers to the challenges posed by compliance with working hours Code issues. It has, for instance, been a key element of the Soccer Project, which has to this point focused on factories in China and Thailand. This work is premised on the view, supported by earlier FLA work in China, that excessive hours of work persist in Chinese factories (and elsewhere) because the underlying causes have not been clearly defined and sustainably addressed in compliance audits and corrective action programs. One conclusion is that the high production quotas set by management, linked to excessively tight production deadlines and complicated by late delivery of raw materials, create untenable and often illegal situations of excessive overtime. This is often complicated by outdated labor laws in the countries themselves, which encourage employers to fabricate records to get around the legal restrictions on working hours. Finally, a lack of legal enforcement means that there are few protections for workers.

The initial assessments identifying the causes of excessive hours in the factories participating in the Soccer Project took place at the end of 2005. In 2006, the FLA piloted a working hours capacity building program for Soccer Project factories in China. At that point it was agreed that the hours of work training and assessment material needed to be revised to more closely suit the factory realities as factories were not able to manage systematic improvements on both grievance procedures and hours of work. A decision was made to begin with grievance procedures and simultaneously amend the hours of work assessment and training material for launch at the end of 2007 and early 2008. This will be addressed in future reports.

The project is presently arranging for suppliers participating in the project to conduct self-assessments to identify the underlying causes of excessive hours of work and then to design a capacity-building program capable of improving compliance with hours-of-work rules.

CASE STUDY: Hours of Work

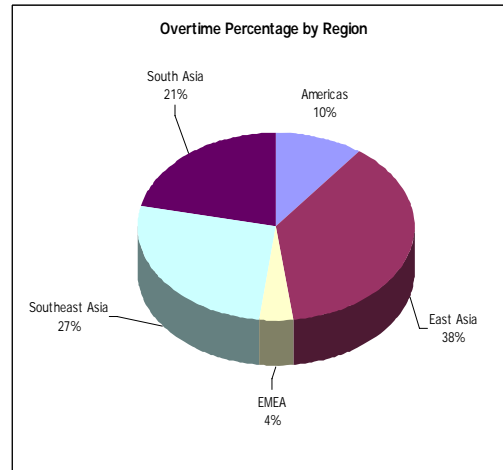
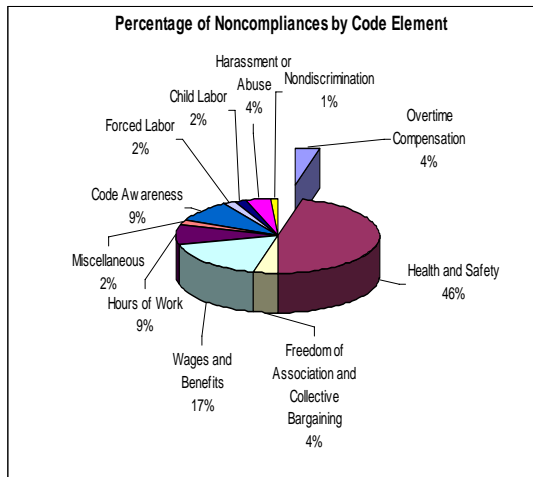
In a hat factory in the Chinese province of Zhejiang, FLA independent auditors discovered that employees were working 3.5 to 4 overtime hours per day, exceeding the legal limitations established by Chinese labor law. These statistics were being misrepresented in official documents. Working with the FLA and the factory, the FLA-affiliated company that sources from this facility developed a remediation plan that requires the factory to provide actual documentation. The plan included a long term goal to improve production planning and efficiency while steadily reducing the number of overtime hours to comply with the legal limit. In the short term, the plan requires the factory to ensure that workers may have one day off per week and fewer hours on weekends. In addition, the company will carry out regular, unannounced audits to monitor the plan's execution.

Overtime Compensation

WORKPLACE CODE OF CONDUCT PROVISION: In addition to their compensation for regular hours of work, employees will be compensated for overtime hours at such premium rate as is legally required in the country of manufacture or, in those countries where such laws will not exist, at a rate at least equal to their regular hourly compensation rate.

In 2006, 98 individual incidents related to noncompliance with the Overtime Compensation code provision were identified by monitors. These incidents represented 4% of all noncompliance issues identified (Chart 21). The distribution of Overtime Compensation noncompliances by region was as follows: East Asia, 38%; Southeast Asia, 27%; South Asia, 21%; Americas, 10%; and EMEA, 4% (Chart 22). The highest incidence of Overtime noncompliance was found in East Asia where 5.1% of noncompliances corresponded to Overtime Compensation benchmarks. For the other regions, the incidence of noncompliance with this code provision were as follows: South Asia (4.0%); the Americas (3.6%); Southeast Asia (3.4%); and EMEA (2.1%).

Charts 21 and 22: 2006 IEM Findings – Overtime Compensation



Ninety-four percent of the noncompliances for this code element related to substantive benchmarks, 5% to procedural benchmarks, and 1% to other benchmarks (Table 15). Noncompliances with benchmarks arose from unfair compensation for overtime hours (44%); lack of accurate recording of overtime hours (36%); inadequate overtime compensation for piecework (8%), incorrect use of meal and rest breaks (6%); and inadequate awareness of overtime compensation (5%).

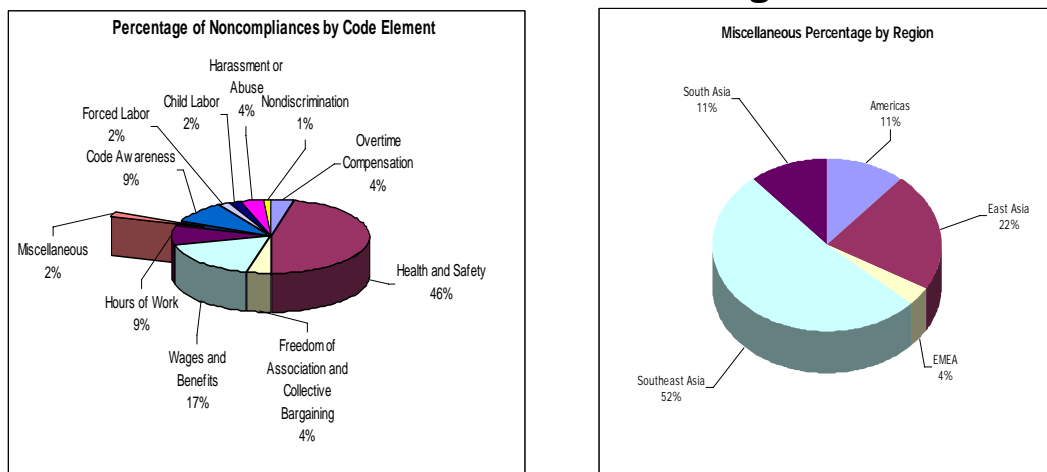
Table 15: 2006 IEMs--Overtime Noncompliances by Benchmark

Substantive Benchmarks	Number of Noncompliance Issues	% of Total
Overtime Breaks	6	6
Accurate Recording of Overtime Hours Worked	35	36
Overtime Compensation	43	44
Overtime Compensation for Piece	8	8
Subtotal	92	94
Procedural Benchmarks	Number of Noncompliance Issues	% of Total
Overtime Compensation Awareness	5	5
Subtotal	5	5
Other	Number of Noncompliance Issues	% of Total
Legal Compliance	0	0
Other	1	1
Subtotal	1	1
TOTAL	98	100

Miscellaneous

The Miscellaneous provision/category of the FLA Code captures issues such as legal or contractual noncompliances that were observed by FLA-accredited monitors that are not currently included in the FLA Code or Benchmarks but nevertheless are inconsistent with applicable national and local laws or with FLA participating company or Category B Licensee requirements. FLA-accredited monitors identified 54 noncompliances in the Miscellaneous category, which accounted for 2% of the total (Chart 23). The distribution of Miscellaneous noncompliances by region was as follows: Southeast Asia, 52%; East Asia, 22%; South Asia and the Americas, 11% each; and EMEA, 4% (Chart 24). The highest incidence of Miscellaneous noncompliances was found in Southeast Asia where 3.7% of the noncompliances corresponded to Miscellaneous benchmarks.

Charts 23 and 24: 2006 IEM Findings – Miscellaneous



The majority of the instances of noncompliance in the Miscellaneous category (69%) fell under the rubric of “other” and typically referred to inconsistencies with national labor law or practice identified by the monitors (Table 16). Twenty-eight percent of noncompliances in this category referred to unauthorized subcontracting, that is, subcontracting to contractors involved in production processes (e.g., embroidery, washing, dyeing, etc.) that had not been approved by the FLA company sourcing from the factory. Another 4% of the noncompliances were associated with violations of labor laws not addressed specifically by an existing benchmark.

Table 16: Miscellaneous Noncompliances

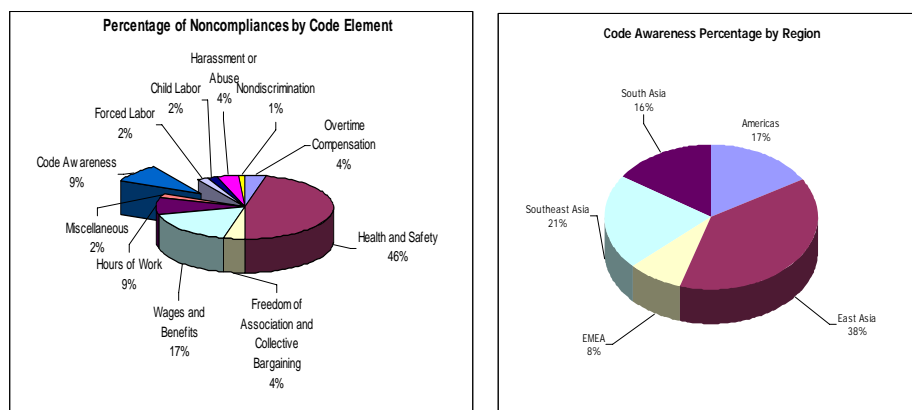
Benchmarks	Number of Noncompliance Issues	% of Total
Other	37	69
Unauthorized Subcontracting	15	28
Legal Compliance	2	4
Possible Homework	0	0
TOTAL	54	100

Code Awareness

Code Awareness is unique in that it is not a Code provision itself, but rather is one of the Charter Obligations that all companies must strive to achieve. Workers' awareness of Code provisions is essential for their effective implementation on a daily basis, and FLA companies are obligated to ensure workers' and managers' awareness of the Code.

In 2006, 230 individual incidents of Code Awareness noncompliances were identified by monitors. These incidents represented 9% of all noncompliance issues identified (Chart 25). The distribution of Code Awareness noncompliances by region was as follows: East Asia, 38%; Southeast Asia, 21%; Americas, 17%; South Asia, 16%; and EMEA, 8% (Chart 26). The highest incidence of Code Awareness noncompliance was found in the Americas (13.9%), followed by East Asia (12.2%). This percentage was not quite as high in the other regions: 9.9% in EMEA, 6.8% in South Asia, and 6.6% in Southeast Asia.

Charts 25 and 26: 2006 IEM Findings – Code Awareness



Factories' fulfillment of the Code Awareness obligation is measured by three principal benchmarks: the posting of a Code of Conduct that makes the standards clear; worker and management awareness of the Code; and a mechanism in the factory for reporting noncompliance with the Code. In 2006, FLA-accredited monitors found 86 noncompliances (37% of all noncompliances in this area) related to factory noncompliance reporting mechanism, 72 (31%) related to worker and management awareness of the code, and 64 (28%) related to code posting (Table 17).

Table 17: 2006 IEMs--Code Awareness Noncompliances by Benchmark

Benchmarks	Number of Noncompliance Issues	% of Total
Code Posting	64	28
Worker / Management Code Awareness	72	31
Noncompliance Reporting Mechanism	86	37
Legal Compliance	2	1
Other	6	3
TOTAL	230	100

At the core of sustainable compliance efforts within individual factories or an industry is the need for companies, factory management and workers to know and understand the FLA Workplace Code of Conduct. Without that knowledge and understanding, compliance with these vital workplace issues is limited at the outset. While suggestion boxes, which are currently the primary means of grievance submissions may be adequate, other methods are more reliable and sustainable. The FLA has worked with companies to join with factories to provide other more conducive means of allowing workers to submit anonymous grievances to factory management as well as to directly contact the companies sourcing from those factories.

One way in which the FLA has sought to build sustainable measures that meet these needs and guidelines is through its Soccer Project. The assessments conducted as part of that project in late 2005 in China and later in Thailand revealed the significant lack of effective formal grievance channels, policies and procedures on this issue, or the means for workers to raise concerns at the workplace. As part of the Soccer Project companies have attended training programs based on material developed in the FLA Central America Project and are beginning to build internal policies and procedures on grievance handling.

The FLA returned to the factories in China in early 2007 to reassess the grievance procedures and found that some improvements had been made, particularly in the area of policy and procedure development. There remained, however, a gap in the systems concerning implementation. Management had created policies for dealing with grievances but the reporting channels were not necessarily being used. Since then, the FLA has placed more emphasis on improving the assessment tools and training material and created performance indicators to measure the progress of the

factories over time. As additional evidence of the success of these tools and internal systems is accumulated and evaluated, the FLA will publish the results.

CASE STUDY: Code Awareness

Interviews with workers conducted during an unannounced FLA independent audit of a Pakistani apparel factory revealed that there was no secure communication channel in place for employees to report non-compliance issues within the factory either to the factory management or to the company sourcing from the factory. The brand, working with FLA and factory management, developed a multi-faceted remediation plan that included: creation of a Worker Management Council that must meet at least once a month, the proceedings of which must be displayed on factory notice boards; complaint boxes to be put in working order; complaint logs to be maintained; provision of business cards by the brand to workers during interviews so they have the necessary information to file a complaint.

B) Independent External Verifications (IEVs)

The FLA process does not end with remediation or the creation of a Corrective Action Plan (CAP). After the CAP is adopted, the company's compliance staff conducts follow-up visits to verify completion of remedial elements, as necessary.

The FLA conducts Independent External Verifications (IEVs) to confirm that the CAPs developed by the companies have been implemented and, equally important, that the remediation was still in place and therefore demonstrated a degree of sustainability and prevention of recurrence. The FLA plans to place even greater emphasis on verification audits in the next years.

This section summarizes the results of IEVs conducted in 2006. Two important points should be kept in mind in reviewing verification audits:

- First, the IEMs selected for verification included factories facing some of the most critical and challenging compliance issues. While some of the IEVs were selected randomly, the FLA feels it is critical to follow up on remediation at factories where some of the most egregious

noncompliances had been discovered to verify that conditions had improved through the combined efforts of companies and their factory partners.

- Second, different forms of noncompliance lead to significant differences in the approach and timing of remediation plans. Some noncompliances may be relatively easy to fix, as with fire extinguishers found to have expired. Other, more pervasive problems such as with freedom of association or excessive overtime, typically require longer-term initiatives. In the case of overtime violations, for instance, a CAP might involve better production planning, the creation of a new work shift, or even expansion of a facility or construction of a new one so more workers can be recruited. In light of these differences, it is not surprising that remediation can often take many months to complete.

The following example illustrates how the verification process works, the complex issues raised by some IEM findings, and the challenges in completing remediation:

CASE STUDY: Independent External Verification (IEV) Report of a Factory in Southeast Asia

The IEV was conducted at a footwear factory in Vietnam employing over 11,000 workers. There were many critical issues which emerged in the factory, particularly relating to harassment or abuse and the handling of such issues raised through worker and union complaints. The sections below summarize the IEM findings, CAP, and IEV process.

IEM findings: (1) factory dismissed workers for infractions not included in their written policies & work rules and in violation of code and local law; (2) reported cases of verbal abuse, physical contact, and assault, with insufficient response from management; (3) Supervisors & Managers not trained or provided clear written guidance on discipline; (4) discipline files were often incomplete, lacking history of previous warnings or offenses; written records of discipline actions against managers not kept; (5) suggestion boxes exist but policies, procedures, or instructions are lacking to ensure a functional grievance system.

Factory CAP based on FLA company remediation plan: [1] An FLA-affiliated company conducted an investigation and found that the factory had dismissed 3 workers but the factory alleged that the reasons for each dismissal (falsification of personnel records, misuse of fire alarm, and throwing food in the face of the security guard) were considered infractions of the factory policies, regulations, and the labor code. The FLA company/companies requested that the factory add language to their policies on dismissal; [2] the FLA company and the factory developed clearer policies, procedures, implementation, and oversight mechanisms to address discipline issues, including assigning accountability for all aspects of proper implementation of discipline policy, restructuring the problem-solving committee to ensure active participation of the union and workers, conduct quarterly manager/supervisor trainings on non-harassment; and [3] the FLA company

worked with the factory to post policies near each suggestion box and to develop procedures to ensure each complaint is adequately investigated.

IEV findings: The monitor found: [1] no improvement in the creation of better policies to inform workers about grounds for dismissal; workers and the union continued to complain about unfair dismissal and disciplinary procedures; [2] improvement in the creation of improved policies, procedures and implementation, oversight and reporting mechanisms regarding discipline issues but not full completion; confirmation that training for management and supervisors and proper documentation systems had been completed but areas for improvement remained. In terms of dealing with harassment or abuse cases, the IEV found the situation to be improving but not complete. The factory still had some pending abuse cases under investigation but in some cases supervisors had only received oral warnings but no written warnings; [3] the suggestion box problems improved as a result of remediation, but not completed. There were clearer instructions provided with regards to use of the suggestion boxes and the factory had started developing a grievance procedure, however the use of the boxes and process of handling complaints and grievances was not clear and workers were still not consistently receiving responses to complaints and grievances filed.

Monitor's summary of IEV and FLA company's next steps: The factory was improving but a number of issues required further follow-up and improvement to move from procedural improvements to substantive ones. The FLA company returned to the factory to follow-up on the verification audit and has continued to report to the FLA on progress made to complete the remediation.

The 2006 IEVs

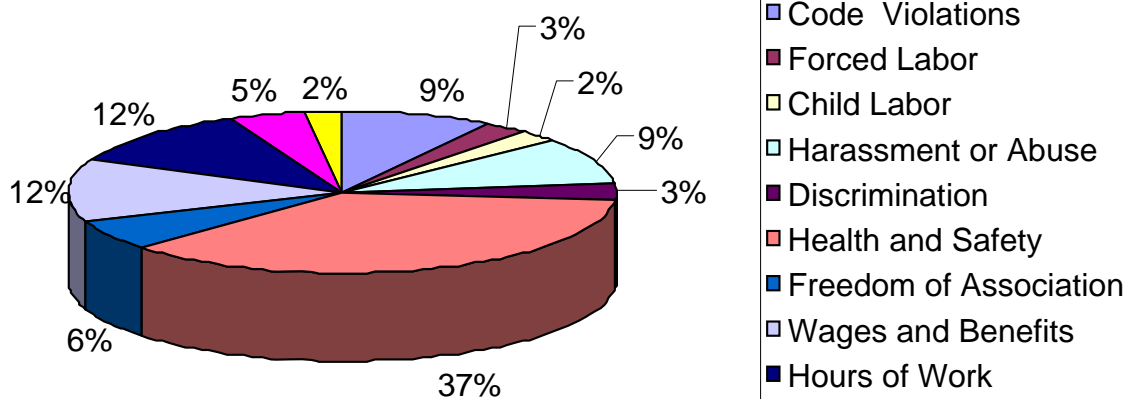
In 2006, 20 verification audits were conducted for IEMs that occurred between 2002 and 2004. Of the 20 factories involved in the verification audits, 19 continue to produce for the brands that participated in the original IEM. Seven of the IEVs took place in East Asia (all in China); 5 in Southeast Asia (Thailand and Vietnam); 4 in South Asia (India, Sri Lanka and Bangladesh); and 4 in the Americas (El Salvador and Mexico).

In returning to these factories, monitors were asked to focus on the original noncompliances and to evaluate the progress made toward remediation. The monitors also were asked to cite new noncompliance issues that were not included in the original IEM report. It bears recalling that the IEVs were consciously selected based on the severity of the issues that emerged from the IEMs, particularly challenging findings related to nonpayment of wages, egregious health and safety violations, freedom of association, discrimination, and harassment or abuse issues.

In total, there were 417 findings in the verification audits, an average of almost 21 findings per verification. Chart 28 shows the distribution of findings across Code elements. Not surprisingly, the majority of findings

related to health and safety, reflective of the distribution of findings across benchmarks for all IEMs in general. However, since the IEVs were selected because of the complicated and critical issues that had emerged in the IEM, there is a higher incidence of noncompliances in these factories pertaining to more elusive issues such as Harassment or Abuse (9% in the IEVs versus 4% in the IEMs), Freedom of Association (6% versus 2%) and Discrimination (3% versus 1%).

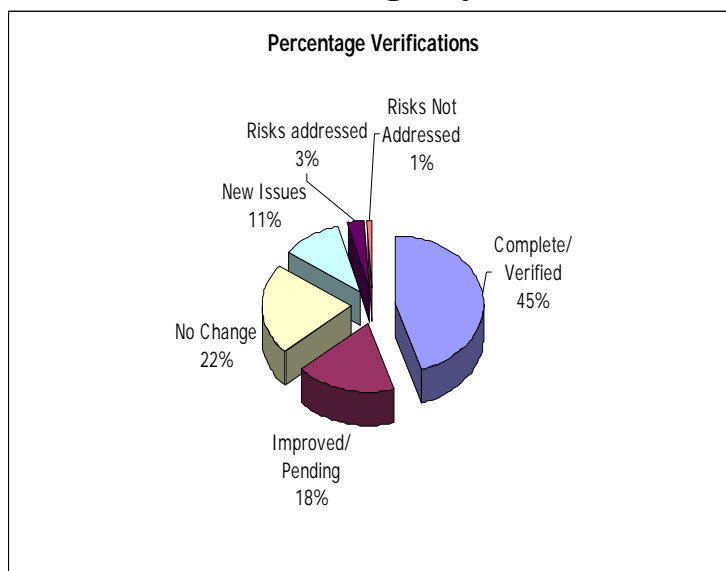
Chart 28: 2006 IEV Findings by Code Element



Forty-five percent of the findings confirmed that the remediation undertaken by the factory and the company had been completed and was verifiable by the auditors; 18% showed improvement, although the remediation was not complete; 22% showed no change or progress; 11% were new findings that had not been identified in the original IEM; 3% were risks of non-compliance that were addressed²; and 1% of the findings were risks that were not addressed (Chart 29).

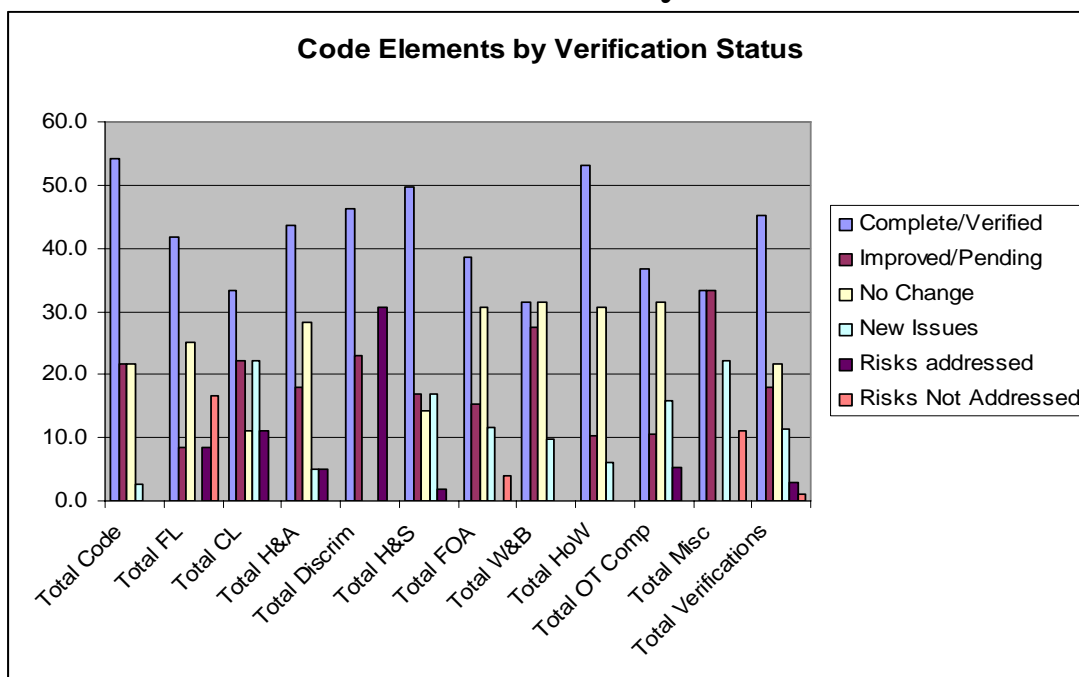
² A risk of noncompliance suggests that there was no actual noncompliance identified but the absence of a factory policy, procedure, improper implementation and/or oversight left open the possibility of a noncompliance occurring. For example, if in a factory there is no age verification policy (to check the age of workers prior to engaging them in employment), it may not mean that the factory has child labor but there is a risk that an underage worker may be employed because there is no process for confirming age at the time of recruitment.

Chart 29: 2006 IEV Findings, by Verification Status



While the results of the IEVs indicate that there is room for improvement, they also confirm that the majority of noncompliances identified in the original IEMs were remediated for every code area, with the exception of wages and benefits. There, the percentage of issues where remediation was successful was equal to the percentage of issues that showed no progress. (Chart 30)

Chart 30: Code Elements by Verification Status



C) Monitoring University and College Licensees: The FLA's New Enhanced Licensee Program.

As the FLA builds and implements a new generation of compliance tools, we are also working to strengthen the oversight of licensees who also produce logoed materials for FLA-affiliated university and colleges. Interactions among universities, licensees and the Fair Labor Association (FLA) have revealed significant gaps in the capacity of licensees to comply with university codes of conduct. Over the course of 2006, the FLA sought to determine ways in which it could respond to these findings and upgrade its program for licensees. The goal is to provide resources to both universities and licensees seeking to improve compliance with labor standards tailored to their specific needs, building on the experience gained from working with large licensees and tools created for other affiliates.

The FLA launched a pilot version of an Enhanced Licensee Program in the fall of 2007 with a group of volunteer universities and colleges. The shape of that program, as developed over the course of 2006, focuses on assessment of licensees' compliance capacity and enhancing compliance competency through capacity building, trainings for licensees and licensors, compliance audits, and consultation with multiple stakeholders. It is described in more detail below.

Step 1: Assessing Licensee Compliance Capacity

Universities that wish to take a more active role in conducting due diligence on their licensees' compliance performance will direct licensees to a web-based FLA portal at the time of initiating or renewing a licensing agreement.

Licensees will be required to complete a self-assessment of their compliance capacity on the portal. The self-assessment will generate an analysis of compliance capacity gaps, which will subsequently be emailed to the licensee and to their university or licensing agent, if they request this information. The analysis will also outline steps for further action expected from the licensee.

Step 2: Increasing Licensee Compliance

Following the gap analysis and with the support of the FLA, licensees will develop an implementation plan to improve their compliance performance over time. Because a number of the licensees are likely to begin at a relatively low level of compliance, the methodology will focus on training and capacity building. Regional, in-person trainings will take place to introduce

licensees to the FLA and its labor compliance standards, and will cover such subjects as the university program, the FLA Code of Conduct, licensee obligations and strategies to build compliance programs. Initial training will focus on the FLA Code of Conduct and obligations of FLA companies, including:

- adopting and communicating a code;
- training internal staff on compliance;
- conducting internal monitoring;
- collecting and managing compliance information; and
- remediating noncompliances.

Subsequent trainings will focus on specific code or obligation elements including need areas identified through the assessments. Additional training tools also will be available through the portal site.

Licensees will report on progress against key performance indicators (KPIs) through the portal site. Universities will have access to these reports, and will continue to play a role in encouraging their licensees to make measurable progress toward compliance goals.

Step 3: Ensuring Licensee Understanding of Company Obligations

In the implementation plan, a licensee could choose to meet obligations through one or a combination of the approaches described below:

1. Bring the factory or factories from which it sources into compliance with the FLA Workplace Code of Conduct and meet obligations of FLA-affiliated companies. This would apply to both owned/operated factories and contract factories. Licensees that choose this approach must provide a detailed plan for achieving compliance over a three-year period, must conduct internal monitoring of an appropriate sample, and must remediate any noncompliances; or
2. Source from “compliance-ready factories” already subject to the compliance programs of FLA-accredited companies and/or whose compliance readiness has been tested through one of the FLA’s due diligence processes. The FLA does not guarantee that these factories are necessarily compliant with university codes of conduct, rather, that the systems are in place for these factories to identify compliance issues and address them in a timely fashion. Licensees that choose this approach must also provide a detailed plan for achieving compliance over a three-year period. In this case, however, monitoring and remediation responsibilities could be shared with other FLA companies.

The FLA's compilation of a list of approximately 300 compliance-ready factories in 45 countries is under further vetting by FLA affiliates and staff, including the regional managers. It will be tested in the pilot project in 2007.

Step 4: Conducting Due Diligence

The FLA will select a sample of licensees each year for in-depth due diligence, to verify the progress made according to compliance requirements that will be established by the FLA Board. To that end, capacity building visits will begin in 2008. These visits will not be in the form of traditional audits. Rather, they will be designed to provide an opportunity for the FLA and licensees to jointly assess existing compliance infrastructure, and for the FLA to provide guidance on steps to build a sustainable compliance program and help licensees remediate any issues found at the facility visited.

Step 5: Consulting with Constituencies

The FLA will establish an advisory committee for the pilot group, to discuss all aspects of licensee participation and to advise on implementation issues as well as to discuss larger licensing issues. Participation in the advisory committee is open to all FLA constituents. In particular, the advisory committee should include representatives of universities, licensees (particularly small licensees), and the NGO and trade union communities.

Additional documents relating to this program are available at www.fairlabor.org/enhanced_licensee, and will be updated as the program moves forward.

Part II: Expanding the Scope of Labor Compliance Beyond Monitoring -- The FLA 3.0 System

Introduction

While the auditing of factories that FLA-affiliated companies use is a significant endeavor that reaps dividends in the form of improving labor compliance, this system has its limits. Chief among them is that it takes a snapshot of the situation that allows for an immediate, short term fix, but does not address the root causes of the noncompliances. It asks “what” is wrong, but not necessarily “why.”

Through years of auditing, investigations and study of the issue, we have come to a more comprehensive understanding of this gap, how to diagnose it, and how to build sustainable solutions – an initiative that is broadly known as FLA 3.0, a new generation of labor compliance that supplements the FLA’s core program.

In 2006, the FLA took a number of major steps forward on this approach. New processes that are part of FLA 3.0 are helping us get to the root causes of the problem – to find out “why” just as much as “what” the problems are and to develop comprehensive responses that will put in place mechanisms to deal with short term workplace improvements as well as long term changes in factory conditions. These sustainable solutions involve the application of new tools, mechanisms and training and capacity-building processes that have added innovation and strength to the world of labor monitoring and compliance.



Beginning in 2005 and continuing into 2006, the FLA has worked successfully to implement a more sustainable form of labor compliance. Initially focused on 17 factories in Thailand and China and structured around the manufacturing of products for the soccer industry. In these factories, the FLA worked with suppliers of football (soccer) products in

advance of the 2006 Soccer World Cup in Germany to pilot the FLA 3.0 methodology to improve the labor situation in those factories. Through trainings and implementation of Guidelines of Good Practice, as well as through improved communication, we have been able to achieve, measure and evaluate progress made. These efforts, described below, confirm that the tools and methodology are effective and provide a foundation for use, not only in the sports, apparel and footwear industries but also in other fields as well.

In India, for example, the FLA was asked by Syngenta Seeds, a large producer of agricultural seeds, to apply its sustainable approach to labor compliance in the agricultural context in order to help strengthen the labor and social conditions for workers on farms producing seed crops. The monitoring program being put in place by the FLA dramatically reduced incidents of child labor. In addition, long term studies still being completed and evaluated are already providing some encouraging and promising results.

In China, the FLA has worked with a large supplier to create an elected committee representing workers at that factory who negotiate a variety of issues on behalf of the workforce. It is a significant development in a society that neither regularly has free elections or management cooperation for factory-related improvements. As both an achievement for the workers in that factory and an advancement of the FLA program, the Freedom of Association project demonstrated what can be achieved with the right approach.

The FLA's Central America Project has also moved forward in several areas, developing materials and tools, including the Guidelines of Good Practice and a train-the-trainers program for those involved with monitoring and compliance in the field. In addition, it increased cooperation with Central American governmental institutions and used FLA materials to help strengthen their ability to address non-discrimination issues.

The FLA's Third Party Complaint system continues to be a vibrant source of monitoring and compliance. This tool, through which any individual or organization can file a complaint about any serious noncompliance situation concerning the FLA Code of Conduct or Principles of Monitoring and involving an FLA-affiliated facility, resulted in a number of significant cases that were resolved this year. It highlights the importance and advantages of having an organization like the FLA with the leverage its companies provide to help ensure that management meets and negotiates with workers on contentious issues and, where possible, that collective bargaining procedures are used.

The world we live and do business in today is a complex one. The process of manufacturing is one that is increasingly global in nature, involving many stages, participants, countries and cultures. Each of these pieces has a significant impact on the communities, workers, and environment in which the products are crafted. This poses a challenge to the companies involved in every stage of that process, particularly as it relates to improving labor conditions and strengthening worker protections. The FLA, through enhancement of both its core program and its special projects, will continue to work to achieve these ends. The following provides a more detailed summary of some of FLA's Special Projects that are helping to achieve this goal.

Individual Program Summaries

1. FLA 3.0 and the Soccer Project: The FLA's Sustainable Compliance Initiative

The FLA's Soccer Project offered an opportunity to test run the new FLA 3.0 program. To understand the full impact and potential of this program, some background on FLA 3.0 is necessary. In the FLA compliance system the supplier is contractually required to meet the standards set by the code of conduct. Despite this commitment, the list of noncompliance issues uncovered by auditors is often lengthy, even in factories run by the most well-intentioned factory managers.

Although unannounced audits are critical to helping ensure better workplace conditions, they do not surface or address the root causes behind non-compliance. Consequently, the resulting corrective action plans often treat only the symptoms and not the causes of noncompliance. We believed that it was essential to eliminate the cycle of simply catching and fixing the same violations over and over again, and instead begin to put in place sustainable corrective actions through greater knowledge and training. The result was the development of an entirely new methodology – FLA 3.0.

The ultimate goal of FLA 3.0 is to bring about self-sufficiency in the management of code issues by suppliers. This will be achieved by letting them take ownership of at least a part of the process and by helping them develop a working relationship with their customers and their workers that will allow them to find solutions and make improvements in the process. The new system takes into account that getting to self sufficiency is a developmental process that will take time. At the same time, it appreciates that the process cannot be solely supplier maintained and that

accountability is essential. It therefore uses a system of sustainable compliance indicators (SCIs) and an independent external verification

The 3.0 Process

The difference between FLA 2.0 and FLA 3.0 is that the former begins with an audit, while FLA 3.0 begins with a needs assessment, proceeds through a capacity-building process, and ends with an external evaluation. It is more realistic and effective to acknowledge that problems exist, work to find their causes, remove those causes, and only *then* do an assessment. This approach acknowledges that compliance is a destination, and when the impact assessment is ultimately conducted, we can determine whether the remedial measures that have been put in place have addressed the problems, improved the situation and, perhaps most importantly, led to a greater likelihood that the solution will be sustainable.

The 3.0 system also eliminates the often negative connotation an audit has,



in that it mainly reports noncompliance and has no ability to measure positive results. It is important to give credit for the work being done to improve a facility's situation, and the new system of assessments being used in 3.0 will, for the first time, provide results that can be measured. That's why the FLA 3.0

system measures change instead of just effort, starting with a baseline assessment and then conducting an impact assessment at the end.

The 3.0 process begins when the supplier fills out a web-based self-assessment relating to a pre-determined problem area. The questions themselves address and reveal the supplier's strengths and weaknesses. Around the same time the supplier is conducting the self-assessment, an external service provider performs a worker survey on the same issues in order to provide a 360 degree perspective on the issues. This survey either

confirms or contradicts the management self-assessment results. In either case, the results are beneficial: if the survey confirms the self-assessment scores it demonstrates a shared perception of the issue; if it contradicts the results, it provides a new source of information and insight into problem areas.

It is important to understand that a critical piece of the 3.0 system is the development of a relationship of trust between the FLA, the supplier and the buyer. The supplier has to be confident it will not be judged for revealing potential problems in the facility. For that reason FLA affiliates are asked to start implementing 3.0 in those factories they know well and with which they have a good relationship. Communication and cooperation are crucial.

The next part of the process starts once the assessment results are known. The supplier begins a two-stage analysis of the results. The first stage is an internal review; the second is done with the customer. Together, they will identify the root causes of the problem areas and decide on a capacity-building corrective plan. During the capacity-building phase, the FLA outlines sustainable compliance indicators that help measure the progress. Indicators are another important part of 3.0 that serve several purposes. One



is for the supplier to be able to document and keep a record of the progress. Another is as a communication tool between the supplier, buyer and the FLA. The buyer (the FLA-affiliated company) has the responsibility to follow up on the progress and to react if the supplier stops using indicators or the results dramatically change. The indicators also give the supplier a tool to manage the efforts they have to make to strengthen their compliance program.

After the capacity-building comes the independent external assessment (IEA), commissioned by the FLA. The assessment reflects the initial assessment but with some additions. And, of course, it is done by independent assessors rather than the supplier. Finally, the FLA-affiliated

company reports the results of their activities to the FLA. That is the same as current procedure.

The following flowchart shows the different steps of FLA 3.0.



Applying the 3.0 Process -- The Soccer Project:

The 2006 Soccer World Cup in Germany was fortuitous in its timing, for it offered the FLA and a number of its affiliate companies the ideal opportunity to pilot the 3.0 methodology. In the fall of 2005, the FLA began working with 17 factories in China and Thailand, first with supplier consultations and followed by self-evaluations and trainings. This was the first time the RFLA had used the approach of supplier self-assessment.

The year 2006 started with self-evaluations on two issues (Grievance Procedures and Hours of Work) that were analyzed and followed up with in-depth reviews. The in-depth reviews (made at the supplier sites) were done to ensure that suppliers had understood the tools and to analyze the results. This helped the FLA identify areas needing improvement both in the tools and the factory and the work on these changes commenced. Analyses of the in-depth reviews were done, both on individual and aggregate levels. These supported the identification of common as well as supplier-specific capacity gaps.

FLA's President, Aurret van Heerden, met in Hong Kong with factory owners and brand representatives to explain the methodology and answer questions. A local NGO stakeholder meeting was held concurrently and brought together FLA staff, representatives of academia, labor NGOs and compliance consulting firms to discuss the monitoring matrix, which lists key noncompliance issues, their root causes, recommended responses and possible service providers. The meeting also discussed the role of local stakeholders as service providers for FLA 3.0.

An important part of the 3.0 methodology is the perception workers have of the process. In China, the FLA worked with a local survey organization to arrange worker focus group discussions and supplementary individual worker interviews. This information will be used as baseline data to measure progress and will guide future FLA capacity-building activities concerning worker participation and development.

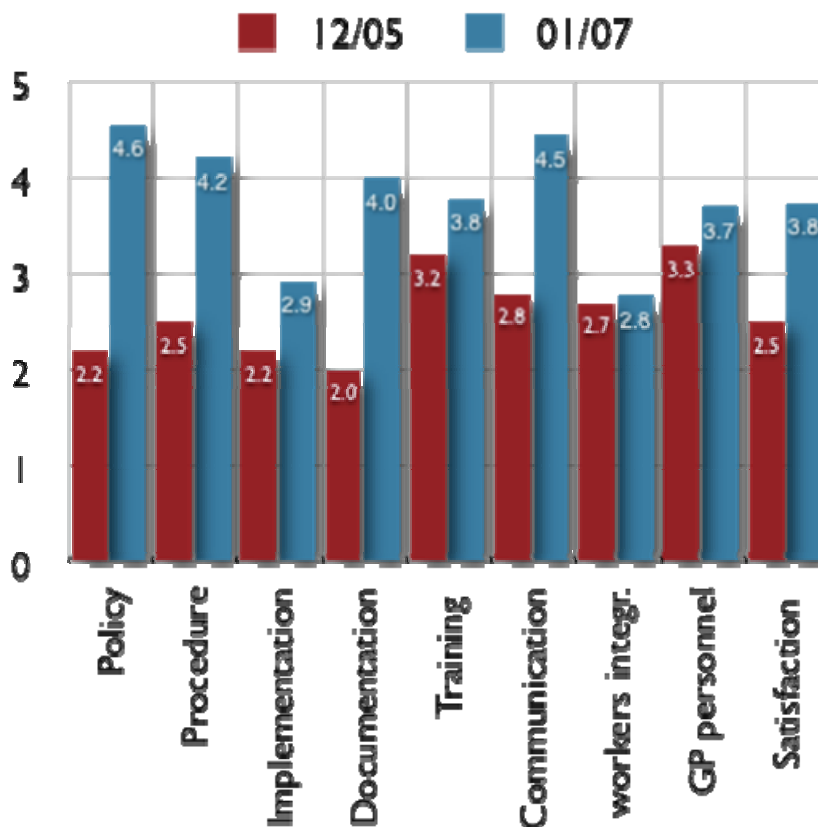
Additional trainings were held later in the year, including a joint China training by the FLA and the International Labor Organization in Thailand and China. The Work Improvements in Small Enterprises (ILO-WISE) training focused on "Improving Working Time Management" to help build a base of local service providers for future FLA trainings.



In the second part of 2006, the first Foundation Course on the FLA 3.0 methodology was held in Shenzhen, China. A total of 37 participants from 10 different brands and seven countries met to learn more about 3.0.

Evaluating the Soccer Project's Success

The FLA conducted an interim evaluation on the Soccer Project in January 2007 using the second generation of assessment tools and comparing the data with the baseline information collected in December 2005. The results (shown in the chart below) were very encouraging. Given that the evaluation was based on just six months of capacity-building, the likelihood is that with up to a year of capacity building during 2006 our results will be even more significant.



But in addition to showing that the methodology works, the results also demonstrated that the tools themselves are effective – all suppliers testing this second set of tools answered within a week, a result that demonstrated their ease of use and the fact that they were not overly burdensome in terms of time requirements. With the feedback we already have, we have been able to continue developing the tools and methodology of FLA 3.0.

2. The Freedom of Association (China Social Dialogue) Project

In 2004 an FLA Participating Company urged a supplier in China to create a Workers Representative Committee (WRC). That WRC was duly elected at the factory in China in April 2004. We had initial doubts about how representative the Committee actually was, given the relatively high number of representatives who held supervisory or senior positions in the workforce, personnel department and Communist Party. There was a chance, however, that the workers had voted tactically and elected senior representatives in

the hope that they would be able to do more for them. The FLA was consulted early in the process and met with some of the worker representatives in mid-July 2004. At that meeting we agreed to provide the Committee with support and judge them on their actions rather than appearances. The FLA China Social Dialogue Project, also known as the Freedom of Association Project commenced. To date, the outcomes of this project have been positive and provided a great deal of practical experience and opportunities for improvement, which are already being integrated into the FLA program.

Setting the Agenda

The WRC met nine times in 2004, and despite its uncertain start, the committee soon distinguished itself by tackling major issues and coming-up with innovative responses. After just one month in existence, for instance, the Committee faced up to the issue of a lack of weekly rest days. Delivery deadlines for orders meant that the factory had to regularly work more than seven straight days and so workers could not get a day off. The worker representatives took this question back to their constituents for approval, a remarkable occurrence, given that referendums as a form of validation are not widely used in China. A ballot was organized and 92% of the workers voted.

Throughout this period there were many discussions on the role of a workers representative. The members of the committee had no particular training in how to be a representative and they devoted an impressive amount of time to discussing the meaning of that concept and the role of the WRC. One interesting point to note here is that the WRC meetings were also attended by representatives of the official trade union (often nine or ten of them) and they participated in these discussions about how to be a genuine worker representative.

The WRC saw its role very much in terms of improving the quality of life in the factory and providing channels for effective communication between factory management and workers. At the same time it stressed that the WRC was not intended to be a forum for negotiating wages (that being the function of the trade union). There were also frequent references in meetings to the notion of win-win outcomes for both workers and the enterprise. The FLA, for its part, concentrated much of its coaching on the skills of communication, consultation, negotiation and problem solving.

In March 2005, the FLA organized an exercise in which WRC members broke into small groups to discuss their objectives for the next two years. The results of the group discussions were then summarized and an issue selected for implementation. The object of the exercise was not only to help

the WRC define a clear work plan for the rest of its term of office but also to identify an issue around which a campaign could be organized to publicize the work of the committee. This campaign also provided an opportunity to practice many of the techniques of effective committee work that had been discussed, such as seeking mandates, reporting back and promoting interest and participation. The worker and management representatives agreed that the shortage of parking for bicycles and scooters was widely felt by workers and decided to design a pilot project to develop new parking sheds.

The WRC utilized a number of different communications media to engage with workers in launching the parking initiative and worked with management to identify a number of areas in the factory compound that could be converted into parking space.

Elections were held for the WRC in March 2006. The profile of the new Committee was slightly different from the first in that there were more ordinary workers and fewer supervisory level members. They elected officers, adopted by-laws and drew up a work plan. The Committee engaged the issue of occupational health and safety, taking a number of steps to improve the situation in and around the factory. It found and distributed a Chinese health and safety manual, issued calling-card size tips on safe conduct and during lunch breaks screened a DVD on health and safety.

The FLA arranged a short workshop to help them consolidate that plan into



a set of objectives, actions, targets and impact measurements. Six months later the FLA ran a session for the Committee on how to measure the impact of their campaign using a short questionnaire. They were also introduced to other FLA self-assessment forms, particularly one dealing with grievance procedures.

Evaluating Project Success

The Committee's work has continued for over three

years, with an agenda spanning the full range of issues. It has maintained a strong level of participation, even when worker interest has varied according to the issue of the day.

Although the idea of creating a workers representative committee came from a major buyer, the Committee developed independently and organically, which undoubtedly was a big part of its success. Another reason for its achievement is that the Committee's agenda has been based on real worker concerns, no matter how trivial they may seem, and it has delivered concrete results. The Committee also paid a great deal of attention to how representative it was. For its part, management also stayed the course, responding positively to the Committee's creation and demonstrating an admirable willingness to engage in frank discussion and even negotiation.

The transparency of the committee's workings was another key component of its support. Committee members were careful to report back and used a variety of communications media to keep workers informed of their discussions and decisions, even when worker interest fluctuates. The fact that a significant percentage of the workforce is local with greater continuity and with a longer-term interest in improving the quality of life at the factory has helped solidify the impact of the Committee.

Conclusion and Lessons Learned

A number of the FLA's Participating Companies have supported initiatives in China to elect and train trade unions, worker committees, labor-management committees and workers representatives in areas such as occupational health and safety and grievance handling. These ground-breaking projects have shown just how hard it is to seed processes of social dialogue.

In some instances there also have been differences in perception regarding the relevance of the issue around which the system of workers representation was built with workers not sharing the concerns or priorities of the initiators. This may well be the case with occupational safety and health committees. Workers either do not perceive the danger or are willing to trade off the risks for higher earnings.

The FLA also has learned that in developing countries workers have a multitude of issues competing for their time and attention and young female workers in particular have to balance significant work and family responsibilities, making it difficult for them to participate in representative structures and dialogue processes.

The FLA has gained a better sense of how much training workers representatives need in basic skills required of any representative. The conduct of meetings, negotiation, the resolution of deadlocks, the art of compromise, the taking of decisions, the keeping of minutes and the follow through on commitments are processes for which workers have generally not

been exposed or trained. We found that worker representatives were also not used to preparing and motivating a case in support of their demands and they needed more training in economics and business in order to be able to do so.

Finally, the FLA has learned that external support is a mixed blessing. It is extremely easy for support from outside the factory not only to prioritize the wrong issues or an inappropriate timetable, but also to create artificial dialogue and cooperation. In so doing, we run the risk of disempowering the very people we seek to empower.

It is clear that the development of workers representation must take as its starting point the actual situation of workers in terms of their perceptions of issues, their priorities, and their socialization, education and training, and then encourage dialogue, but not script it. This balance will have to be struck in our capacity building programs under the new 3.0 methodology. To that end, the FLA will seek to act as catalysts for sustainable processes at the factory level, but not imposing them on those factories. This education and training will be incorporated into an FLA Guide to the development of systems of representation and dialogue that will be made available via our internet training portal.

3. The Syngenta Seeds Project

Syngenta Seeds, Inc. joined the Fair Labor Association (FLA) in 2004 as its first agribusiness affiliate. Syngenta's affiliation with the FLA took the form of a pilot project to test the applicability of FLA methods used in apparel and footwear factories in the agricultural context. Syngenta, a Swiss multinational, was found to be using child labor in its cotton farms in Andhra Pradesh, India. To address this problem, the FLA and Syngenta developed an internal monitoring system for agricultural production processes and independent monitoring and verification system.

Collaboration Milestones

As part of the collaboration between Syngenta and the FLA, the FLA undertook a Task and Risk Mapping Study of Syngenta's vegetable seed production in Gujarat, Maharashtra, and Karnataka states starting in 2006 to identify the high risk activities that need to be monitored. Syngenta worked with the FLA to develop internal tools for collecting and analyzing compliance data and a roster to monitor its seed producers. The FLA meanwhile developed a methodology and tools for Independent External

Monitoring (IEM). An integral part of this methodology is to involve a range of stakeholders and draw on their experiences, knowledge, and skills to strengthen the monitoring and remedial program and improve social conditions for workers on farms.

The collaboration between FLA and Syngenta led to the following achievements:

1. *Task- and Risk-Mapping of Hybrid Vegetable Seed Production Processes*
The FLA commissioned Dr. Davuluri Venkateshwarlu to conduct a task- and risk-mapping study in the hybrid vegetable seed sector. The study highlighted four high-risk tasks in hybrid vegetable seed production: (1) pesticide application; (2) hybridization; (3) harvesting; and (4) seed extraction. These tasks pose compliance risks related to health and safety, child labor, bonded or forced labor and excessive hours of work.
2. *Development of Syngenta's Internal Monitoring Systems*
Syngenta developed a comprehensive internal monitoring system for its vegetable seed production processes so that all farms will be monitored by the end of year three (2008-09) of Syngenta's pilot project. Syngenta field staff was trained extensively by Dr. Davuluri on code awareness, monitoring methodology and data collection. Subsequent to that the field supervisors began to make monitoring visits in conjunction with quality inspections with the aim of integrating labor compliance and core production processes and have begun awareness-raising around Syngenta's code of conduct among organizers and farmers.

3. *Proposed Independent External Monitoring System for the Agricultural Sector.*

The FLA developed an independent external monitoring system based on the organization's Workplace Code of Conduct and monitoring benchmarks used in the manufacturing sector. The system consists of a draft code of conduct for the agricultural sector, needs and impact assessment tools, data collection instruments, reporting templates and monitoring guidelines for independent external monitors. The areas where clear benchmarks are needed specific to the agricultural context are hours of work and overtime limitations, social security and other benefits, rest days and holidays, and wage compensation, especially for workers hired in groups.

4. *Multi Stakeholder Forum to Discuss the Priorities in the Agriculture Sector.*

A consultative forum was convened by the FLA and Syngenta in December 2006, in Hyderabad, India. It was dedicated to identifying and developing a consensus around priority issues for monitoring in the vegetable seed production sector. The consultation brought together representatives of non-governmental organizations (NGOs), local and international monitoring agencies, consumer organizations, Indian and multi-national seed production companies, development agencies, research and consultancy groups and village level stakeholders (growers, seed organizers and village school representatives). Participants identified code awareness, health and safety, wages and benefits and child labor as the four priority issues to address in the agricultural sector.

5. *Other Project Achievements*

- Syngenta has conducted internal monitoring for all of its five thousand farms in its first year of implementation.
- A series of training programs at the village level were mounted to educate growers and farmers on the code of conduct which include all the code elements as laid out in the FLA code.
- The Syngenta Code of Conduct was posted in key locations in all villages producing for Syngenta.
- First Aid kits and personal protective kits were made available to the growers along with trainings in health and safety by the crop-protection division of Syngenta for grower clusters.

- Health Camps were organized in each production location to provide basic health care services to the villagers and raise their awareness.
- In Maharashtra, Syngenta engaged the local schools in spreading awareness about child labor. In order to curb child labor and make schools attractive for the children, an award schemes was launched acknowledging students and teachers with highest attendance and merit award for students. In order to attract children to school, on recommendation of the school head a computer was also donated to the school which was installed with learning software fro school kids. Two other computers are in the process of reaching the other two production locations. Syngenta is looking at integrating the social activities in the seed production area with the activities of the Syngenta Foundation. Another agenda for this year is establishing long term relationships with civil society organizations and service providers who can help the program achieve sustainability.

Looking Ahead

Some concerns have been identified that will require a more focused approach in the future. One is the issue of wages and benefits in the agriculture sector. In order to gain a better understanding of the situation in the three production locations a study on this topic is expected to be conducted in the fall of 2007. More work also needs to be done on areas in which awareness of Syngenta's policy is still low, including harassment and abuse, non-discrimination, legislation on minimum wages and freedom of association.

The FLA is already working to incorporate its findings from the project. For instance, the FLA learned that it is critical in the agricultural field to identify the factors that contribute to noncompliance and develop strategies to address them. For example, the root cause of poor health and safety practice could be low literacy and limited budgets. The responsibility of the company is to educate and assist farmers by making credit and resources available to them. Simply specifying compliance standards will not work if the basic understanding and resources are not present.

In addition, the FLA learned that the multi-faceted nature of agricultural issues cannot be addressed by one party alone and requires a multi-stakeholder approach. The company may have to work with local village level administrations, schools, NGOs and other buyers on remediation strategies. The role of the FLA should be to guide Syngenta and facilitate the process of engagement with stakeholders.



This overlaps with one of the major findings of the Project -- that action in the agriculture sector needs to be taken at community level rather than a farm level. This stands in contrast to the factory-based auditing and remediation methodology used in the garment and footwear industry. In addressing compliance issues in the agricultural sector, the FLA 3.0

methodology is an important component that will require the active involvement of farmers, their families and communities.

4. Central America Project

The objectives of the Central America Project (CAmP) are to enhance workers' rights, particularly the right to equality and non-discrimination and to promote a culture of compliance through the application of the Guidelines Good Practice on equality and diversity, which ultimately result in better management systems. A key element in the CAmP program is its sustainability component. At its core is a Training of Trainers (ToT) program that would enable the teachings of the project to continue even after it ends.

The year 2006 saw extensive planning and preparation for this program and, in early February 2007, the FLA held the first ToT session in Honduras, with sessions focusing on the issues of equality, hiring, discipline and grievance procedures.

The Asociacion Hondureña de Maquiladores (AHM) has been very supportive of this project. The CAmP project has also worked closely with Central American governmental institutions such as Ministries of Labor to strengthen their inspection capacity in the field of non-discrimination using

the Guidelines of Good Practice and other appropriate materials. The first training for labor inspectors in the Dominican Republic took place in early 2007.

5. The Joint Initiative for Corporate Accountability and Workers Rights (Jo-In) Project

In 2004, the six leading international Code initiatives (i.e. Clean Clothes Campaign, Ethical Trading Initiative, Fair Labor Association, Fair Wear Foundation, Social Accountability International, and Workers Rights Consortium) established the Joint Initiative for Corporate Accountability and Workers Rights (Jo-In) with a pilot project in Turkey. Their aim was to:

- Improve workplace conditions at a number of designated workplaces, and
- while working together on this common task further enhance cooperative efforts.

To this end, the project seeks to establish common guidelines for remediation around freedom of association, wages, and hours of work. The pilot also addresses complaints mechanisms and subcontracting and has established the Jo-In draft Common Code, which is a collection of the highest standards among the six initiatives' Codes of Conduct.

During 2006, the project was in the fourth stage of its lifespan, involving assessments and analysis. Conditions in the six factories participating in the pilot were evaluated and the project is currently finalizing remediation plans with relevant stakeholders. It is expected that the project will come to a close at the end of 2007, but remediation and other local activity will continue beyond that point.

The Focus in 2006

• *Building Sustainability in Turkey's Apparel Industry*

Throughout 2006 and continuing into 2007, Jo-In's efforts in Turkey built upon previous years' work, most notably with regard to local stakeholder consultation. In this regard, real progress has been made, as local participants in Jo-In formed and formalized the Local Working Group in May 2006; participated in three days of Jo-In training about the six initiatives and their complaints mechanisms in July 2006; and convened periodic multi-stakeholder meetings since then. Indeed, the strength of the multi-stakeholder networks were on display at Jo-In's recent meetings, with

international brand, MSI and local trade union representatives all bringing their analyses and experiences from different corners of the world to bear on the challenges encountered in Turkey.

▪ ***Remediation Planning***

The Jo-In project staff worked with stakeholders at the local and international levels to reach agreements on remediation plans for the six factories where Jo-In trials are taking place.

Remediation plans seek to address both factory and brand practices with regard to freedom of association, hours of work, and wages with special emphasis on strengthening industrial relations capacity, particularly in light of the labor relations history and current situation in Turkey. Therefore, the project will take a three-fold approach to remediation:

1. “Housekeeping items” (Policies) – dealing with basic noncompliance issues, such as the provision of accurate pay stubs and written employment policies.
2. “Climate issues” (Freedom of association gaps) – addressing whether workers have a space to express/represent their interests.
3. “Big picture items” (Systems) – improving management systems to increase capacity to stay in business, pay more, and manage overtime; addressing brands pricing and sourcing systems; linking systems improvements to clear gains for workers.

The six organizations in Jo-In are aware that these approaches, particularly those addressing systems, may require significant time to implement and will not be completed by the close of the project. Therefore, the project will develop a strong basis for further work; invest in capacity building; and rely on the individual MSIs, brands, and suppliers to execute the plans beyond the project’s official close.

▪ ***Developing Industrial Relations Capacity***

Turkey has a history of trade union repression and ongoing legal barriers to freedom of association. In this context, there are a number of labor relations myths circulating in Turkey. For example, it is common for those in Turkey’s compliance community to believe that management’s formation of a worker committee fulfills freedom of association benchmarks. Likewise, some trade union representatives have reportedly called factory owners to request unionization of the factory, completely skipping the worker organizing portion of the process.

In this context, project staff and the six international organizations consider that effective industrial relations are essential for improved workplace conditions in Turkey. Local stakeholders express support for this approach. An early step in the effort to improve understanding about freedom of association has been the distribution of a joint statement by the six initiatives by way of Jo-In (circulated in late May 2007) clarifying that, according to ILO standards, management-run elections for worker committees are unacceptable under any circumstance. The statement will be complemented by a freedom of association training for local stakeholders, and the Local Working Group will consider adopting a framework agreement among brands, suppliers, and trade unions in order to address some of the barriers to compliance that exist in Turkey's apparel sector.

▪ ***Other Research***

In addition to the work being done in the six facilities and at the level of the LWG, Jo-In is also conducting research on some of the more persistent and challenging questions for the six initiatives. Two research studies are underway, relating to subcontracting and complaints. Since early in 2007, a team of researchers has focused on the lower end of Turkey's supply chain, interviewing homeworkers and subcontracted workers and analyzing the supply chain and pricing practices at various levels of the chain. The complaints study will review third party complaints that have taken place in Turkey and how they work in the context of national law. Through interviews and case studies, researchers seek to help the six identify better methods for working together. The outcomes of this research will be reported at the final meeting at the end of the project.

▪ ***Looking Ahead***

Jo-In's pilot project in Turkey is projected to end in 2007, with final reports and meetings taking place in 2008. In coming months, work will focus on remediation in participating factories, multi-stakeholder efforts at the local level to improve labor compliance across Turkey's apparel sector, and documentation of project learning. Already the project has yielded significant learning for the six organizations, which express considerably greater understanding of each others' approaches and increased collaboration beyond the Jo-In project. The six will join observers in looking closely and critically at project outcomes in the coming year in order to evaluate the project's impact locally and internationally, and to determine ways in which they will extend Jo-In's work beyond Turkey.

6. Third Party Complaints

The purpose of the FLA's Third Party Complaint Procedure is to investigate allegations by any person, organization, or company of persistent or serious noncompliance with the FLA Workplace Code of Conduct in a production facility used by any FLA-affiliated company, and to remediate verified instances of noncompliance. The process focuses on corrective action to address noncompliance and ensure conditions that are fair and decent. It



confirms the viability and thoroughness of the FLA system. The complaint mechanism uses a four-step process to address complaints lodged with the FLA:

1. When the FLA receives a complaint, staff first ascertains whether the factory in question produces for an FLA-affiliated company. If the complaint does concern a factory supplying one or more FLA brands, FLA then evaluates if the complaint contains specific, verifiable evidence of noncompliance and whether to accept the complaint.
2. If the FLA accepts the complaint, the process moves to Step Two, during which time the brand or brands using the factory have 45 days to conduct an internal assessment of the alleged noncompliance and remediate verified instances of noncompliance.
3. If the alleged noncompliance could not be verified or remedied, the process moves to Step Three, during which time the FLA conducts further

investigation into the situation in the factory, sometimes with the help of an outside, impartial assessor or ombudsperson.

4. Step Four is the remediation of noncompliance as identified by the outside assessor. Brands participate in the remediation process to create positive change in the conditions in the factory where serious noncompliance occurred.

In 2006, FLA received 23 Third Party Complaints from individuals and organizations.

- Fifteen complaints were out of the scope of the Third Party Complaint mechanism. The FLA referred them to the appropriate resources to help them address their workplace concerns.
- Five complaints closed at Step Two:
 1. Yung Wah Industrial Co. Ltd. Plant #2 - Cambodia. The FLA received a complaint by a trade union at the factory alleging problems in obtaining union recognition and harassment of its union leaders. Through the investigation and intervention on the part of Eddie Bauer and other non-FLA affiliated companies sourcing at the factory, the union was able to gain legal recognition and criminal charges against the union leadership dropped.
 2. MSI Garment Co., Ltd. - Cambodia. The complaint alleged the existence of a yellow union at the facility and workers being forced to pay union dues. After extensive investigation, including speaking to all three trade unions representing workers at the facility, interviewing workers, and speaking to the ILO's Better Factories representatives, Phillips-Van Heusen (PVH) was unable to corroborate the allegations, nor was the FLA able to reach the complainant for follow-up questions and comments.
 3. Great Lancelot International Co., Ltd. - Cambodia. The trade union representing majority of workers at the factory filed a complaint alleging noncompliance with respect to collective bargaining. As a result of the involvement of PVH pursuant to the FLA Third Party Complaint process, the fourth collective bargaining agreement in the history of Cambodia's garment industry was signed.
 4. Textile Co., Inc. - Dominican Republic. The FLA received two separate complaints by workers alleging noncompliance with respect to harassment or abuse and nondiscrimination,

specifically harassment, verbal abuse, and intimidation. Gildan Activewear investigated the allegations and implemented a remediation process, including facilitation of management trainings.

5. Cimatextiles, S.A.. - Guatemala. The complaint filed by the trade union in the factory alleged unfair dismissal of a medical physician at the facility. The complaint led to the settling of all issues that the physician had with the factory. In addition, the FLA further recommended to Liz Claiborne to work with Cimatextiles to develop a professional service policy and contract, as well as more transparent and nondiscriminatory hiring and dismissal procedures.

Three cases moved to Step 3 of the FLA Third Party Complaint Process. Below are brief summaries of two of these cases, illustrating the complexity and remediation difficulties of the complaints. The brand's remediation for the third case is still being developed and will be reported in a future Annual Public Report.

Hermosa Manufacturing, El Salvador

The Hermosa Manufacturing case exemplifies a troubling trend of closures due to circumstances beyond the brands' control where workers pay the heaviest burden of lost employment, unpaid wages and severance payments. (For further discussion of this issue, please refer to the feature article that follows in this Annual Report.)

In December 2005, a German-based NGO, the Christliche Initiative Romero filed a third party complaint with the FLA regarding the sudden closure of the Hermosa Manufacturing factory in Apopa, El Salvador, which left 320 workers without employment, wages owed or severance payment.

In March 2006, the FLA commissioned an independent expert, Roberto Burgos Viale, of the Institute of Human Rights of the Central American University to investigate the situation and prepare a report based on his findings. Among Burgos Viale's findings were that, in addition to the allegations made by the complainant, workers were also defrauded from their benefits like social security, pension, housing fund contributions, and medical services.

A number of FLA-affiliated companies that had sourced from Hermosa sought a solution to the case through the application of the labor law of the Government of El Salvador and met on numerous occasions with Salvadoran authorities. Their best efforts to this end were unsuccessful. Aggravating

the situation, the Government of El Salvador failed to fulfill its stated commitments to provide medical services to workers while they were unemployed and to organize a job fair to ease severe economic impact for the affected workers.

Due to the dire economic situation of former Hermosa workers, in December 2006 the FLA established an emergency fund that distributed \$36,000 among 57 unionized former Hermosa workers who remained unemployed since the factory closed and were in dire economic need.

The case remains open and the FLA and its affiliated companies are continuing to take actions to promote reemployment efforts of former Hermosa workers and to press the Salvadoran Government to fulfill its legal obligations to its citizens affected in this case.

Paxar, Turkey

The Paxar case highlights the challenges of remedying issues of freedom of association and collective bargaining rights. In February 2006, the FLA received a complaint from the TEKSIF trade union against the management of Paxar, a manufacturer of labels for apparel products supplying an FLA-affiliated company. The complaint charged that Paxar refused to enter into negotiations towards a collective bargaining agreement, intimidated workers associated with the union, and unfairly dismissed union members.

This case was actively pursued not only by the Fair Labor Association, but also by the Ethical Trade Initiative (ETI) and Social Accountability International (SAI), which also had affiliated companies sourcing at the facility, TEKSIF's international union federation, the International Textile, Garment and Leather Workers' Federation (ITGLWF), and the Clean Clothes Campaign. Although it took almost one year of continual efforts by the FLA brands and other organizations, a collective bargaining agreement finally was signed between Paxar and TEKSIF on February 26, 2007.

Consequently, the FLA closed the case at Step Three of the FLA third party complaint process on February 26, 2007. Nonetheless, the FLA continues to monitor the situation to ensure full implementation of the negotiated settlement and respect for freedom of association. FLA's role in ensuring that collective bargaining occurred was a significant milestone in protecting workers' rights.

2. Compliance Programs of FLA-Affiliated Companies

Participating Companies commit to implement the FLA code of Conduct in factories throughout their supply chains. The companies included range in size from major publicly traded multi-national companies to small, privately held companies. Approximately half of the participating companies are also FLA university licensees. The Participating Companies included in this report are:

adidas Group
ASICS Corporation
Eddie Bauer Holdings, Inc.
GFSI, Inc. (Gear for Sports/Champion
Custom Products)
Gildan Activewear, Inc.
H&M (Hennes & Mauritz AB)
Liz Claiborne, Inc (LCI)
Mountain Equipment Co-op (MEC)
New Era Cap Company, Inc.

Nike, Inc.
Nordstrom, Inc.
Outdoor Cap Company, Inc.
Patagonia
Phillips-Van Heusen Corporation
PUMA AG
Top of the World
Twins Enterprise, Inc.
Zephyr Graf-X

Concept-One Drew Pearson Marketing and Umbro Plc failed to submit their reports pursuant to their obligations as affiliated companies.

Company name: **adidas Group**

adidas' compliance program was accredited in 2005. Reebok Footwear's compliance program was accredited in 2004; Reebok Apparel's compliance program was accredited in 2005.

Annual consolidated revenue in FY 2006: **\$ 12.668 billion**

Annual revenue from collegiate licensed goods in FY 2006: **<1% of annual consolidated revenue**

Company status: **Publicly traded [FRA: ADS]. In January 2006, adidas completed its acquisition of Reebok International Ltd.**

FLA applicable brands/percentage of total annual revenue: **adidas / 66%, Taylor Made adidas Golf (TMaG) / 8%, Reebok / 25%**

Total applicable factories in FY 2006: **815 (China-175, United States-106, Korea-67, Japan-49, Indonesia-43, Thailand-40, Turkey-35, Brazil-32, Taiwan R.O.C-31, Vietnam-25, Argentina-21, Philippines-20, Canada-16, India-14, Mexico-14, Australia-12, Malaysia-11, El Salvador-8, Honduras-7, Italy-7, Tunisia-7, New Zealand-6, Cambodia-5, Macau-5, Pakistan-5, Bulgaria-4, Germany-4, Hong Kong-4, Peru-4, Singapore-4, Sri Lanka-4, Bangladesh-3, Portugal-3, Chile-2, Colombia-2, Czech Republic-2, Greece-2, Poland-2, Ukraine-2, Albania-1, Bosnia-1, Costa Rica-1, Guatemala-1, Hungary-1, Israel-1, Romania-1, Slovakia-1, Spain-1, Switzerland-1, United Kingdom-1, Uruguay-1)**

Factories subject to internal monitoring visits in 2006: **197 (China-40, Thailand-24, Indonesia-19, Vietnam-16, India-12, Mexico-11, Philippines-9, Turkey-9, El Salvador-7, Honduras-7, Brazil-6, Cambodia-5, Korea-5, Tunisia-5, Canada-4, Bulgaria-3, Sri Lanka-2, Taiwan R.O.C-2, Albania-1, Czech Republic-1, Guatemala-1, Hong Kong-1, New Zealand-1, Poland-1, Slovakia-1, United States-1)**

Total FLA independent external monitoring visits in 2006: **25 (China-7, Sri Lanka-2, Thailand-2, Turkey-2, Argentina-1, Brazil-1, Bulgaria-1, El Salvador-1, Guatemala-1, Hong Kong-1, India-1, Indonesia-1, Korea-1, Pakistan-1, Tunisia-1, Vietnam-1)**

adidas' Labor Compliance Program in 2006

adidas completed the acquisition of Reebok in January 2006. Integration of adidas' Social & Environmental Affairs program and Reebok's Human Rights and Business Program into a single corporate compliance program began in April 2006. The integrated compliance program is now administered by the adidas Group's Social and Environmental Affairs (SEA) department. The SEA department reports to the adidas Group General Counsel. The team structure for the department includes a Global Director, three regional heads and regional staff in each of adidas' three geographic regions: Asia, the Americas and Europe, Middle East and Africa (EMEA).

The global management team for the SEA Department has remained unchanged from prior to integration of Reebok compliance staff. The integrated compliance team comprises a total of 57 full-time staff members and 5 part-time staff members located across company headquarters and regional offices. The SEA department works closely with the Sourcing, Quality Control, Product Development and Continuous Improvement departments for international production. adidas engages several third party monitoring organizations for compliance support.

Developments in adidas' Labor Compliance Program in 2006

A. Compliance Systems Developed in 2006

- In April 2006, began integration of the individual labor compliance departments of adidas and Reebok. Reviewed all standards, guidelines and procedures from both brands and created a unified social and environmental compliance program.
- In July 2006, reviewed and revised monitoring plans to focus efforts of field teams on initial factory assessments, action plan follow ups and Key Performance Indicator (KPI) application. Integrated field teams implemented many of the field activities in the last two quarters of 2006.
- Integrated all former Reebok team compliance staff into adidas' SEA department during the second quarter of 2006.
- Redesigned adidas Standards of Engagement and Reebok Production Standards for re-issue in January 2007 as the adidas Group Workplace Standards. The group workplace standards are consistent with the FLA's Workplace Code of Conduct.
- Focused on building supplier capacity for self-governance and sustainable labor compliance. To this end, trained key suppliers in Guidelines for Sustainable Compliance and continued working with them on a sustainable compliance process.
- During the year, several licensees and Reebok business units began shifting production from their contractors to adidas approved suppliers.
- Made decision to use Fair Factories Clearinghouse as the SEA data platform starting January 2007.
- Continued participation in the Jo-In project, which is focused on the development of common workplace standards and process among six global code implementation and monitoring organizations. Also participated in a series of multi-stakeholder dialogues as part of the FLA's Soccer Project in Thailand and China.

B. Selected Elements in Implementing the FLA Requirements

- Conducted a total of 869 visits to factories by SEA global staff for auditing, monitoring or training exercises. Less than 5% of these visits were unannounced.
- Conducted 147 pre-production audits, which resulted in 40% of the candidate factories being rejected.
- SEA staff conducted 158 strategic monitoring visits in over 120 factories.
- Five adidas licensees conducted 24 audits; all but three of these audits were conducted by third party monitoring organizations.
- Of the IEM audits conducted in 2006, 8 were shared with other brands. Conducted 3 verification visits, of which 2 were shared with other brands.
- Received complaints from over 360 workers in 2006. The grievances were documented, and in response to the communication from workers, SEA staff investigated issues found during worker interviews, management interviews and document review. Depending on the finding, the SEA process designates staff to help resolve the issue.
- Continued training of human resource/compliance staff at supplier factories on the internal development of grievance policies and procedures. In 2006, this training was conducted at a factory in El Salvador.

Company name: **ASICS Corporation**

Year of FLA affiliation: **ASICS joined as a Participating Company for its footwear products only in 2005. In June 2006, ASICS initiated a three-year implementation period for all apparel and equipment bearing the ASICS logo.**

Annual consolidated revenue in 2006: **US\$ 1,462 billion**³

Company status: **Publicly traded [TYO: 7936]**

FLA applicable brands/percentage of total revenue: **Footwear /65.9%, Apparel / 24.1%, Equipment and Accessories / 10%**⁴

Total applicable facilities in Calendar Year 2006: **257 (China-147, Australia-14, USA-14, Taiwan-10, Thailand-9, Turkey-8, Italy-7, Vietnam-7, Japan-6, Indonesia-4, Malaysia-3, Pakistan-3, Cambodia-2, Germany-2, Greece-2, Mauritius-2, Mexico-2, Tunisia-2, Bangladesh-1, El Salvador-1, France-1, Hungary-1, Kenya-1, Korea-1, Laos-1, Netherlands-1, New Zealand-1, Poland-1, Portugal-1, Slovakia-1, Spain-1)**

Factories subject to internal monitoring visits in 2006: **44 (China-28, Thailand-4, Italy-2, Tunisia-2, Turkey-2, Cambodia-1, Laos-1, Mexico-1, Slovakia-1, United States-1, Vietnam-1)**

Total FLA independent external monitoring visits in 2006: **8 (China-4, Mauritius-1, Mexico-1, Thailand-1, Turkey-1)**

ASICS' Labor Compliance Program in 2006

The ASICS Corporate Social Responsibility (CSR) program is segmented into 3 regions: ASICS Japan (ACJ), ASICS America (AAC), and ASICS Europe Benelux (AEB). ASICS' Corporate Policy of Engagement is based on the FLA Workplace Code of Conduct. ACJ is responsible for most policy and procedural decisions relating to CSR. The ACJ compliance team comprises 2 full-time and 1 part-time staff members. The team reports to the Legal Department; the ACJ CSR division head reports directly to the CSR manager in the legal division. The General Manager of the Legal division reports to the Managing Director of ASICS. Until November 2006, the compliance activities of the Americas region were overseen by the AAC Vice President of Operations. AAC hired a Corporate Social Responsibility/Supply Chain Security Manager in November 2006, who reports to the Vice President of Operations. The AEB CSR associate devotes 80% of her time to compliance activities and reports directly to the Vice President and Chief Financial Officer. All three ASICS regions now have compliance staff that communicates weekly. ASICS worked with several third-party monitoring organizations in 2006 for both internal and external audits.

³ For the fiscal year ended March 31, 2007.

⁴ Percentages based on figures for fiscal year April 2005 to March 2006.

Developments in ASICS' Labor Compliance Program in 2006

- Incorporated pre-sourcing audits into ASICS production models to gauge the management of labor and working conditions in factories and encourage compliance with the ASICS Code of Conduct.
- A total of 43 audits were conducted in 2006. Of these, 16 were initial audits and 27 follow up audits. Seventeen audits were considered internal and 26 external.
- Developed a strategy for consolidating the ASICS supplier base in 2006. The objective of the strategy was to focus sourcing in factories that express a commitment to upgrade their CSR capabilities. The factory base for applicable brands decreased from 270 in 2005 to 257 in 2006.
- ACJ made a formal announcement notifying all business units that sourcing from Myanmar would be discontinued and moved to China starting 2007.
- For the 2006 Turin Olympics, AEB hired FLA-accredited monitoring organization Intertek to perform CSR assessments of approximately 80% of the suppliers.
- ACJ requested suppliers to hold regular meetings involving management and workers.
- In an effort to engage civil society organizations and participate in community events, ACJ participated in volunteer activities in several countries, including Thailand, Sri Lanka, Bangladesh, and Laos. AEB had continuous communications with several international civil society organizations. As AAC's CSR team is relatively new, they did not interact with any civil society organizations in 2006.

NOTE: Asics Corp. founder Kihachiro Onitsuka died of heart failure at a hospital in Kobe on September 29, 2007. He was 89.

Company name: **Eddie Bauer Holdings, Inc.**

Eddie Bauer's Compliance Program was accredited in 2005.

Annual consolidated revenue in FY 2006: **\$1.013 billion**

Company status: **Publicly traded [NASDAQ: EBHI]**

FLA applicable brands/percentage of total annual revenue: **Eddie Bauer Apparel / 86%**

Total applicable facilities in FY 2006: **138 (China-51, Turkey-13, India-11, Hong Kong-8, Thailand-8, Mexico-7, Sri Lanka-6, Vietnam-6, Macau-5, Indonesia-3, Brunei-2, Cambodia-2, Dominican Republic-2, Mauritius-2, Philippines-2, United States-2, Bangladesh-1, Canada-1, El Salvador-1, Japan-1, Madagascar-1, Malaysia-1, Peru-1, Singapore-1)**

Factories subject to internal monitoring visits in 2006: **114 (China-43, India-10, Hong Kong-8, Thailand-8, Mexico-7, Sri Lanka-6, Vietnam-6, Indonesia-3, Macau-3, Brunei-2, Cambodia-2, Dominican Republic-2, Mauritius-2, Philippines-2, Turkey-2, Canada-1, El Salvador-1, Japan-1, Madagascar-1, Malaysia-1, Peru-1, Singapore-1, United States-1)**

Total FLA independent external monitoring visits in 2006: **5 (China-2, Indonesia-1, Macau-1, Thailand-1)**

Eddie Bauer's Labor Compliance Program in 2006

Eddie Bauer's labor compliance program is named the Global Labor Practices (GLP) program. The GLP Program oversees enforcement of Eddie Bauer's Factory Workplace Code of Conduct. When Eddie Bauer became affiliated with the FLA in 2001, the company adopted the FLA Workplace Code of Conduct. The Director of Public Affairs and Corporate Social Responsibility, who reports to the Vice President of Global Sourcing and Supply Chain Operations, is responsible for the activities of the GLP program. The compliance team comprises 4 compliance staff; 2 full-time staff members are located at the company headquarters and 2 at Eddie Bauer's regional office in Hong Kong.

In 2006, the GLP Program underwent some staff changes. At Eddie Bauer headquarters, the GLP Managing Specialist began reporting to the Director of International Trade and Regulation Compliance in Global Sourcing Operations. One of Eddie Bauer's sourcing agent offices, the Eddie Bauer International Miami office, closed in July 2006. As a result, the Americas compliance staff previously employed with the sourcing agent office in Miami became employees of Eddie Bauer. In 2006, Eddie Bauer continued to use two third-party monitoring organizations to support its labor compliance efforts by conducting pre-sourcing and annual audits.

Developments in Eddie Bauer's Labor Compliance Program in 2006

A. Compliance Systems Developed in 2006

- Continued to subject all prospective apparel factories to pre-sourcing labor compliance audits conducted by third-party monitors.
- A key focus area for the GLP program in 2006 was analysis of compliance efforts. In 2005, Eddie Bauer developed an enhanced reporting system to enable the GLP team to generate reports on the incidence of labor non-compliance identified during GLP audits. In 2006, the team generated segregated GLP audit data by Code element, to conduct statistical analyses of the incidence of supplier non-compliance with respect to specific labor standards.
- In 2006, began collaboration with a peer company on monitoring remediation progress at a shared factory in India. Continued collaboration with another FLA-affiliated Participating Company on monitoring and remediation at a Chinese factory.
- Continued participation in the FLA's Central America Project in the Dominican Republic. As part of the project, involved two of the company's suppliers in the Dominican Republic in the project, in an effort to educate factory management about prevention of non-compliance with the code obligations of non-discrimination and freedom of association.

B. Selected Elements in Implementing the FLA Requirements

- Conducted 22 unannounced monitoring visits out of a total of 114 monitoring visits in 2006.
- In 2006, 38 new apparel factories underwent a pre-sourcing audit, out of which 17 factories were not approved after the first audit. The most common reason for non-approval was discrepancies in records.
- Used a third-party monitoring organization, offshore part-time compliance staff and Hong Kong-based full-time auditors to conduct return visits to selected factories.
- A central focus for the GLP program in 2006 continued to be training and education. Conducted Vendor Labor Compliance seminars at the Korea and Singapore regional offices aimed at increasing vendor awareness of Code elements and providing an update on policies and procedures of the GLP program.
- Held a global GLP team meeting at the company's headquarters in July 2006 bringing together auditors from the Americas and Asia to share their learnings and challenges in doing compliance work. A professor from Cornell University's International Labor Relations School was invited to conduct an in-depth seminar on monitoring the Freedom of Association code element.

- Interacted with several NGOs in 2006, which enhanced the GLP staff's awareness of local labor conditions and resources available to workers in those regions. Worked with an international NGO, a local union, the FLA, and other companies on the resolution of a Third Party Complaint involving a Cambodian factory.

Company name: **GFSI, Inc. (GEAR for Sports/Champion Custom Products)**

Year of FLA affiliation: **2000**

Annual consolidated revenue in FY 2006: **\$150,000,000 - \$200,000,000⁵**

Annual revenue from collegiate licensed goods in FY 2006: **\$50,000,000 to 75,000,000**

Company status: **Privately held**

FLA applicable brands/percentage of total annual revenue: **GEAR for Sports/29%, Champion Custom Products/71%**

Total applicable facilities in FY 2006: **25 (China-6, Colombia-3, India-3, Cambodia-2, Egypt-2, Guatemala-2, Vietnam-2, Honduras-1, Macau-1, Malaysia-1, Mexico-1, Peru-1)**

Factories subject to internal monitoring visits in 2006: **8 (China-2, Egypt-2, Cambodia-1, India-1, Mexico-1, Peru-1)**

Total FLA independent external monitoring visits in 2006: **1 (Colombia)**

GFSI's Labor Compliance Program in 2006

GFSI's Corporate Social Responsibility (CSR) Program is managed by the Director of Social Responsibility, who reports to the Senior Vice President of Supply Chain. GFSI's compliance program is based on the FLA's Workplace Code of Conduct. In April 2006, the department changed directors, and a new Director of Social Responsibility now manages GFSI's Corporate Social Responsibility Program. The Director also oversees GFSI's quality assurance program and divides her time between both roles. GFSI's labor compliance program utilizes staff situated in other departments, mainly quality, taking on partial compliance responsibilities. Twenty-one staff members play a role in GFSI's compliance program: 2 at the company's headquarters in Lenexa, Kansas and 19 in regional offices in Latin America, Asia, India and Egypt. Since 2005, GFSI has also partnered with CSCC, a third party monitoring organization, to execute GFSI's Global Human Rights Program, including internal auditing of contract factories and training of compliance staff.

Developments in GFSI's Labor Compliance Program in 2006

- GFSI staff involved with compliance efforts was expanded to include all Country Managers, Quality Control Managers, and Quality Assurance and Sourcing staff. Nine Country Managers and 9 Quality Control Managers were trained in CSR.
- At a training session conducted by CSCC in March 2006, GFSI Country Managers were provided an overview of CSR, an introduction to the GFSI human rights program and action items for implementation, instructions on a Violation Classification and Tolerance Grid, effective handling of employee complaints,

⁵ A revenue range is provided for privately held companies.

and an overview of the FLA program and the specific obligations of Participating Companies.

- A new CSR Master Chart was created to track and monitor CSR efforts. In 2006, internal monitoring visits were targeted in new areas of development as well as a random sample of high-volume and low-volume factories. All internal monitoring visits were announced.
- Eleven initial and re-certification WRAP audits were completed during the year.
- For new factories, a formal, written assessment was created to be completed by Country Managers and Sourcing personnel. This assessment would be conducted subsequent to an initial visit to the factory, and includes pre-assessment questions focusing on the factory's ability to implement the Code of Conduct.

Company name: **Gildan Activewear Inc.**

Year of FLA affiliation: **2003**

Annual consolidated revenue in FY 2006: **\$773.2 million**

Company status: **Publicly traded [NYSE: GIL]**

FLA applicable brands/percentage of total annual revenue: **Gildan Activewear / 100%**

Total applicable facilities in FY 2006: **27 (Haiti-8, Honduras-8, Canada-2, Dominican Republic-2, Mexico-2, Nicaragua-2, United States-2, El Salvador-1)**

Factories subject to internal monitoring visits in 2006: **16 (Haiti-5, Honduras-3, United States-2, Canada-2, Nicaragua-2, El Salvador-1, Dominican Republic-1)**

Total FLA independent external monitoring visits in 2006: **2 (Honduras)**

Gildan Activewear Inc.'s Labor Compliance Program in 2006

Gildan's labor compliance program is named the Gildan Corporate Social Responsibility (CSR) Program. In 2006, responsibility for the CSR program was assigned to a Director solely dedicated to the CSR program. The Director of CSR reports to the Executive Vice President of Organizational Development and Change Management. All Gildan Country Managers are accountable for the implementation of the CSR program in their regions. The Gildan compliance team comprises 16 full-time and 17 part-time staff members located at the company headquarters and regional offices in North America, Central America and the Caribbean basin. Starting 2005, Gildan engaged Verite, a third-party consultant, to help development and implementation of strategies and activities of its CSR program. The company instituted a CSR working group, hired a consultant to act as Internal Auditor in Central America and the Caribbean basin, and worked with another third-party monitoring organization to conduct internal audits.

Developments in Gildan Activewear Inc.'s Labor Compliance Program in 2006

- Created a new Code of Conduct in March 2006 with input from the CSR working group and taking into account industry best practices. The Code meets the standards laid down in the FLA Workplace Code of Conduct. The revised Code includes a standard relating to grievance procedures.
- Began revision of the internal integrity poster, which will be ready for use in 2007.
- Developed a self-assessment tool for suppliers aligned with the Gildan audit instrument. The self-assessment tool serves as the basis for pre-production audits of new suppliers. Began drafting sourcing guidelines.

- Conducted 15 internal audits of factories; thirteen internal audits were conducted by the third-party consultant. All audits were unannounced except for factories in Haiti.
- The third-party consultant trained Dominican Republic and Haiti factory management and staff in March 2006 on the new Gildan Code of Conduct.
- Received and resolved one FLA Third Party Complaint related to alleged verbal abuse at a factory in the Dominican Republic. Received 10 complaints at the company headquarters via the Alert Line. The CSR Director has secure access to the Alert Line global compliance database that enables her to follow up in a timely manner.
- Declined one contractor in Mexico in 2006 because they did not comply with Gildan's child labor requirement.

Company name: **H & M Hennes & Mauritz AB**

Year of FLA affiliation: **2006**

Annual consolidated revenue in FY 2006: **SEK 80.081 million**

Company status: **Publicly traded (STO: HMB)**

FLA applicable brands/percentage of total revenue: **H&M/100% (China only)**

Total applicable facilities in FY 2006: **511 (China)**

Factories subject to internal monitoring visits in 2006: **235 (China)**

Total FLA independent external monitoring visits in 2006: **19 (China)**

H&M's Labor Compliance Program in 2006

H&M's labor compliance program is based on its internal Code of Conduct (CoC), which incorporates the standards outlined in the FLA Workplace Code of Conduct. H&M's Full Audit Programme (FAP) is managed by the CSR Manager, who is based in the company's head office in Stockholm, Sweden. The CSR department's leadership team comprises 11 team members at the head office, 1 regional coordinator in India, 2 regional coordinators in China, and senior auditors and auditors located globally. The compliance staff worldwide includes 51 full-time staff members working in the head office and four regions: Asia, Far East, Europe, and Africa. H&M's compliance team in the Far East, headquartered in Hong Kong, comprises 15 full-time leadership team and compliance staff members. FAP audits are conducted at the initiation of each supplier relationship and include inspection of factory premises, review of documentation, and worker and management interviews. The FAP audit is supplemented by a Management Action Plan (MAP) and Follow-up (FUP) visits to assess progress of remediation.

Developments in H&M's Labor Compliance Program in 2006

- All audits in 2006 were conducted in accordance with a new audit program launched in 2005. During the year, a total of 312 FAP and FUP audits were conducted, including 105 pre-sourcing FAP and FUP audits at potential factories. Of the 133 internal FAP audits conducted at existing factories, 1 was unannounced. Twelve of the 74 FUP audits at existing factories were unannounced.
- Developed methods for remediation and follow-up visits. Workshops were held for auditors to share experiences and discuss possible improvements. Evaluated and worked on improving FUP tools.
- Continued practice of sending the H&M Code of Conduct to all new suppliers and requiring each supplier to sign a compliance commitment. All of H&M's Chinese suppliers have been informed about H&M's participation in the FLA and their obligation to comply with the CoC.

- Conducted several training sessions for auditors and internal monitors during the year, including worker interview training, follow-up visit training and a “Training the Trainers” course aimed at enhancing the skills of auditors to better educate suppliers. A training session on follow-up visits was conducted in Shanghai in October 2006.
- H&M received 10, mostly anonymous, worker calls and faxes during the year. A primary complaint area was excessive overtime. Auditors and the receptionist, who have been trained in methods of effectively responding to anonymous callers, answered the calls. In all cases, H&M investigated the complaint.

Company name: **Liz Claiborne, Inc. (LCI)**

LCI's compliance program was accredited in 2005.

Annual consolidated revenue in FY 2006: **\$4,994 billion**

Company status: **Publicly traded [NYSE: LIZ]**

FLA applicable brands/percentage of total revenue: **The following brands made up 80%⁶ of LCI's total revenue in 2006: LIZ, Liz Claiborne, Axxess, Claiborne, Dana Buchman, Elisabeth, Emma Jones, First Issue, J.H. Collectibles, Liz & Co., Villager Sigrid Olsen, Laundry by Shelli Segal, Lucky Brand Jeans, Juicy Couture, Tapemeasure, Tint, C&C California, Ellen Tracy, DKNY Jeans®, DKNY Active®, Mexx**

Total applicable facilities in FY 2006: **480 (China-118, United States-72, Korea-61, Hong Kong-60, Macau-18, India-17, Indonesia-17, Mexico-17, Taiwan-14, Vietnam-11, Philippines-10, Sri Lanka-10, Turkey-10, Thailand-8, Saipan-7, Dominican Republic-6, Peru-5, Guatemala-4, Macedonia-4, Colombia-3, Jordan-2, Canada-1, Honduras-1, Japan-1, Mongolia-1, Nicaragua-1, United Kingdom-1)**

Factories subject to internal monitoring visits in 2006: **193 (United States-56, China-37, Hong Kong-17, India-14, Mexico-10, Vietnam-10, Indonesia-9, Macau-9, Sri Lanka-7, Jordan-4, Dominican Republic-3, Taiwan-3, Colombia-2, Guatemala-2, Philippines-2, Saipan-2, Turkey-2, Honduras-1, Korea-1, Nicaragua-1, Peru-1)**

Total FLA external monitoring visits in 2006: **14 (China-5, India-4, Mexico-2, Hong Kong-1, Indonesia-1, Sri Lanka-1)**

Liz Claiborne, Inc.'s Labor Compliance Program in 2006

Liz Claiborne Inc.'s Standards of Engagement are based on the FLA Workplace Code of Conduct. LCI's compliance team comprises 11 staff members worldwide; 2 located at the LCI headquarters and 9 in Asia. In 2006, LCI began a process of major restructuring of the Manufacturing and Sourcing functional areas. A new management team, comprising the heads of Merchandising/Sourcing, Quality, Logistics, Finance, and Compliance, was created in Hong Kong. The Director of Compliance for Asia is a member of this management team. A technical hub and training center are also being developed as part of the restructuring effort.

In 2006, Mexx, LCI's European subsidiary, became LCI's largest brand. As per the FLA Charter, this made it essential for LCI to include Mexx under the FLA monitoring program. A Memorandum of Understanding was signed by the FLA, the Fair Wear Foundation (FWF), LCI, and Mexx, which outlines procedures for monitoring of Mexx's facilities by FWF or the FLA based on LCI's Standards of

⁶ Estimates based on 2005 sales figures.

Engagement. The FLA and the FWF will collaborate on the Mexxx monitoring program based on terms agreed upon by both parties.

Developments in Liz Claiborne, Inc.'s Labor Compliance Program in 2006

A. Compliance Systems Developed in 2006

- Continued to enhance collaboration between compliance field staff and other departments outside of Compliance. During 2006, special emphasis was placed on identifying unauthorized subcontracting. Quality technicians in the field discovered several occurrences of unauthorized subcontracting during their inspections and reported them to compliance.
- Increased the number of unannounced and follow up audits conducted of factories.
- Continued to focus attention on the issues of working hours and overtime payments in China.
- With regard to possible factory closures in the post-MFA sourcing environment, increased attention to factory compliance with mandatory social benefits payable to workers.
- Paid increased attention to root cause analysis by including more detailed questions in the audit document and identifying the person responsible for implementing compliance by title in the corrective action plan.

B. Selected Elements in Implementing the FLA Requirements

- Audited all new factories prior to adding them to the roster. In 2006, 46 factories were initially declined on the basis of pre-production audits. Each of the factories was audited a second time three months after the first pre-production audit, and several passed the second audit.
- Conducted internal audits of 196 factories, of which 42.9% were unannounced. Factories to be internally audited were selected on the basis of risk (risks associated with previous compliance record and country), production volume and date of last audit. Internal audits were conducted by LCI staff or agents designated by LCI. Seventy-six percent of the factories audited had some form of health and safety violations, which were addressed in their corrective action plans.
- Conducted approximately 200 return visits to assess remediation of payroll violations, excessive overtime or other serious non-compliance issues identified in previous audits. Follow up audits in Asia increased from 40 in 2005 to 84 in 2006.

- Took action to work toward resolving 9 complaints received via phone through the LCI hotline, a confidential reporting channel available to workers at supplier facilities.
- Attended an FLA 3.0 training session conducted in China in August 2006.
- Engaged a local non-governmental organization to conduct basic labor law training sessions for 8 factories in China. The objective of the sessions was to train workers about their rights, and to bring up concerns, report violations to management, or seek outside help. LCI has identified the training sessions as a long term approach to addressing the issue of freedom of association in China.

Company name: **Mountain Equipment Co-op (MEC)**

Year of FLA affiliation: **2005**

Annual consolidated revenue in 2006: **\$220 million**

Company status: **Co-operative**

FLA applicable brands / percentage of total annual revenue: **MEC labeled goods / 39%**

Total applicable facilities in FY 2006: **24 (China-11, Canada-7, Korea-2, Vietnam-2, India-1, Thailand-1)**

Factories subject to internal monitoring visits in 2006: **12 (China-5, Canada-4, Vietnam-2, India-1)**

Total FLA independent external monitoring visits in 2006: **2 (China-1, India-1)**

Mountain Equipment Co-op's Labor Compliance Program in 2006

Mountain Equipment Co-op (MEC) continued restructuring of its labor compliance program, the MEC Ethical Sourcing Program, in 2006. The MEC Ethical Sourcing Program is now headed by a senior executive, a new position created and staffed in 2006, who reports directly to the CEO. A working committee, comprising representatives from Sourcing, Production and Sustainability, meets quarterly to review major changes and developments in the Ethical Sourcing Program. A Board level sustainability committee comprising three Board Directors was appointed and will have oversight of the Ethical Sourcing Program. MEC has adopted the FLA Workplace Code of Conduct.

Developments in MEC's Labor Compliance Program in 2006

A. Compliance Systems Developed in 2006

- Separated Audit and Compliance functions from Sourcing and Production to ensure independence and integrity in compliance program initiatives.
- Appointed a third party auditor to support MEC's internal auditing efforts.
- Established confidential reporting channels for worker complaints that will be rolled out in a phased manner. These include setting up a dedicated email address, a toll free line in China and a text message line in China.
- Identified two civil society organizations to address priority labor compliances areas of health and safety and workers' rights.

B. Selected Elements in implementing the FLA's requirements

- Assessed all potential suppliers by way of a structured audit using a supplier investigation tool named SNIFF. Two potential suppliers were rejected because of their unwillingness to agree to the MEC Code of Conduct.
- Conducted 95% of the audits unannounced. Factories were given 4-6 weeks notice about the possibility of an audit being conducted during a pre-determined 4 week period.
- Reviewed and resolved one worker complaint regarding remuneration and overall working conditions. The complaint was received through the text message line set up by MEC in China.
- Consulted with a number of non-governmental organizations, including regular consultations with the Maquila Solidarity Network (MSN). MSN provided feedback on MEC's internal ethical sourcing policies and work plan before they were approved by MEC senior management.

Company name: **New Era Cap Company, Inc.**

Year of FLA affiliation: **2002**

Annual consolidated revenue in FY 2006: **Information not reported by company**

Annual revenue from collegiate licensed goods in FY 2006: **Information not reported by company**

Company status: **Privately held**

FLA applicable brands/percentage of total annual revenue: **New Era Cap / 100%**

Total applicable facilities in FY 2006: **12 (China-7, USA-4, Taiwan-1)**

Factories subject to internal monitoring visits in 2006: **12 (China-7, USA-4, Taiwan-1)**

Total FLA independent external monitoring visits in 2006: **1 (China)**

New Era Cap Company's Labor Compliance Program in 2006

New Era Cap Company's social compliance program is based on the FLA Workplace Code of Conduct and is structured cross-functionally, with management and administrative staff from several departments involved in program implementation. The compliance team comprises 4 full-time staff persons in the United States: 3 at the corporate headquarters in Buffalo, NY and 1 located regionally in the U.S. The New Era Cap Company has engaged an FLA-accredited monitoring organization, Accordia Global Compliance Group, to implement internal monitoring of its supply chain as well as assist in an advisory capacity. Internal compliance staff members assist in remediation efforts.

Developments in New Era Company's Labor Compliance Program in 2006

- Continued unannounced internal monitoring visits of company-owned and contract supplier facilities. All monitoring visits were conducted by the Accordia Compliance Group.
- The third party monitor conducted 2 unannounced revisits to a facility in China. Revisits are based on the severity of non-compliance findings within 12 months of the initial or annual visit.
- Focused on the areas of strengthening internal monitoring and remediation and training staff in the FLA 3.0 methodology during the year. The external monitor and 1 New Era compliance staff member attended an FLA 3.0 training session in Shenzhen, China. Continued training for compliance staff on the FLA Code of Conduct.

- Continued to provide a confidential reporting channel to workers at company-owned facilities, implemented by a third party administrator, Ethics Point. In contract supplier facilities, the telephone and email contact information of the Asia Quality Manager is posted along with the FLA Code of Conduct, to facilitate reporting of issues and complaints.
- Continued to meet with an employee union representing bargaining unit workers in a company-owned factory in Derby, New York.

Company name: **Nike, Inc.**

Year of FLA affiliation: **1999**

Nike's compliance program was accredited in 2005

Annual consolidation revenue in FY 2006: **\$14.955 Billion**

Annual revenue from collegiate licensed goods FY 2006: **Information not reported by company**

Company status: **Publicly traded [NYSE: NKE]**

FLA applicable brands/percentage of total annual revenue: **Nike Brand / 92%**

Total applicable facilities in FY 2006: **677 (China-139, Thailand-64, United States-52, Indonesia-39, Vietnam-35, Malaysia-34, Korea-30, Japan-29, Brazil-25, Taiwan-23, Turkey-23, India-22, Mexico-19, Sri Lanka-18, Hong Kong-13, Portugal-11, Honduras-9, Argentina-8, Canada-7, Bangladesh-6, Italy-6, Australia-5, Israel-5, Macau-5, South Africa-5, Spain-4, Tunisia-4, Egypt-3, Jordan-3, Morocco-3, Philippines-3, Singapore-3, Cambodia-2, El Salvador-2, Lithuania-2, Moldova-2, Pakistan-2, United Kingdom-2, Belgium-1, Bosnia-1, Bulgaria-1, Chile-1, Colombia-1, Dominican Republic-1, Ecuador-1, Fiji-1, Greece-1, Guatemala-1)**

Factories subject to internal monitoring visits in 2006: **464 (China-116, Thailand-54, Indonesia-36, United States-36, Vietnam-30, Malaysia-29, Taiwan-22, Sri Lanka-15, Korea-14, Japan-13, Hong Kong-12, Turkey-11, India-8, Mexico-7, Bangladesh-6, Brazil-6, Honduras-6, Australia-5, Canada-5, Argentina-4, Macau-4, Portugal-4, Morocco-3, Singapore-3, Italy-2, Lithuania-2, Moldova-2, United Kingdom-2, Colombia-1, Dominican Republic-1, Greece-1, Guatemala-1, Israel-1, Pakistan-1, Philippines-1)**

Total FLA independent external monitoring visits in 2006: **24 (China-5, Indonesia-3, Thailand-3, Malaysia-2, Sri Lanka-2, Turkey-2, Vietnam-2, Argentina-1, Brazil-1, Honduras-1, Korea-1, Pakistan-1)**

Nike's Labor Compliance Program in 2006

Nike implements its Corporate Responsibility compliance program on the basis of its Code of Conduct, which meets and exceeds the FLA Workplace Code of Conduct. The Nike Code is supplemented by a set of Code Leadership Standards the company issued in 2002. The compliance management program comprises four parts: pre-sourcing, Environmental Health & Safety (ESH) audits, Management Audit Verification (MAV) audits, and Factory Capacity Building. The worldwide compliance team comprises 75 full-time staff persons, with 17 staff members located in the Nike headquarters in Beaverton, Oregon and 58 located in regional offices in Asia; the Americas; and the Europe, Middle East and Africa regions. A Senior Director, who focuses solely on factory compliance, heads the Nike

compliance department. In addition to compliance staff, Nike engages professional social compliance audit firms around the world to provide pre-sourcing third party audits and follow-up visits, and in some cases, M-audits and ESH audits.

Developments in Nike's Labor Compliance Program in 2006

A. Compliance Systems Developed in 2006

- In 2006, Nike decided to redirect some audit resources to unearthing root cases of the four non-compliance issues that have the biggest impact on workers: work hours, wages/benefits, freedom of association, and grievance systems. A task force comprising 10 experienced compliance staff members from the Nike global team was created. The task force piloted the New Management Audit Verification root-cause analysis tool in 2006.
- Initiated a partnership with CHWMEG, a nonprofit trade association of manufacturing and other industrial companies interested in efficiently managing the waste management aspects of their environmental stewardship programs. A focus area for CHWMEG is conducting comprehensive, independent reviews of commercial facilities that treat, store, dispose, recycle, or transport waste. This includes assessment of occupational exposures relating to chemical use.
- Continued to focus on evaluating impact of Nike business decisions on factory overtime through the Overtime Taskforce, recognizing that a number of other factors contribute to the occurrence of overtime. Nike is planning to develop a scorecard that correlates the leading indicators (upstream business processes) to lagging indicators (specific metrics on the factory floor).
- Continued capacity building efforts at key factories using the Nike root-cause analysis tool to better understand the drivers of noncompliance. The development and implementation of Generation III labor oversight tools, which began in 2005, continued in 2006.
- Worked with other leading apparel and footwear brands to continue exploring opportunities for sharing audit and factory remediation information between brands.
- Implemented a program in Vietnam, in collaboration with the Vietnam Chamber of Commerce and Industry, the International Labor Organization, union representatives, and factory management to raise supervisors' and workers' awareness about labor law and trade unions, and thereby improve worker-management communication.

B. Selected Elements in Implementing FLA Requirements

- In 2006, Nike compliance staff implemented 70 pre-sourcing evaluations of prospective contract factories. In many cases, final approval of the factory by the Senior Compliance Director hinged on successful remediation by the

factory of serious labor law or health and safety issues discovered in the pre-sourcing audits. During the year, 69 factories were approved to be added to Nike's factory list.

- Nike's compliance staff, working with factory ESH (environmental health and safety) committees, continued to build factory capacity to implement compliance programs on a sustained basis. Nike's SHAPE (safety, health, attitude, people, and environment) instrument was redesigned as a tool for factory's ESH committees and rolled out to a broader base of factories in 2006. One hundred and forty seven Self-SHAPE assessments were conducted by contract factory ESH committees. This effort supplemented the 354 SHAPE assessments Nike compliance staff conducted in factories.
- Nike's ESH team conducted 54 ESH audits in 2006. The ESH audit is designed to reveal root causes of non-compliance in fulfilling international ESH standards as well as Nike Code Leadership Standards (CLS). The ESH audits continued to focus on the four key areas of ESH noncompliance: chemicals, worker protection, fire safety and maintenance-related work.
- Conducted 42 MAV audits in the course of the year. Originally designed as a tool to identify noncompliance of Nike's Code Leadership Standards, in 2006, the audit was redesigned as a tool to unearth root causes of noncompliance in four key areas: work hours, wages/benefits, freedom of association, and grievance systems.
- A total of approximately 660 return visits were conducted globally.

Company name: **Nordstrom, Inc.**

Year of FLA affiliation: **2002**

The Nordstrom compliance program was accredited in 2006.

Annual consolidated revenue in FY 2006: **\$8.561 billion**

Company status: **Publicly traded [NYSE: JWN]**

FLA applicable brands/percentage of total annual revenue: **Nordstrom Product Group Apparel, 10.5%**

Total applicable facilities in FY 2006: **335 (China-103, Hong Kong-58, United States-27, Italy-24, Macau-15, Turkey-13, South Korea-10, India-9, Canada-8, Sri Lanka-8, Romania-7, Hungary-6, Mexico-5, Malaysia-4, Taiwan-4, Tunisia-4, Israel-3, Philippines-3, Costa Rica-2, Dominican Republic-2, Germany-2, Lithuania-2, Portugal-2, United Kingdom-2, Australia-1, Brazil-1, Ireland-1, Japan-1, Jordan-1, Mauritius-1, Morocco-1, Poland-1, Singapore-1, South Africa-1, Thailand-1, Vietnam-1)**

Factories subject to internal monitoring visits in 2006: **204 (China-87, Hong Kong-32, United States-11, Macau-10, Italy-7, India-7, Romania-7, South Korea-6, Mexico-5, Turkey-4, Taiwan-4, Tunisia-4, Malaysia-3, Israel-3, Philippines-3, Sri Lanka-2, Hungary-2, Canada-1, Costa Rica-1, Japan-1, Jordan-1, Mauritius-1, Thailand-1, Vietnam-1)**

Total FLA independent external monitoring visits in 2006: **17 (China-6, Hong Kong-3, United States-2, India-2, Macau-1, Mexico-1, South Korea-1, Sri Lanka-1)**

Nordstrom Social Responsibility Program in 2006

The Nordstrom Social Responsibility Program (NSRP), the company's compliance program, is a corporate function that falls under the purview of the Nordstrom Product Group (NPG) division. NPG is responsible for designing, contracting to manufacture and importing private label product for Nordstrom retail distribution. NSRP team members partner with a Nordstrom Cross Functional Team, which includes staff from Sourcing, Production, Quality Assurance, Logistics, Custom Compliance, International Security and International Payments. The Nordstrom Code of Conduct is communicated to vendors, subcontractors and agents through the "Nordstrom Partnership Guidelines" brochure.

The Nordstrom compliance team comprises 9 full-time staff members at the company's headquarters in Seattle, Washington. The Nordstrom Social Responsibility Department was reorganized in 2006; Program Manager and Specialists were designated to specific global regions. Nordstrom engages its key agents and independent third party monitors to conduct internal auditing of contracted factories.

Developments in Nordstrom's Labor Compliance Program in 2006

A. Compliance systems developed in 2006

- Areas of focus for the Nordstrom compliance program in 2006 included training agents, monitoring companies and factory management on the Nordstrom program expectations and audit process, non-governmental organization (NGO) outreach and a strategy development project aimed at enhancing compliance efforts.
- NSRP team initiated a strategic development project in 2006 to reassess the company's core values and realign the Social Responsibility Program with industry standards. As part of the project, 7 peer companies were benchmarked to identify points of difference in compliance programs and outline areas for improvement.
- In 2006, NSRP joined a brand working group comprising 20 companies focused on collaborative efforts in factories, especially with respect to auditing and remediation. Through the group, Nordstrom identified shared facilities and launched shared audits with four peer companies in Fall 2006.
- The 'Check-the-checker' program, aimed at evaluating monitor effectiveness, continued in 2006. As part of the program, both third party monitors and key agents are required to audit a total of 10% of the same factories per year to find out if fundamental differences exist in audit findings.

B. Selected Elements in Implementing FLA Requirements

- Nordstrom conducted 45 re-visits to factories in 2006. One visit was unannounced to investigate the suspicion that child labor was being used at that factory.
- Nordstrom continued a partnership with a key agent in China to create a secure communication channel for workers to express their grievances. A hotline number was provided through worker interviews conducted as part of annual audits in 2006. The hotline serves approximately 200 factories in South China.
- Two calls were received via the hotline from workers citing complaints. Nordstrom has been working with the concerned factories to remediate the complaints.
- Onsite and offsite worker interviews were conducted as a key element of the compliance program. A significant number of these interviews were conducted by third party monitors, who interviewed 10 – 25% of the workforce at each factory audited.
- Nordstrom contacted NGOs in China, India, Turkey, Brazil, and Cambodia to develop future projects and gain more regional knowledge.

Company name: **Outdoor Cap Company, Inc.**

Year of FLA affiliation: **2004**

Outdoor Cap moved up to Category A in August 2004.

Annual consolidated revenue in FY 2006: **Information not reported by company**

Annual revenue from collegiate licensed goods in FY 2006: **\$5,000,000 - \$10,000,000⁷**

Company status: **Privately held**

FLA applicable brands / percentage of total annual revenue: **Outdoor Cap / 5%, Signature / 80%, Starter / 15%**

Total applicable facilities in FY 2006: **12 (Bangladesh-5, China-4, Sri Lanka-2, United States-1)**

Factories subject to internal monitoring visits in 2006: **8 (Bangladesh-4, China-3, Sri Lanka-1)**

Total FLA independent external monitoring visits in 2006: **1 (China)**

Outdoor Cap Company's Labor Compliance Program in 2006

The Outdoor Cap Company's compliance program is managed by the Compliance Manager, who is located at the company headquarters and reports to the Executive Vice President of Operations, who oversees the overall direction of the social compliance program. In 2006, the previous Compliance Manager accepted another position within the company and a new Compliance Manager was appointed in her place. The compliance team comprises 1 full-time and 2 part-time compliance staff members at Outdoor Cap's headquarters. The Vice President of Sourcing works closely with the Compliance Manager when evaluating and bringing in a new factory, to ensure compliance with the Code of Conduct. The FLA Workplace Code of Conduct is the basis for the code of conduct implemented by Outdoor Cap.

Developments in Outdoor Cap Company's Labor Compliance Program in 2006

- Conducted 4 internal audits in Bangladesh and China; three of these audits were unannounced and one was announced. In addition, 4 follow-up visits were conducted by the previous Compliance Manager: 1 in China, 2 in Bangladesh and 1 in Sri Lanka.
- Engaged a third party monitor to conduct initial internal audits. Where feasible, follow-up audits were conducted by Outdoor Cap compliance staff. The company did not conduct any return visits in 2006.

⁷ A revenue range is provided for privately held companies.

- The Purchasing Manager continued to monitor and maintain steady production levels to avoid excessive overtime at factories.
- Implemented a confidential reporting channel for worker complaints by posting the name, address and phone number of an independent local contact at all overseas factories used by the company. No complaints were received by the company in 2006.
- Hosted a 2-day compliance training session at the Outdoor Cap's headquarters in conjunction with 2 peer companies.

Company name: **Patagonia**

Year of FLA affiliation: **2001**

Annual consolidated revenue in FY 2006: **\$262 million**

Company status: **Wholly owned subsidiary of Lost Arrow Corporation.**

FLA applicable brands/percentage of total annual revenue: **Patagonia / 95%, Water Girl / 3.6%, Lotus Designs / 0.8%, Bene T's / 0.6%**

Total applicable facilities in FY 2006: **96 (China-21, United States-21, Portugal-11, Thailand-10, Turkey-7, Vietnam-6, Mexico-3, Columbia-2, El Salvador-2, Morocco-2, Tunisia-2, France - 1, Nicaragua - 1, Bulgaria-1, Costa Rica-1, Israel-1, Japan-1, Macau-1, Philippines-1, Romania-1)**

Factories subject to internal monitoring visits in 2006: **8 (Mexico-2, Other-2, China-1, United States-1, El Salvador-1, Japan-1)**

Total FLA independent external monitoring visits in 2006: **7 (China-2, Thailand-2, Turkey-1, Vietnam-1, Macau-1)**

Patagonia's Labor Compliance Program in 2006

Patagonia's Code of Conduct is identical to the FLA Workplace Code of Conduct. A new Social Compliance Manager was hired in November 2006. The Social Compliance Manager reports to the Vice President of Production. Patagonia engages third party auditors to conduct all audits of their supplier factories.

Developments in Patagonia's Labor Compliance Program in 2006

- Conducted audits of 8 factories in 2006, of which 3 were pre-sourcing audits. All internal audits were announced.
- Continued the use of a scoring system that was introduced in 2005, to provide baseline information about factories with respect to compliance status.
- Conducted health and safety training sessions for workers and managers in conjunction with a local NGO in China.
- Continued participation in the Jo-In project with the objective of developing strategies to better address persistent compliance issues and improve remediation efforts.

Company name: **Phillips-Van Heusen Corporation (PVH)**

PVH's compliance program was accredited in 2005.

Annual consolidated revenue in FY 2006: **\$1.849 billion**

Company status: **Publicly traded [NYSE: PVH]**

FLA applicable brands/percentage of total annual revenue: **Van Heusen / 30%; Izod / 30%; G. H. Bass / 5%; Arrow, Geoffrey Beene, Calvin Klein and others / 35%**

Total applicable facilities in FY 2006: **233 (China-54, India-31, Bangladesh-29, Indonesia-12, Philippines-11, Brazil-9, Vietnam-9, Hong Kong-8, Dominican Republic-7, Cambodia-6, Thailand-6, Honduras-5, Mexico-5, United States-4, Sri Lanka-4, Malaysia-4, Nicaragua-3, Egypt-3, Macau-3, Mongolia-3, Taiwan-3, Peru-2, Italy-2, Jordan-2, Pakistan-2, Korea-2, Canada-1, El Salvador-1, Romania-1, Japan-1)**

Factories subject to internal monitoring visits in 2006: **233 (China-54, India-31, Bangladesh-29, Indonesia-12, Philippines-11, Brazil-9, Vietnam-9, Hong Kong-8, Dominican Republic-7, Cambodia-6, Thailand-6, Honduras-5, Mexico-5, United States-4, Sri Lanka-4, Malaysia-4, Nicaragua-3, Egypt-3, Macau-3, Mongolia-3, Taiwan-3, Peru-2, Italy-2, Jordan-2, Pakistan-2, Korea-2, Canada-1, El Salvador-1, Romania-1, Japan-1)**

Total FLA independent external monitoring visits in 2006: **7 (Bangladesh-1, China-1, Dominican Republic-1, Honduras-1, India-1, Indonesia-1, Vietnam-1)**

Phillips-Van Heusen's Labor Compliance Program in 2006

Phillips-Van Heusen's Code of Conduct, "A Shared Commitment," is based on the FLA Workplace Code of Conduct. During 2006, the PVH Board of Directors appointed a new Chief Executive Officer and a new President/Chief Operating Officer; both expressed their support of PVH's Global Human Rights and Social Responsibility program. The PVH labor compliance team comprises 18 full-time and 30 part-time staff members located in PVH's five regions of operation: United States and Canada; Caribbean, South and Central America; Europe, Middle East and Africa; South Asia; and East and South East Asia. The PVH Vice President, Global Human Rights & Social Responsibility Programs, is responsible for directing all regional, corporate and support compliance staff. The Regional Leaders are responsible for the management of compliance staff and day-to-day programmatic implementation. PVH engaged third-party monitoring organizations for support in conducting some of their initial and re-evaluation audits.

Developments in Phillips-Van Heusen's Labor Compliance Program in 2006

A. Compliance Systems Developed in 2006

- In 2006, PVH continued full implementation of its compliance program and incorporated the FLA 3.0 methodology into several pilot programs.
- Continued to maintain an online database of all factories being used by PVH; the database provides current factory status to all associates and tracks progress of remediation.
- In 2005, PVH commissioned MIT to assess the effectiveness of its compliance program and develop a new comprehensive factory rating system. The second phase of the project commenced in 2006, with MIT visiting several factories in Honduras, Dominican Republic, Bangladesh, India, and China and conducting interviews with internal and external stakeholders.
- Continued to engage in dialogue with multiple stakeholders, including unions and civil society organizations, and augmented efforts to engage governments in serious and recurring labor issues affecting factories in their countries.
- Continued ongoing effort to educate and empower factory management, vendors and workers. To this end, programs which PVH participated in 2006 include Worker's Committee Program, Health and Safety Program, FLA CaMP II Project, Critical Engagement Impact Program (CEIP), and International Labor Organization (ILO) Better Factories Cambodia.
- Focused on establishing and improving confidential grievance channels in all regions. Hot-lines were established in the Central and South America and Central and East Asia regions.
- Engaged and collaborated with other brands and government representatives to ensure a more transparent and comprehensive labor compliance program.

B. Selected Elements in Implementing the FLA Requirements

- Audited all 233 factories reported to the FLA that were used for production in 2006.
- Conducted 87 initial audits that resulted from factories being replaced or a change in product styles. Remediation was carried out at each of these factories. PVH made the decision not to pursue relationships with factories that had severe cases of noncompliance with the company's Code of Conduct, and lacked management commitment to remedy those labor violations. All initial factory audits were announced.
- Unannounced visits were made to factories undergoing remediation at the discretion of PVH staff. In 2006, two unannounced visits to factories were conducted in the South Asia region and 19 in central and eastern Asian countries. A total of 103 return visits were conducted during the year.

- Distributed business cards and posters with contact information to confidentially report grievances in the South Asia and Central and East Asia regions. PVH Regional Leaders developed a formal and consistent system to maintain an official record of complaints, including summaries of the resolution of complaints. During the year, PVH received and handled approximately 25 complaints directly from workers.
- Held meetings with union representatives, civil society organizations, government, industry, and the U.S. Labor Attaché. In addition, PVH organized a stakeholder forum in Bangladesh in August 2006 that brought together NGOs and manufacturers to discuss major challenges confronting the industry.
- The PVH compliance team attended the FLA's first 3.0 training program held in China in March 2006.
- Participated with other brands in issuing a letter to the Bangladeshi government urging it to address health and safety issues.
- Joined other brands in issuing a letter urging a Mexican state governor to ensure the safety of a labor rights activist who was under threat for defending garment workers' rights. PVH was responsible for bringing a peer company as a fellow signatory to this letter.

Company name: **PUMA AG**

Year of FLA implementation period: **3rd year**

Annual consolidated revenue in FY 2006: **\$ 3.877 billion**

Company status: **Publicly traded [FRA: PUM]**

FLA applicable brands/percentage of total annual revenue: **Puma / 100%**

Total applicable facilities in FY 2006: **376 (China-126, Vietnam-27, India-19, South Korea-18, Thailand-16, Malaysia-14, Turkey-12, Indonesia-10, Argentina-9, Cambodia-8, South Africa-8, Bangladesh-7, Egypt-7, Pakistan-7, Portugal-7, Taiwan-7, Brazil-6, Bulgaria-6, Romania-6, Mexico-5, El Salvador-4, Italy-4, Australia-3, Greece-3, Spain-3, Tunisia-3, Ukraine-3, Chile-2, Guatemala-2, Israel-2, Japan-2, Mauritius-2, Morocco-2, Poland-2, Slovakia-2, Colombia-1, Czech Republic-1, Ecuador-1, Hungary-1, Madagascar-1, New Zealand-1, Paraguay-1, Philippines-1, Singapore-1, Sri Lanka-1, United Kingdom-1, Venezuela-1)**

Factories subject to internal monitoring in 2006: **294 (China-126, Vietnam-24, India-19, Malaysia-14, Thailand-13, Indonesia-9, South Korea-9, Turkey-8, Bangladesh-7, Cambodia-7, Portugal-7, Taiwan-7, Egypt-5, Mexico-4, Romania-4, South Africa-4, Brazil-3, Tunisia-3, Japan-2, Mauritius-2, Poland-2, Ukraine-2, Colombia-1, Czech Republic-1, El Salvador-1, Ecuador-1, Guatemala-1, Hungary-1, Madagascar-1, Pakistan-1, Paraguay-1, Philippines-1, Singapore-1, Slovakia-1, Venezuela-1)**

Total FLA independent external monitoring visits in 2005: **16 (China-4, Pakistan-2, Bulgaria-1, Cambodia-1, Egypt-1, Malaysia-1, Slovakia-1, South Korea-1, Sri Lanka-1, Thailand-1, Turkey-1, Vietnam-1)**

PUMA AG's Labor Compliance Program in 2006

PUMA's program for social and environmental compliance is named S.A.F.E. (Social Accountability and Fundamental Environmental Standards). The S.A.F.E. standards are applicable throughout PUMA's supply chain. The S.A.F.E. standards include the PUMA Supplier Code of Conduct, which is based on the FLA Workplace Code of Conduct. The Global Head of S.A.F.E. reports directly to the PUMA Board of Management. PUMA compliance staff comprises 8 full-time staff members located at the company's 3 compliance offices in Herzogenaurach, Manila and Guangzhou. Implementation of the compliance program is supported by World Cat Country Branch Managers; World Cat is PUMA's internal sourcing organization.

Developments in PUMA's Labor Compliance Program in 2006

A. Compliance Systems Developed in 2006

- Issued a new version of the PUMA Code of Conduct, following discussions with the FLA Board of Directors at the June 2006 Board meeting in

Bamberg, Germany. The new version more fully adopts the FLA Workplace Code of Conduct and creates a direct complaint mechanism between the workers and PUMA.

- Strengthened the S.A.F.E. component of business licensing arrangements, as shipment of goods was made contingent upon attainment of a “pass” S.A.F.E. rating.
- Piloted a warning letter system in 2006 for suppliers found with consistent noncompliance issues or deteriorating compliance performance.
- Required suppliers to designate an internal Compliance Officer responsible for all compliance issues in the factory.
- Fully incorporated the result of S.A.F.E. audits into the World Cat 5-Point Sourcing Criteria and Strategic Partner Concept (SPC). Passing a S.A.F.E. audit is a necessary but not sufficient condition for a business relationship.
- Results of a 2005 review of PUMA’s factory rating system were fully implemented in 2006 at a global level. The revised rating system places additional emphasis on covering important compliance issues such as harassment and abuse.
- Began development of an automated compliance analysis system in the last quarter of 2006, which is expected to be ready for pilot testing by the first quarter of 2007.
- Strengthened factory accountability on product safety issues by institutionalizing training on product safety standards, particularly on restricted substances testing.
- As a member of the JO-IN project, continued participation in discussions about code harmonization among the different multi-stakeholder initiatives.
- Joined the U.N. Global Compact in November 2006, following the inclusion of PUMA in the two leading global indices for socially responsible investment, the Dow Jones Sustainability Index and the FTSE4Good Index).

B. Selected Elements in Implementing FLA Requirements

- Conducted approximately 400 S.A.F.E. supplier audits and follow-up visits worldwide in 2006, both at the first-tier supplier level and the subcontractor level.
- Implemented preliminary full audits either prior to production or in the sampling phase, for both World Cat factories and factories used by PUMA licensees.

- Participated in a number of FLA projects, including the initial pilot for one of the FLA 3.0 tools in China and the Soccer Project in Thailand.
- Consulted with civil society organizations in several countries, particularly through its annual stakeholder dialogue “Talks at Banz.” Regular consultations on specific issues are conducted on a case-by-case basis throughout the year.
- PUMA is involved with several joint projects with local NGOs, international civil society organizations and development aid agencies in the countries from which they source products, including initiating development of a joint project for health and safety training of workers/supervisors in factories in Bangladesh. Other related projects include training on worker-management relations and training for a factory-level trade union in China.
- Enhanced inter-brand collaborative work with other FLA brands through joint capacity-building projects, particularly in China, on strategic human resource management systems.
- Third party complaints processed through the FLA or through direct submission were promptly remediated. The Worker Complaints procedure was further improved, resulting in the highlighting of additional issues, which led to a number of unannounced visits.

Company name: **Top of the World**

Year of FLA affiliation: **2004**

Annual consolidated revenue in 2006: **\$10,000,000 - \$50,000,000⁸**

Annual consolidated revenue from collegiate licensed goods: **\$25 million+**

Company status: **Privately held**

FLA applicable brands: **Top of the World / 95%, Captivating Headwear / 5%**

Total applicable facilities in FY 2006: **3 (Bangladesh-1, China-1, Vietnam-1)**

Factories subject to internal monitoring visits in 2006: **1 (Vietnam)**

Total FLA independent external monitoring visits in 2006: **1 (China)**

Top of the World's Labor Compliance Program in 2006

The Top of the World Compliance Program is based on the FLA Workplace Code of Conduct and Company Obligations. In addition to being responsible for meeting the Top of the World's goals in the areas of quality, delivery and cost, the Vice President for Operations oversees the company's Compliance Program. The compliance staff comprises 2 part-time staff members located at company headquarters. Top of the World has implemented a comprehensive OSHA/Safety training program that encompasses all FLA standards.

Developments in Top of the World's Labor Compliance Program in 2006

- In 2006, focused compliance efforts in the areas of learning and training.
- Conducted announced internal monitoring visits in 2006. Top of the World's Vice President of Operations and Logistics Manager are responsible for conducting internal monitoring audits.
- Conducted an initial audit at a new factory opened by Top of the World's largest supplier in Vietnam.
- Conducted a remediation audit at a supplier factory in Bangladesh following an FLA Independent External Monitoring audit.
- Attended a compliance seminar held by Verite at a peer company's offices in December 2006.

⁸ A revenue range is provided for privately held companies

Company name: **Twins Enterprise, Inc.**

Year of FLA affiliation: **2002**

Twins Enterprise moved up to a Category A Licensee in 2006.

Annual consolidated revenue in FY 2006: **\$50 million - \$100 million**⁹

Annual revenue from collegiate licensed goods in FY 2006: **\$10.5 million**

Company status: **Privately held**

FLA applicable brands/percentage of total annual revenue: **Twins Enterprise / 100%**

Total applicable facilities in FY 2006: **9 (Vietnam-3, China-3, Bangladesh-2, Macau-1)**

Factories subject to internal monitoring visits in 2006: **2 (China-1, Macau-1)**

Total FLA independent external monitoring visits in 2005: **1 (China)**

Twins Enterprise, Inc. Labor Compliance Program in 2006

Twins Enterprise Inc.'s labor compliance program, Assuring Factory Compliance (AFC) is based on the FLA Workplace Code of Conduct and Compliance Benchmarks. A small team of Vice Presidents of each of the company's departments oversees the program. In 2006, the responsibility for compliance efforts was assigned to the Human Resources Manager, whose role is moving to managing the compliance program in a full-time capacity. During the year, the company began its transition to FLA Category A Licensee. Twins Enterprise engages a third party monitoring organization to support the internal auditing efforts of the company.

Twins Enterprise, Inc.'s Approach to Labor Compliance in 2006

- Twins contracted with a third-party monitoring organization to conduct its two internal audits during the year. One of the two internal monitoring visits conducted was unannounced.
- Factories continued to provide written notice of adherence to labor compliance standards outlined by the AFC team.
- Developed a worker complaint form that can be used anonymously by workers. The worker complaint forms will be available near the drop boxes, located out of sight of management, that already in use at the factories.

⁹ A revenue range is provided for privately held companies.

Company name: **Zephyr Graf-X**

Year of FLA affiliation: **2001**

Annual consolidated revenue in FY 2006: **\$10,000,000-\$50,000,000**¹⁰

Annual revenue from collegiate licensed goods in FY 2006: **\$15,000,000 - \$20,000,000**

Company status: **Privately held**

FLA applicable brands/percentage of total annual revenue: **Zephyr Graf-X / 100%**

Total applicable facilities in FY 2006: **11 (China-4, Korea-3, United States-2, Bangladesh-1, Vietnam-1)**

Factories subject to internal monitoring visits in 2006: **3 (Bangladesh-1, China-1, Vietnam-1)**

Total FLA independent external monitoring visits in 2006: **1 (China)**

Zephyr Graf-X's Labor Compliance Program in 2006

Zephyr Graf-X's compliance program is based on the FLA Workplace Code of Conduct. In 2006, the responsibility for the compliance program was assigned to the Global Compliance Manager, who reports to the President of Zephyr. Compliance efforts now constitute 50% of the total job responsibility of the Global Compliance Manager, up from 20% in 2005. In 2006, Zephyr's compliance program focused on three main objectives: (1) obtaining additional factory profile information and standardizing forms and reports, (2) establishing relationships with non-governmental organizations (NGOs), and (3) continuing to train compliance staff. Going forward, the Global Compliance Manager will be responsible for conducting pre-sourcing and follow-up audits, while third party monitors will conduct all other regular internal audits.

Developments in Zephyr Graf-X's Labor Compliance Program in 2006

- Increased efforts to ensure that all factories had access to the Code in the local language.
- Required supplier factories to train employees on the Code of Conduct.
- Compliance staff attended, along with representatives from other headwear companies, a social compliance training program conducted by Verite.

¹⁰ A revenue range is provided for privately held companies

- Continued practice of conducting pre-sourcing audits. Conducted a total of 5 internal audits in 2006, including 2 pre-sourcing audits. The focus for internal audits was on strategic partners and new factories.
- Conducted one follow-up audit in a factory in China to ensure remediation of Code noncompliance issues.
- Instituted a procedure of requiring factories to fill out a factory profile. The objective of the factory profile is to gather comprehensive information on factory operations, including production capacity, compliance history and wage information.
- Developed the Audit Status Report, a tool that is intended to help hold factories accountable for labor compliance between audits.
- Interacted with three civil society organizations.

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 Category B Licensees included in the report are:

American Pad and Paper LLC
Ashworth, Inc.
A.T. Cross Company
Columbia Sportswear Company
Commemorative Brands Inc.
Cutter and Buck
Deluxe Corporation
(report incomplete)
Fossil, Inc.
Herff Jones, Inc.
Jostens, Inc.

Majestic Athletic
MBI, Inc.
MeadWestvaco Consumer & Office
Products
M.J. Soffe Company
Ping, Inc.
Easton-Bell Sports
Russell Corporation
Under Armour, Inc.
V.F. Corporation.

Global Accessories, Inc. and John H. Harland Company failed to submit their reports and Deluxe Corporation failed to submit a full report pursuant to their obligations as affiliated companies.

Company name: **A. T. Cross Company**

Year of FLA affiliation: **2004**

Annual consolidated revenue in FY 2006: **\$139.3 million**

Annual consolidated revenue from collegiate licensed goods in FY 2006: **\$500,000 approximately**

Company status: **Publicly traded [AMEX: ATX]**

FLA applicable brands (collegiate licensed products): **Apogee, ATX, Century, Penatia, Tech 3, Townsend**

Total applicable facilities in FY 2006: **4 (China-2, Japan-1, USA-1)**

Factories subject to internal monitoring visits in FY 2006: **2 (China-1, USA-1)**

Total FLA independent external monitoring visits in 2006: **1 (China)**

A. T. Cross' Compliance Program in FLA Applicable Facilities

A. T. Cross monitors supplier labor compliance on the basis of the Supplier Quality/Facilities and Fair Labor Program and the CROSS Company Code of Ethics, which meets the standards of the FLA Workplace Code of Conduct. A. T. Cross does not have a separate labor compliance department; six management employees are available to conduct supplier audits, as necessary, and for periodic evaluation of supplier compliance with code obligations. A. T. Cross does not engage any third-party auditors. In 2006, A. T. Cross decided to run the Dongguan, China facility as a wholly owned CROSS subsidiary.

A. T. Cross' Approach to Compliance in 2006

- A. T. Cross continued to send out letters to suppliers informing them of the FLA requirements and required suppliers to indicate their agreement with those requirements by way of a signed letter. A. T. Cross continued to require that suppliers display the Code of Conduct in the local language of workers in a prominent place in their facilities.
- Continued to maintain a database of all factory information, audits conducted at those factories and any noncompliance issues noted during audits.
- During 2006, an FLA independent external monitoring (IEM) audit was conducted at a supplier facility used by A. T. Cross in Shanghai, China. A corrective action plan was drawn up and implemented for remediation of noncompliance issues found during the IEM audit. A follow-up visit was planned for the following year.

- A confidential hotline is provided for employees to express any issues or concerns. Any issues reported are addressed by A.T. Cross's Legal and/or Human Resources Departments. During 2006, A. T. Cross received no complaints from employees or supplier personnel.

Company name: **American Pad & Paper LLC**

Year of FLA affiliation: **2003**

Annual consolidated revenue in FY 2006: **Information not reported by company**

Annual revenue from collegiate licensed goods in FY 2006: Approximately **\$2-3 million**

Company status: **Privately held**

FLA applicable brands: **Ampad**

Total applicable facilities in FY 2006: **1 (USA)**

Factories subject to internal monitoring visits in 2006: **1 (USA)**

Total FLA independent external monitoring visits in 2006: **1 (USA)**

American Pad & Paper's Labor Compliance Program in FLA applicable facilities

American Pad & Paper (Ampad) utilizes the FLA Workplace Code of Conduct as the basis of its Compliance Program for the manufacturing of its collegiate licensed products. Ampad's Human Resources (HR) team manages all compliance-related activities for the company's Mattoon, Illinois manufacturing facility used for collegiate production. Compliance efforts at the facility are supported by Ampad's Regional HR Manager and an HR assistant. All HR team members report to the Director of Human Resources located at the company's Corporate Office.

Ampad's Approach to Labor Compliance in 2006

- Ampad used internal staff resources to communicate the FLA Code of Conduct. Information about the Code is included in new hire orientation material as well as in group meetings. The Code of Conduct is posted on employee bulletin boards throughout the manufacturing facility. The employee handbooks, distributed annually, also contain information about the Code of Conduct.
- Ampad continued to utilize networked computers for manufacturing facility employees who do not have access to computers in their daily work. Through these computer kiosks, employees continued to have access to policy and procedure information posted on the company intranet. The kiosks can also be used to communicate anonymously with management. The system is monitored by the HR Director in the Corporate Office.
- Ampad continued to utilize a third-party organization to handle investigations related to employee complaints.
- Remediation of noncompliance issues is monitored by the corporate Human Resources Director.

Company name: **Ashworth, Inc.**

Year of FLA Affiliation: **2005**

Annual consolidated revenue in FY 2006: **\$206.60 million**

Annual revenue from collegiate licensed goods in FY 2006: **Information not reported by company**

Company status: **Publicly traded [NASDAQ: ASHW]**

FLA applicable brands (collegiate licensed products): **Ashworth and Callaway**

Total applicable facilities in FY 2006: **28 (Hong Kong-7, Thailand-5, India-4, China-3, Macau-3, Peru-3, Philippines-2, Taiwan-1)**

Factories subject to internal monitoring visits in FY 2006: **4 (Hong Kong-2, Thailand-2)**

Total FLA independent external monitoring visits in FY 2006: **None**

Ashworth, Inc's Labor Compliance Program in FLA Applicable Facilities

Ashworth, Inc.'s labor compliance program, the Social Responsibility Program, uses the FLA Workplace Code of Conduct as its basis. The program is overseen by the Vice President of Global Security and Compliance, who reports directly to the CEO of the company. One additional staff member has part-time responsibility for the Social Responsibility Program. The Vice President of Global Security and Compliance works closely with Ashworth's production and design teams. In early 2006, Ashworth appointed a new Chief Executive Officer, who expressed his commitment to the Social Responsibility Program. In 2006, Ashworth engaged a third-party organization to assist internal staff in conducting audits of factories.

Ashworth's Approach to Labor Compliance in 2006

- Conducted internal audits of 4 applicable factories in 2006. All internal audits conducted in 2006 were announced. No return visits were conducted during the year.
- Required all new factories to agree to compliance with the Code of Conduct, prior to being contracted by Ashworth, by way of a signed factory agreement.
- Continued to mandate that all factories post the Code of Conduct in a prominent place and in the local language of factory workers.

Company name: **Columbia Sportswear Company**

Year of FLA affiliation: **2005**

Annual consolidated revenue in FY 2006: **\$1.29 billion**

Annual revenue from collegiate licensed goods in FY 2006: **\$4 million**

Company status: **Publicly traded [NASDAQ: COLM]**

FLA applicable brands (collegiate licensed products): **Columbia Sportswear**

Total applicable facilities in FY 2006: **11 (China-3, Thailand-3, Vietnam-3, Korea-1, Sri Lanka-1)**

Factories subject to internal monitoring visits in 2006: **11 (China-3, Thailand-3, Vietnam-3, Korea-1, Sri Lanka-1)**

Total FLA independent external monitoring visits in 2006: **1 (Vietnam)**

Columbia Sportswear Company's Compliance Program in FLA Applicable Facilities

The Columbia Sportswear Company's labor compliance program is based on their Standards of Manufacturing Practices (SMP), local and country labor laws. The SMP Code incorporates the FLA Workplace Code of Conduct and Compliance Benchmarks. In 2006, changes were made to the name and structure of the compliance department; the department was renamed the Corporate Responsibility (CR) department. The Director, Corporate Responsibility heads the department and collaborates with the Director of Manufacturing Support, overseas Liaison Sourcing Office Directors, Vice President of Global Apparel Manufacturing, Senior Director of Footwear Manufacturing, and Vice President and General Counsel. The Director of Corporate Responsibility reports to the Vice President and General Counsel, who in turn reports to the President and Chief Executive Officer. The leadership structure of the CR department comprises one Director, two Regional Managers in the field and one Operations and Development Manager at the company's headquarters in Portland, Oregon. The CR team comprises 12 staff members, including 6 full-time CR specialists who serve as auditors.

Columbia Sportswear Company's Approach to Compliance in 2006

- Approximately 41% of new factories activated in 2006 were subjected to pre-sourcing visits. All internal audits conducted were unannounced.
- Worked on outlining a collaborative remediation plan with another brand following an FLA Independent External Monitoring (IEM) audit of a Vietnamese factory.

- Developed and conducted sustainable compliance pilot projects in Guatemala, Thailand and China. As part of the pilot projects, 2300 factory employees in seven different factories received various forms of orientation and training.
- Contracted with a third-party monitoring organization to conduct a gap assessment of the compliance programs and audit results in four factories located in China, Sri Lanka, Indonesia, and Vietnam.
- Established a toll-free number in China for factory workers to confidentially report issues. Provided the number on business cards in the local language to factory workers. Similar cards are also being provided for factories in Thailand, Vietnam and Sri Lanka. Columbia Sportswear received 3 employees complaints in 2006; all the complaints were investigated by the company.

Company name: **Commemorative Brands, Inc.**

Year of FLA affiliation: **2001**

Annual consolidated revenue in FY 2006: **\$320,910,000**

Annual revenue from collegiate licensed goods in FY 2006: **\$47,750,000**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **ArtCarved, Balfour, CB Graduation Announcements**

Total applicable facilities in FY 2006: **4 (USA-3, Mexico-1)**

Factories subject to internal monitoring visits in FY 2006: **4 (USA-3, Mexico-1)**

Total FLA independent external monitoring visits in 2006: **1 (USA)**

Commemorative Brands, Inc.'s Compliance Program in FLA Applicable Facilities

Commemorative Brands, Inc.'s labor compliance program, the CBI Standard for Production Business Conduct, uses the FLA Workplace Code of Conduct as its basis. The compliance team comprises five management team members with part-time responsibility for compliance: Vice President – Legal Affairs, Director of Human Resources, Environmental & Health Manager, Director of Internal Audit, and Controller – CBI. CBI engages a third-party monitoring organization for support in conducting internal audits.

Commemorative Brands, Inc.'s Approach to Compliance in 2006

- Informed suppliers of code obligations and required them to sign compliance certificates. Suppliers agreed to post compliance notices in their factories in accordance with their compliance certificates.
- Continued to provide an independent secure hotline service managed by a third-party administrator. Information about the hotline is publicized to all employees in English and Spanish. The third-party administrator of the hotline reports to the audit committee of the Board of Directors and/or the Vice President of Human Resources and the Vice President of Legal Affairs.
- Announced and unannounced audits were conducted at a U.S. facility in 2006.
- Dealt with a recurring compliance issue by way of installing two suggestion/complaint boxes and providing access to Human Resources.

Company name: **Cutter & Buck**

Year of FLA affiliation: **2002**

Annual consolidated revenue in FY 2006: **\$135,000,000**

Annual revenue from collegiate licensed goods: **\$7,000,000**

FLA applicable brands (collegiate licensed products): **Cutter & Buck**

Company status: **Publicly traded [NASDAQ: CBUK]**

Total applicable factories in FY 2006: **16 (Thailand-5, China-3, India-3, Korea-1, Macau-1, Peru-1, Philippines-1, Vietnam-1)**

Factories subject to internal monitoring in FY 2006: **9 (China-3, Thailand-3, Korea-1, Peru-1, Vietnam-1)**

Total FLA independent external monitoring visits in FY 2006: **1 (Philippines)**

Cutter & Buck's Compliance Program in FLA Applicable Facilities

Cutter & Buck's Code of Conduct combines elements from the FLA Workplace Code of Conduct and the SA8000 Code. The position of Social Compliance Coordinator, created in 2005, was filled in 2006. The Social Compliance Coordinator, who is responsible for Cutter & Buck's internal auditing program, reports to the Vice President of Global Sourcing and operates within the Production Department. Cutter & Buck has engaged a third-party monitoring organization to conduct internal audits at supplier facilities.

Cutter & Buck's Approach to Compliance in 2006

- Required vendors to sign a Partnership Agreement, committing to be subjected to regular announced and unannounced audits.
- Factories used by Cutter & Buck are monitored on the basis of a combined audit instrument created by the third-party monitor that incorporates benchmarks from the FLA and SA8000 Codes. The Code is posted, in the local language, in all applicable facilities. In 2006, the company worked on rewriting the Code and reformatting Code posters.
- All internal audits conducted during the year were announced; factories were informed during the week prior to the audit.
- An independent external verification (IEV) audit conducted by the FLA at a factory in Thailand revealed that workers understood the process for confidential reporting of complaints. This was identified as an area of noncompliance in the IEM audit conducted at that factory in 2004.

Company name: **Easton-Bell Sports**¹¹

Year of FLA affiliation: **2003**¹²

Annual consolidated revenue in FY 2006: **Information not reported by company**

Annual revenue from collegiate licensed goods in FY 2006: **Information not reported by company**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **Riddell Pro Line, Riddell Deluxe Replica, Riddell Replica Mini, Riddell Nostalgic Metal Signs, and Riddell Personalized Room Signs**

Total applicable facilities in FY 2006: **2 (China)**

Factories subject to internal monitoring in FY 2006: **2 (China)**

Total FLA independent external monitoring visits in 2006: **None**

Easton-Bell Sports' Compliance Program in FLA Applicable Facilities

In 2006, Riddell, Inc. merged with Easton Sports and the combined entity was named Easton-Bell Sports. During the year, Riddell communicated the FLA requirements to executive staff at Easton, to keep them informed about the compliance program at the facilities and to facilitate their involvement in future compliance activities. Riddell's compliance program was based on the FLA Workplace Code of Conduct. Following the merger with Easton, Riddell worked on developing a new workplace standards program, to be approved at the company's next corporate Board meeting. Riddell's Director of International Sourcing and Internal Monitoring Coordinator will have responsibility for supervision and coordination of the internal compliance programs for Riddell's suppliers in China. The compliance staff includes 2 part-time compliance staff located in China.

Easton-Bell Sports' Approach to Compliance in 2006

- The company required suppliers to confirm their acceptance of the FLA requirements and standards via written communication.
- Internal audits of both factories in China were conducted; the audits were announced.
- The Director of International Sourcing and Internal Monitoring Coordinator visited potential factories to perform an informal pre-audit to detect any noncompliance issues.

¹¹ Riddell Bell Holdings merged with Easton Sports in 2006. The combined company has been named Easton-Bell Sports.

¹² Year of Riddell, Inc.'s affiliation with the FLA.

- Developed written complaint forms and provided locked drop-off boxes for employees, to enable them to anonymously report any Code violations.
- To ensure remediation of any health and safety issues, the company's safety committee meets regularly to address problems related to health and safety. In addition, on-site maintenance staff is available to correct any immediate problems or emergencies.

Company name: **Fossil, Inc.**

Year of FLA affiliation: **2006**¹³

Annual consolidated revenue in FY 2006: **Gross sales - \$1,358,343,977**

Annual revenue from collegiate licensed goods in FY 2006: **Gross sales - \$5,273,085**

Company status: **Publicly traded [NASDAQ: FOSL]**

FLA applicable brands (collegiate licensed products): **Fossil and Relic**

Total applicable facilities in FY 2006: **13 (China-10, India-2, Hong Kong-1)**

Factories subject to internal monitoring visits in 2006: **6 (China)**

Total FLA independent external monitoring visits in 2006: **None**

Fossil, Inc.'s Compliance Program in FLA Applicable Facilities

Fossil, Inc.'s compliance program is based on its internal factory audit program. The program was developed based on Fossil's code of conduct as well as the codes of conduct of various Fossil licensed brands. Starting in July 2006 when Fossil became affiliated with the FLA, the FLA Workplace Code of Conduct was enforced at all factories used by Fossil to manufacture collegiate products. Seven full-time team members, located at company headquarters and the regional office, form the compliance team; the Vice President of Internal Audit is responsible for implementing the compliance program. Six other staff members dedicate a small portion of their time to compliance responsibilities. Fossil contracted with a third-party monitoring organization to conduct three audits of Fossil's leather factories in China and India in 2006.

Fossil, Inc.'s Approach to Compliance in 2006

- Required factories to sign the Fossil manufacturing agreement, which specifically notes that factories are required to submit to inspections and audits. Factories also agreed to provide Fossil with a written certification of compliance with workplace standards upon request.
- Made its code available to employees via the company intranet.
- In 2006, the Internal Audit team picked 5 factories for follow-up audits. Factories were picked for follow-up visits on the basis of noncompliance issues found related to overtime hours, employee files or wage discrepancies.

¹³ Fossil, Inc. was provisionally approved by the FLA Board of Directors in July 2006.

- For factories wholly or partially owned by Fossil, the company engaged a third-party organization to manage employee complaints by phone or email. Fossil is working to ensure that information about this service is available in the local language at factories. No complaints were received in 2006.
- Internal audits were conducted by Fossil's audit staff located in Hong Kong.

Company name: **Herff Jones, Inc.**

Year of FLA affiliation: **2002**

Annual consolidated revenue in FY 2006: **Information not reported by company**

Annual revenue from collegiate licensed goods in FY 2006: **Information not reported by company**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **Herff Jones Collegiate Apparel, LogoArt (Anderson Jewelry)**

Total applicable facilities in FY 2006: **5 (USA)**

Factories subject to internal monitoring visits in 2006: **5 (USA)**

Total FLA independent external monitoring visits in 2006: **1 (USA)**

Herff Jones, Inc.'s Compliance Program in FLA Applicable Facilities

Herff Jones, Inc.'s factories are monitored on the basis of the FLA Workplace Code of Conduct. The compliance team comprises 6 part-time staff members. The compliance program is managed by Herff Jones' FLA Compliance Coordinator. The FLA Compliance Coordinator works with Location Plant Managers to evaluate and implement the FLA Workplace Code of Conduct. The FLA Compliance Coordinator also interacts with plant personnel, and internal audit and human resources team members for feedback on implementation of the program. The FLA College Division Representative provides input into the program. Compliance reports are reviewed by internal staff as well as the Herff Jones Board of Directors. In 2006, Herff Jones acquired Anderson Jewelry.

Herff Jones Inc.'s Approach to Compliance in 2006

- The FLA Workplace Code of Conduct was posted on employee bulletin boards in factories in the local language.
- Each new employee participated in a new-hire orientation program and was provided with the Employee Handbook, which contains comprehensive information on safety requirements and regulations, work rules and employee benefits. This information is also provided via the Herff Jones Hub online internet service.
- Internal audits of all applicable facilities were conducted by Herff Jones' company auditors during the year. Follow-up visits were conducted by the internal audit team.

- Engaged an external consulting firm to visit all factories to assess compliance with OSHA regulations.
- Continued to provide a suggestion box for employees to voice concerns or complaints. Provided access to human resource team members via the Human Resource Open Door Policy. The Open Door Policy is clearly outlined in the Employee Handbook.

Company name: **Jostens, Inc.**

Year of FLA affiliation: **2001**

Annual consolidated revenue in FY 2006: **Information not reported by company**

Annual revenue from collegiate licensed goods in FY 2006: **\$30 million**

Company status: **Wholly owned subsidiary of Visant Corporation**

FLA applicable brands (collegiate licensed products): **Jostens**

Total applicable facilities in FY 2006: **9 (USA)**

Factories subject to internal monitoring visits in FY 2006: **2 (USA)**

Total FLA independent external monitoring visits in FY 2006: **1 (USA)**

Jostens Inc.'s Compliance Program in FLA Applicable Facilities

Jostens Inc.'s compliance program, the Jostens FLA Compliance Program (Jostens FLACP), is managed by a multi-disciplinary team located at the company's headquarters, comprising employees from the college/licensing, human resources, communications, procurement, operations, and legal departments. The Jostens FLACP is responsible for reporting on compliance activities to the senior management of the company and for working with facility managers as well as human resources personnel to ensure compliance with the FLA requirements. The Jostens Workplace Code of Conduct meets the elements outlined in the FLA Workplace Code of Conduct, with additional provisions relating to women's rights, ethical principles, and safety and environmental standards. Jostens engaged a third-party monitoring organization to conduct internal audits and worker interviews.

Jostens, Inc.'s Approach to Compliance in 2006

- The Jostens Workplace Code of Conduct (JCOC) is reviewed by all new employees and is mailed to all employees on an annual basis. Jostens requires suppliers to provide written acknowledgement of their compliance with the JCOC. The JCOC is posted at all Jostens locations and supplier facilities.
- All internal audits conducted by Jostens in 2006 were announced. No return visits were conducted during the year. Audit results were reviewed by the Corporate FLA team and senior management. Remediation is outlined and implemented in consultation with appropriate plant personnel.
- Areas of focus for Jostens FLACP in 2006 included a company-wide training on sexual harassment awareness, plant and facility training on health and

safety, and a successful collaborative effort with the FLA to include a Freedom of Association clause in the Jostens Workplace Code of Conduct.

- Continued to use a hotline called MY INPUT, managed by a third-party vendor, which allows employees and Jostens independent sales representatives to anonymously report issues and concerns and make comments and suggestions. Jostens received 47 calls through the hotline in 2006. Each message is reviewed by senior management, investigated and responded to via MY INPUT or directly, if the caller does not wish to remain anonymous.

Company name: **Majestic Athletic**¹⁴

Year of FLA affiliation: **2005**

Annual consolidated revenue in FY 2006: **\$150-250 million**¹⁵

Annual revenue from collegiate licensed goods: **Information not reported by company**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **Majestic Athletic**

Total applicable facilities in FY 2006: **42 (China-14, Indonesia-10, USA-6, South Korea-5, Cambodia-1, El Salvador-1, Guatemala-1, Honduras-1, Mexico-1, Pakistan-1, Philippines-1)**

Factories subject to internal monitoring visits in FY 2006: **27 (China-8, Indonesia-8, South Korea-3, USA-2, El Salvador-1, Guatemala-1, Honduras-1, Mexico-1, Pakistan-1, Philippines-1)**

Total FLA independent external monitoring visits in FY 2006: **1 (China)**

Majestic Athletic's Compliance Program in FLA Applicable Facilities

Majestic Athletic's labor compliance program, the Social Responsibility Program (SRP), is a component of the Accounting Department. The Social Responsibility Coordinator is responsible for implementing all aspects of the SRP Program and reports to the Chief Financial Officer of Majestic Athletic, who provides oversight of the SRP. Several other departments, including Sourcing, provide feedback and consultation to the SRP. The Majestic Athletic labor standards and code are based on the FLA Workplace Code of Conduct. Majestic Athletic contracted with two independent social compliance firms in 2006 to conduct internal factory audits.

Majestic Athletic's Approach to Compliance in 2006

- During 2006, the Majestic labor standards and Code were translated into 6 languages and distributed to all factories. Handout cards defining the factory's labor compliance obligations and encouraging workers to read the standards and the Code were distributed to all factories. Several factories conducted in-house Code awareness training sessions.
- Required all new factories to submit their most recent social compliance report and sign necessary Majestic social compliance documents. Subsequent audits were scheduled on the basis of report findings. Required

¹⁴ At the time of publication of this report, Majestic Athletic had been purchased by V. F. Corporation.

¹⁵ A revenue range is provided for privately held companies.

all factories to sign an annual vendor agreement outlining the obligations of the factory with respect to labor compliance.

- All the internal audits conducted in 2006 were announced. These audits were conducted by both Majestic staff and the independent social compliance firms. Subsequent follow-up and verification audits were unannounced.
- Suggestion boxes and worker groups were mechanisms provided by Majestic as a confidential reporting channel for workers to express grievances. No worker complaints were received by the company in 2006.
- Majestic collaborated with other collegiate licensees and governmental contacts to help address the labor noncompliance issues at the Hermosa factory in El Salvador.

Company name: **MBI, Inc.**

Year of FLA affiliation: **2002**

Annual consolidated revenue in FY 2006: **\$300 - \$600 million**¹⁶

Annual revenue from collegiate licensed goods in FY 2006: **\$10 - \$12 million**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **Danbury Mint**

Total applicable facilities in FY 2006: 17 (**China-14, Thailand-2, USA-1**)

Factories subject to internal monitoring visits in FY 2006: **2 (China)**

Total FLA independent external monitoring visits in FY 2006: **1 (China)**

MBI, Inc.'s Compliance Program in FLA Applicable Facilities

MBI, Inc. has adopted the FLA Workplace Code of Conduct as the basis of its labor compliance program. During 2006, the responsibility for the compliance program was assigned to the Product Manager for Collegiate-Licensed Products. The compliance staff also includes the Product Development Manager (a Vice President of MBI) for on-site factory observation and communication (including audit remediation) and two managers (also Vice Presidents) responsible for maintaining the vendor and factory database and meeting FLA documentation requirements. In 2006, MBI continued to use external monitors to conduct internal audits and assist in implementing any remediation required at the factories.

MBI, Inc.'s Approach to Compliance in 2006

- Sent annual letters to each of MBI's collegiate-product vendors to ensure the factory's awareness of Code requirements and its obligation to implement the Code. Required vendors to confirm that the Code was posted in a prominent place in their facilities.
- An unannounced follow-up audit of a Chinese factory conducted in November 2006 revealed further need for remediation. MBI worked on developing a remediation plan to resolve the issues of noncompliance at the factory.
- An independent audit was conducted at a factory in China as a result of a third-party complaint. MBI continues its effort to engage factory management to address the issues requiring remediation.

¹⁶ A revenue range is provided for privately held companies.

Company name: **MeadWestvaco Consumer & Office Products**

Year of FLA affiliation: **2005**

Annual consolidated revenue in FY 2006: **\$1.1 billion**

Annual revenue from collegiate licensed goods: **\$132,025**

Company status: **Publicly traded [NYSE: MWV]**

FLA Applicable brands (collegiate licensed products): AT-A-GLANCE and DayMinder

Total applicable facilities in FY 2006: **1 (USA)**

Factories subject to internal monitoring visits in FY 2006: **1 (USA)**

Total FLA independent external monitoring visits in FY 2006: **None**

MeadWestvaco Consumer & Office Products' Compliance Program in FLA Applicable Facilities

MeadWestvaco Consumer and Office Products' compliance program is based on its corporate Code of Conduct and related compliance policies, which meet the requirements of the FLA Workplace Code of Conduct. The compliance team for the MeadWestvaco Consumer & Office Products Division (MCOP) comprises 2 full-time staff members, namely the Manager of Factory Compliance and the Social Compliance Analyst. The MCOP Compliance Committee oversees the compliance activities of the Consumer & Office Products Division, and is in turn responsible to the MeadWestvaco Corporation Enterprise Compliance Committee. MeadWestvaco used internal staff to audit its owned factory used to manufacture collegiate licensed products.

MeadWestvaco Consumer & Office Products' Approach to Labor Compliance

- Provided Code of Conduct training to all employees in 2006. All employees receive individual copies of the MeadWestvaco Corporation Code of Conduct. Additional materials, including the Compliance Policy Manual and the Policy Against Harassment, are made available to employees via the company's Intranet and in hard copy at MeadWestvaco headquarters.
- Visits to the factory used by MeadWestvaco for collegiate production were announced.
- The MCOP Manager, Factory Compliance Certification is responsible for analyzing audit results, developing remediation plans, and working with the factory to ensure that corrective action plans are implemented.

- All employees of the MeadWestvaco Corporation, including employees of the Consumer & Office Products Division, can use the MeadWestvaco Ethics Line to confidentially report any concerns or violations.

Company name: **M. J. Soffe Company**

Year of FLA Affiliation: **2005**

Annual consolidated revenue in FY 2006: **\$105,113,990**

Annual revenue from collegiate licensed goods: **\$9,104,129**

Company status: **Publicly traded as part of Delta Apparel [AMEX: DLA]**

FLA applicable brands: **SOFFE**

Total applicable facilities in FY 2006: **10 (El Salvador-2, USA-2, Costa Rica-1, Honduras-1, Jordan-1, Mexico-1, Pakistan-1, United Arab Emirates-1)**

Factories subject to internal monitoring visits in FY 2006: **4 (El Salvador-2, USA-2)**

Total FLA independent external monitoring visits in FY 2006: **1 (USA)**

M. J. Soffe Company's Compliance Program in FLA Applicable Facilities

M. J. Soffe's compliance program, the M. J. Soffe Human Rights Program, is based on the M. J. Soffe Code of Conduct, which meets the elements of the FLA Workplace Code of Conduct. The Vice President of Planning/Sourcing heads the M. J. Soffe Human Rights Program along with the Sourcing Manager. In 2006, a local staff person was hired in El Salvador to assist with factories in that region. Soffe's Human Resources Department monitored domestic factories in 2006. The Delta Human Resources Department audited the Delta Honduras and Delta Mexico factories.

M. J. Soffe's Approach to Compliance in 2006

- All M. J. Soffe factories have been informed about the Code of Conduct, which is posted on bulletin boards at each factory in the native language. Suppliers are required to sign a written agreement indicating their willingness to submit to unannounced and announced audits and to remediate any labor noncompliance detected.
- New employees receive a copy of the Code as part of the hiring process. All employees have been provided with a written copy of the Soffe Code of Conduct.
- Suggestion boxes are made available at factories for the use of employees. The suggestion boxes are checked on a weekly basis by the Human Resources Department and the Union. Employees can directly contact the Human Resources Manager if they wish to discuss concerns.

Company name: **Ping, Inc.**

Year of FLA affiliation: **2004**

Annual consolidated revenue in FY 2006: **\$11,000,000**

Annual revenue from collegiate licensed goods in FY 2006: **\$1,268,371**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **Ping**

Total applicable facilities in FY 2006: **9 (USA-6, Mexico-3)**

Factories subject to internal monitoring visits in FY 2006: **9 (USA-6, Mexico-3)**

Total FLA independent external monitoring visits in FY 2006: **1 (USA)**

Ping, Inc.'s Compliance Program in FLA Applicable Facilities

The Ping labor compliance program is implemented by the Director of Quality Management Systems, who reports to the President of the corporation. The Director of Quality Management Systems works closely with the Director of Human Resources. The program is based on the Ping Code of Conduct, which meets the FLA Workplace Code of Conduct. The compliance team comprises 1 full-time staff member and 1 part-time staff member at the company's headquarters. During the year, Ping implemented its Total Supplier Management Process (TSMP) with new vendors or suppliers; labor compliance is one of the requirements of this process. Internal factory audits were conducted by ISO-certified Ping auditors.

Ping, Inc's Approach to Compliance in 2006

- The Ping Code of Conduct is made available to employees through the company intranet. The Code is also displayed in areas where it is visible to employees.
- Conducted internal auditing of 100% of supplier facilities, both owned and contracted. Copies of the Ping Code were provided to the factories prior to the audit. All internal audits were announced.
- Owned factories were audited on the basis of the FLA Workplace Code of Conduct and the ISO 9001-2000 standard. All contracted factories were monitored for compliance with the FLA Code of Conduct.
- Conducted follow-up audits of contracted facilities.

- Ping uses an ISO process to track remediation of any noncompliance issues at factories and also as a channel for receiving and processing employee complaints.

Company name: **Russell Corporation**

Year of FLA affiliation: **2002**

Annual consolidated revenue in FY 2006: **Information not reported by company**

Annual revenue from collegiate licensed goods FY 2006: **Information not reported by company**

Company status: **Publicly traded [NYSE: RML]**

FLA applicable brands (collegiate licensed products): **Russell Athletic**

Total applicable facilities in FY 2006: **18 (United States-3, Mexico-2, El Salvador-2, Pakistan-2, Guyana-1, Honduras-1, Lesotho-1, Taiwan-1, Hong Kong-1, Brazil-1, Swaziland-1, Turkmenistan-1, Kenya-1)**

Factories subject to internal monitoring visits in FY 2006: **18 (United States-3, Mexico-2, El Salvador-2, Pakistan-2, Guyana-1, Honduras-1, Lesotho-1, Taiwan-1, Hong Kong-1, Brazil-1, Swaziland-1, Turkmenistan-1, Kenya-1)**

Total FLA independent monitoring visits in FY 2006: **1 (Pakistan)**

Russell Corporation's Compliance Program in FLA Applicable Facilities

Russell Corporation's Social Compliance Program is based on the Russell Code of Conduct, which meets the FLA Workplace Code of Conduct. The Russell compliance team comprises 8 full-time staff members: 2 at Russell headquarters and 6 at regional offices in Europe, Southeast Asia and South Africa. The compliance team is led by the Vice President Social Compliance. Russell engages third-party auditors to conduct internal audits of factories used by the company.

Russell's Approach to Compliance in 2006

- Continued to conduct third party pre-sourcing social compliance audits of all potential factories prior to placement of production orders and annual internal audits of all existing factories.
- Continued to operate a 24-hour, toll-free confidential reporting line for workers to confidentially report any complaints or concerns.

Company name: **Under Armour, Inc.**

Year of FLA affiliation: **2006**

Annual consolidated revenue in FY 2006: **\$430.69 million**

Annual revenue from collegiate licensed goods: **\$217,102**

Company status: **Publicly traded [NYSE: UA]**

FLA applicable brands (collegiate licensed products): **Under Armour, Inc.**

Total applicable facilities in FY 2006: **28 (USA-6, Mexico-5, El Salvador-3, Philippines-3, Singapore-3, Malaysia-2, Bangladesh-1, Colombia-1, Honduras-1, Indonesia-1, Peru-1, Thailand-1)**

Factories subject to internal monitoring visits in FY 2006: **28 (USA-6, Mexico-5, El Salvador-3, Philippines-3, Singapore-3, Malaysia-2, Bangladesh-1, Colombia-1, Honduras-1, Indonesia-1, Peru-1, Thailand-1)**

Total FLA independent external monitoring visits in FY 2006: **1 (Honduras)**

Under Armour, Inc.'s Compliance Program in FLA Applicable Facilities

Under Armour, Inc.'s labor compliance program is named the Corporate Social Responsibility Program. The Under Armour Code of Conduct meets and exceeds the FLA Workplace Code of Conduct. Under Armour's compliance program is currently outsourced to a third-party firm. The Deputy House Counsel and the Director of Quality Assurance are the principal points of contact from Under Armour for the third-party consultant. The Director of Quality Assurance is responsible for establishing, maintaining and directing the company's basic quality control, quality auditing and sourcing systems. Under Armour utilizes third-party monitoring organizations to conduct audits at supplier factories.

Under Armour, Inc's Approach to Compliance in 2006

- Over 95% of all active manufacturers were audited in 2006; 1 of these audits was unannounced.
- Third-party audits were conducted for all potential suppliers prior to placement of production orders.
- The Under Armour Code of Conduct was translated into the requisite languages and was required to be posted by suppliers in their factories.
- Required suppliers to sign Manufacturing Agreements with Under Armour, which include requirements pertaining to labor compliance. Obtained written agreements from suppliers to submit to periodic inspections and audits and to remediate any noncompliance issues.

- Received 51 worker complaints during the year. The complaints were forwarded to the third-party consulting firm. Factories were advised in writing about the nature of the complaints and were asked to remediate the issues.

Company name: **V.F. Corporation**

Year of FLA affiliation: **2002**

Annual consolidated revenue in FY 2006: **\$6.216 billion**

Annual revenue from collegiate licensed goods: **\$60 million approximately**

Company status: **Publicly traded [NYSE: VFC]**

FLA applicable brands (collegiate licensed products): **Lee Sport, Jansport, Eastpack, and Nautica**

Total applicable facilities in FY 2006: **60 (China-14, United States-11, Honduras-7, Thailand-6, Bangladesh-4, Canada-3, El Salvador-2, India-2, Jordan-2, Pakistan-2, Colombia-1, Indonesia-1, Lesotho-1, Macau-1, Mexico-1, Swaziland-1, Vietnam-1)**

Factories subject to internal monitoring in FY 2006: **28 (China-11, United States-6, Bangladesh-3, Canada-1, Colombia-1, El Salvador-1, Honduras-1, Macau-1, Mexico-1, Thailand-1, Vietnam-1)**

Total FLA independent external monitoring visits in FY 2006: **1 (Bangladesh)**

V.F. Corporation's Compliance Program in FLA Applicable Facilities

V.F. Corporation's labor compliance program is called the VF Corporation Global Compliance Principles. The VF Terms of Engagement meet and exceed the FLA Workplace Code of Conduct. VF's compliance program is managed by the Director of Compliance, who reports to the Vice President for Internal Audit, the Senior Vice President for Finance, and the Chief Executive Officer of VF. The compliance team includes 33 full-time and 7 part-time staff members located at VF headquarters and regional offices in Asia, Europe, North America, and South/Central America. During 2006, VF added two new full-time staff members and 10 auditors in the Hong Kong office.

V.F. Corporation's Approach to Compliance in 2006

- The internal audits conducted during the year were announced.
- Required all potential factories to undergo factory inspection prior to any production orders being placed; the inspections were conducted by a VF compliance auditor or a third-party monitoring organization.
- Continued to provide compliance posters in local languages to all factories classified as "Accepted" or "Accepted to be upgraded." "Accepted to be upgraded" factories are those that were found to have minor safety, health, or labor issues, and were pending remediation of those issues within the company's deadline of 8-12 weeks.

- Each internal monitor received two weeks of training on the VF Compliance Program, including audit scheduling, report writing and tag on field audit training with an audit manager.
- Installed a factory hotline and email address for workers in VF's Asian factories to confidentially report issues and concerns.
- Decided to move the company's compliance database to the Fair Factories Clearinghouse (FFC) platform.

Feature Article

Retrenchment and Plant Closures: Challenges for Worker Rights and Industrial Relations

By Halton Cheadle* and Aurret van Heerden**

Any discussion of the issue of retrenchment and closure has to begin with the international framework of rights and the national context of legislation and social dialogue within which those events unfold. Ideally, the Conventions and Recommendations of the International Labor Organization (ILO), and the national laws that give expression to them, would provide guidelines and measures for the regulation of cases of retrenchment and closure, and forums for social dialogue at national, sectoral or factory level would do the rest. Unfortunately, the reality in many countries is a lot more complicated and even large scale retrenchments take place in ways that ignore the rights and interests of workers. This heightens the conflict in an already tense situation and exposes the shortcomings of the law and other forms of labor market regulation.

International and National Legal Frameworks

The ILO is the oldest of the United Nations (UN) agencies. Founded in 1919, it survived the collapse of the League of Nations and continued to prosper. It is also the only UN body in which organizations of workers and employers have a voice and a vote. It is interesting to note that it was founded in the wake of the Russian revolution and at a time when Europe was wracked by social and labor conflicts. Governments, employers and workers all felt the urgent need to create some rules for the largely unregulated sphere of work

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and to secure tripartite consensus on those rules. Labor laws were adopted, enforcement agencies created and bargaining structures established to resolve conflicts of interest. Social safety nets were put in place so that economic growth could gain ground without provoking social instability.

In order to create the international normative framework, ILO members developed a standard-setting process to regulate the key issues in the world of work. If one looks at the list of Conventions that they adopted the imperatives were obvious. Convention No. 1, adopted in 1919, dealt with hours of work, Convention No. 2 with unemployment and No. 3 with maternity. Conscious of the fact that implementation of the Conventions would be crucial, they set up a supervisory system which involved member states reporting on the actions taken to implement ratified conventions. The ILO Committee of Experts on the Application of Conventions and Recommendations was established in 1926 to review those reports and has built up the most authoritative body of jurisprudence on labor standards available. In 1951, the ILO also established a Committee on Freedom of Association (comprised of delegates) in order to hear complaints on alleged violations of that fundamental standard.

ILO Conventions and Recommendations, adopted by the International Labor Conference (ILC) and available for ratification by member states, represent a global compromise – a middle ground on which governments and organizations of employers and workers from all levels of development and all political persuasions can agree. In order for a Convention to be adopted by the ILC it inevitably represents the minimum, something that even a least developed state could ratify. This is one of the reasons for their general acceptance as *the* reference on labor issues, regardless of the number of states which subsequently ratify them.

Two of the most fundamental conventions are those dealing with the right to organize and bargain collectively. These two Conventions, No. 87, adopted in 1948, and No. 98, adopted in 1949, have been ratified by 148 and 158 countries, respectively. They are considered the foundation for many other Conventions in that workers who can organize and bargain collectively can defend their rights and interests, provided of course, that the legal framework set by the nation state is in place and maintained. This condition, that the rule of law be respected and that national legislation be enforced, is crucial to the degree of respect that can be enjoyed in the workplace. Countries which do not, for whatever reason, effectively enforce their labor legislation, create an uneven terrain on which the power imbalance between workers and their employers can not easily be redressed. Unfortunately, the number of labor markets that are inadequately regulated has increased with globalization, and at the same time, global supply chains have grown longer and more complex. The result is that more and more product is produced in

situations where labor laws are not enforced and workers and employers cannot rely on the level playing field of legal regulation.

Inadequate Implementation of National Law and the Rise of Voluntary Regulation

Ideally, governments and their social partners would get together in the ILO and adopt new standards and programs to address the changing labor market wrought by globalization, much as they did in 1919. Unfortunately, the ILO has been hampered in its response by the relative weakness of Ministries of Labor and the trend towards de-regulation in certain government and employer circles. In this context it is not surprising that voluntary codes of conduct have seen tremendous growth in the last 15 years as companies, trade unions and NGOs struggle to ensure respect for human and labor rights in un-regulated jurisdictions.

Codes of conduct, and especially those agreed to and monitored by multi-stakeholder initiatives, have harnessed the resources of major multinational companies, their contractual relationships with suppliers and sometimes even of market forces to set and enforce standards, often with more effect than the relevant public agencies. In a growing number of countries, the contractual conditions stipulated by foreign buyers, and their monitoring of supplier compliance with those conditions, means that voluntary private initiatives are now a major form of labor law enforcement. Whether this represents a new form of regulation of the global labor market or simply a stop-gap measure to limit liability in high risk zones is a question for another article, but there can be no doubt that codes of conduct, backed by effective monitoring, can and do contribute to protecting workers rights in situations where they would not otherwise have enjoyed such protection.

Retrenchment/Closures and Worker Rights

One of the areas of labor law in which workers are most exposed and vulnerable, and where the law is at its most limited, is when market conditions push companies to terminate the employment of some or all workers. Even where laws on termination of employment exist, they are often inadequate or not effective in their implementation. Private actors, however, be they direct employers or their major customers, cannot escape the implications of retrenchments or closure and so have an incentive to develop effective means of regulation.

The ILO Termination of Employment Convention, No. 158, adopted in 1982, has received only 35 ratifications. It is, therefore, not surprising that national law on this subject varies greatly in its approach and adequacy, and enforcement is similarly mixed. Given the poor state of public regulation of

this issue, private actors are obviously limited in what they can hope to achieve, particularly when it comes to the social consequences of termination of employment. That said, private actors are directly involved and cannot escape a share of the responsibility in situations of retrenchment or closure. If the legal framework is flawed or lax, then private actors have a strong incentive to regulate it themselves in order to achieve certainty.

The direct employer is obviously in a critical position when it comes to making decisions about retrenchment. The process by which the employer arrives at, and then executes, that decision can make a huge difference in terms of the economic and social cost to all concerned. In a global market economy, however, employers, especially those producing for export, are more vulnerable than ever to the impact of forces beyond their control (such as trade agreements and the sourcing strategies of major buyers, to name just two). This requires that the employer take specific measures to ensure that workers do not suffer additional hardship in the case of sudden retrenchment. Buyers however, also become part of the equation in situations of downsizing or closure, especially when they have sourced from the factory for many years, or when their sourcing strategies contribute to the termination of workers.

Case Studies of Retrenchment/Closure

Two cases handled by the FLA in recent years, BJ&B in the Dominican Republic and Hermosa Manufacturing in El Salvador, demonstrate how complex situations of retrenchment and closure can be and the need for buyers, management and workers to cooperate in order to regulate them and ensure that workers rights are not violated. Neither country has ratified ILO Convention No. 158 on Termination of Employment but they do have national laws regulating the issue. Both countries have ratified Conventions 87 and 98 on freedom of association and collective bargaining, although in the case of El Salvador the ratifications only took place in September 2006. Full reports on these cases are available on the FLA website¹⁷ but let us briefly summarize what happened.

BJ&B: The Korean Group Yupoong set up the BJ&B plant in the Export Processing Zone of Villa Altagracia in the Dominican Republic in 1987 to manufacture caps for brands such as Nike, Reebok, Quicksilver, Gear and Gap. The town of Villa Altagracia had seen a number of factories close over the years and many residents perceived unions to be responsible for the closings. There had been efforts to organize workers at BJ&B since 1996, but a union had never been set up in the factory. The company began downsizing from the beginning of 2001 at the same time as a unionization

¹⁷ <http://www.fairlabor.org>.

drive was getting underway and this increased fears that the plant might close. Management said that the retrenchments were due to reduced orders, but the workers and the community were afraid that the company would relocate production to other plants and possibly even to other countries, thus robbing Villa Altagracia of its biggest employer and main source of income.

In October 2001, a group of workers at the BJ&B factory formed a union and filed a petition for recognition with the Secretary of State of Labor (SET).¹⁸ Over the next two months, the twenty workers involved were either dismissed by the factory or resigned from their jobs. Management was advised by a local labor lawyer and felt that they had followed the letter of the law. The labor authorities declined to intervene because of a technicality and so the case was taken to the international level by campaign groups seeking redress for the dismissed workers.

The Worker Rights Consortium (WRC) brought the situation at BJ&B to the attention of the FLA in December 2001. The FLA, in turn, raised it with the FLA-affiliated buyers – Nike, Reebok and adidas – who were so concerned by the allegations that they initiated a complaint with the FLA in January 2002. The FLA Third Party Complaint procedure allows parties to complain about egregious or persistent violations of the code of conduct.¹⁹ If the FLA agrees that the complaint is receivable the FLA-affiliated company is required to remedy the violation. In complicated cases, the FLA-affiliate(s) may ask the FLA to mediate or provide other inputs (such as training). The FLA investigated the situation at BJ&B, negotiated the reinstatement of some workers, and made recommendations to ensure that workers associational rights were respected. In addition to training for workers and supervisors on freedom of association, the FLA, for the first time, decided to use the concept of an Ombudsperson to ensure that workers rights were respected. Dr. Rafael Alburquerque, ex-Minister of Labor of the Dominican Republic and a member of the ILO Committee of Experts was appointed.

On September 19, 2002, the union submitted a draft collective agreement to the SET. Management, however, had not yet recognized the union for the purpose of collective bargaining, noting that they needed an absolute majority of the workers in the factory to negotiate collectively.²⁰ Management, therefore, demanded that the union prove its

¹⁸ The full name is Secretaría de Estado de Trabajo de la República Dominicana, or SET (<http://www.set.gov.do>).

¹⁹ For detailed information on the FLA Third Party Complaint procedure see <http://www.fairlabor.org/about/complaints>.

²⁰ Article 109 of the Labor Code provides that the union is authorized to represent the professional interests of all the workers of a company as long as the absolute majority of the workers are members of the union. The workers that occupy directive posts or tasks of inspection will not be relevant in determining the required majority.

representativeness. Dr. Alburquerque oversaw a ballot that verified that 51% of the factory workers were members of the union. On November 13, 2002, management finally recognized that the union had the necessary majority to represent workers and to negotiate a collective agreement. On November 25, management and the union sat down for the first time to start formal negotiations.

A Collective Bargaining Agreement (CBA) was signed on March 26, 2003. The BJ&B workers secured wage increases and had their union, the *Sindicato de Trabajadores de BJ&B*, officially recognized by the factory management. The management and union agreed a 10% pay increase for January 2004 and a series of productivity bonuses. In addition, the BJ&B management agreed to a number of benefits, including a special bonus for every employee on May 1st (International Labor Day), a Christmas gift basket worth RD\$500, and RD\$70,000 worth of scholarships to 75 university students: 67% to be distributed among factory workers or their children and 33% for the children of Villa Altagracia residents. Additionally, a workers committee was established to deal with health and safety improvements in the factory.

The BJ&B collective agreement represented a real achievement for the workers and management involved. Both sides showed a willingness to compromise, but it would not have been possible without the mediation of the FLA and its Ombudsperson and the combined pressure of the brands, NGOs and the labor authorities of the Dominican Republic. The CBA signed at BJ&B was the first collective agreement in the Export Processing Zones (EPZ) of the Dominican Republic to provide for wage increases, and demonstrated the potential for sound labor relations in the Dominican apparel sector. The case of BJ&B also demonstrated the ability of the FLA code of conduct and independent monitoring to defend fundamental rights and improve workers' lives.

In the interim, the company continued to downsize because of reduced orders and when the collective bargaining agreement was due to be renegotiated in 2004, negotiations stalled, primarily because the two sides could not agree on the implementation of a wage clause that had been included in the previous CBA. The union filed a formal complaint with the labor authorities and hoped for a judgment prior to negotiating the subsequent CBA. The FLA was asked to intervene and we turned to Dr. Alburquerque again, but he had since been elected Vice-President of the Republic and could no longer mediate. International attention and pressure from FLA-affiliated companies Nike and Reebok brought management and the union back to the negotiating table. Reebok representatives traveled to Korea and the Dominican Republic to help restart the negotiations and an agreement was finally concluded when the union agreed to suspend certain demands, including the wage clause question, until June 2005. The

compromise was based on an understanding that the government would raise the minimum wage in January and that the factory was in economic difficulty and unable to pay more at that time. The new agreement basically extended the previous one signed in March 2003.

This deadlock in re-negotiating the CBA showed the fragility of labor-management relations in exporting countries. The labor-management relationship at BJ&B had been developed under pressure from outside and the required trust and confidence between the two parties had never been established. This is not surprising since labor-management relations in the Dominican Republic as a whole are fraught with mistrust. Vigilant complaint mechanisms and rigorous monitoring of codes of conduct can ensure freedom of association at individual factories, but it is hard for those individual cases to escape the overall trend or tenor of labor relations.

By the time it closed in February 2007, employment at BJ&B had shrunk from over 2000 workers to some 234 and the union had only 45 members left. Not surprisingly, the closure was highly controversial, partly because so much effort had gone into establishing freedom of association at the company that its closure was regarded by many as a setback for workers rights in general and in the Dominican Republic in particular.

The Labor Code of the Dominican Republic does not deal directly with the closure of enterprises and the procedures to be followed in such an instance, although there is reference to closure in a section dealing with economic assistance to workers when enterprises cease their activities. There are, however, specific provisions governing closure in the Law on the Promotion of Free Trade Zones (Law 8-90 of January 10, 1990). Article 44 states that, “enterprises in free trade zones that intend to end their operations in the country must notify the National Council of Free Trade Zones three months in advance. The latter institution in turn will inform: the Central Bank of the Dominican Republic, the State Secretariat of Finance, the State Secretariat of Industry and Commerce, the State Secretariat of Labor, the Dominican Social Security Institute, the National Directorate of Customs, and the National Directorate of Internal Revenue.” Enterprises that do not comply will not be able to retrieve their active assets (machinery and others). In practice, then, an enterprise closing down in a free trade zone needs three certifications: (a) from the free trade zone industrial park where they are located that they are up to date on payment of rent and other services; (b) from the National Directorate of Customs that they have met all of its requirements; and (c) from the State Secretariat of Labor that they have fulfilled all obligations to workers. BJ&B requested and obtained all three certifications. The certificate issued by the State Secretariat of Labor stated that the company had met all of its legal obligations, particularly the

payment of benefits and related acquired rights and confirmed the reasons given by the company for the closure.

The Labor Code of the Dominican Republic also does not provide for any special procedures to be followed by unionized companies at the time of closure, although Article 379 of the Labor Code states that “The enterprise union is legally dissolved upon the definitive closure of the enterprise with which it is associated.” This provision obliges enterprises to clarify with the union the reasons for the closure and to meet all of their legal obligations. The collective agreement at BJ&B, in particular clause 48, also specified that management and the union were required to execute and comply in good faith not only with the agreement, but also with all provisions of the Labor Code.

The company believed that it had complied with all these provisions when it approached the union and the workers on February 22, 2007, to announce the closure. Between February 22 and March 6, contacts between the company and the union continued and a final settlement was signed on March 6. Shortly thereafter, however, five of the 16 union leaders who were party to that agreement decided to reject the terms and to continue to fight for the reopening of the factory or for additional benefits. International campaign groups intervened and alleged gross violations of the labor law and applicable codes of conduct. The WRC characterized the process as follows: “Instead of entering negotiations with the union for a severance package for the factory’s workforce, Yupoong sought to preempt such negotiations through illegal coercion...”²¹

Given the controversy over the extent and the nature of consultations between BJ&B management, the union and workers, and the legality of the settlement, a meeting was convened in Santo Domingo on May 8-9 by the International Textile, Garment and Leather Workers’ Federation and chaired by its General Secretary, Neil Kearney. Also present were representatives of BJ&B management, of the BJ&B union (13 of the 16 members of the Executive Committee), of the union’s parent confederation – Fedotrazonas – and of Nike, the FLA and the WRC. There were five points on the agenda: (1) the background to the closure; (2) the closure process; (3) prospects for reopening the BJ&B facility; (4) stabilizing the garment industry in the Dominican Republic; and (5) handling closures.

While the FLA and the WRC did not agree on all aspects of the closure, they did emerge from the meeting with a common view on key aspects of the process. One of those was that management had been remiss not to enter

²¹ [http://www.workersrights.org/linkedocs/bj&b/wrc_update_severance_disptue_at_bj&b_3-28-07\(web\).pdf](http://www.workersrights.org/linkedocs/bj&b/wrc_update_severance_disptue_at_bj&b_3-28-07(web).pdf)

into a process of consultation and negotiation before taking the decision to close. The guidelines issued by the ILO, the OECD and the FLA all recommend advance notice and consultation, and this opportunity was clearly missed. As a result, management effectively presented the union and the workers with a fait accompli on February 22. Some discussions had taken place with the union regarding the terms of settlement for union members and pregnant workers, but the overall severance package for workers was not negotiated. The FLA and the WRC therefore recommended that BJ&B management enter into a dialogue with the union and its parent federation in order to re-examine the overall severance package for workers.

BJ&B management clearly did not believe that they had acted improperly and saw no need for additional negotiations. They had followed the letter of the law and yet their actions were being questioned by stakeholders ranging from major brand name buyers to international labor rights organizations to local unions. The major buyer continued its efforts to persuade BJ&B and the company finally returned to the negotiating table on 26 May. A new agreement was duly concluded that provided for an extra two months of severance pay and an ex-gratia payment to the union. This represented not only an additional payment to the workers and the union, but equally importantly, a gesture towards consultation and negotiation that was acknowledged by all stakeholders, demonstrating once again that it is often not what you do, but how you do it, that counts.

It is worth pointing out here that some 50,000 apparel jobs have been lost through factory closures in the Dominican Republic since 2005,²² but none of them had their closure process subjected to the sort of scrutiny that the BJ&B case received. Many of those factories were covered by a code of conduct, and one can only hope that the buyers and suppliers acted in ways consistent with the law and their code commitments. The big difference in the BJ&B case is that the FLA code of conduct is backed by a complaints mechanism that can be invoked by any party and that consists of more than a one-off investigation. The FLA and its affiliated companies stuck with the BJ&B case since the first complaint in late 2001 and intervened numerous times to ensure that highly conflictual situations were resolved and workers rights restored.

Hermosa: The Hermosa case differs from BJ&B in important respects. Firstly, it concerns a locally-owned facility in El Salvador that closed in May 2005, leaving 320 workers without jobs, back wages, severance pay, health insurance and employee pensions. Secondly, there was illegal behavior

²² See, e.g., “The Apparel Industry in the Dominican Republic After the MFA: Report and Recommendations of an FLA Mission” (June 2007), at www.fairlabor.org.

involved. Workers had contributed to social security schemes but their contributions were embezzled by the owner and had not been paid to the relevant government agencies. Thirdly, Hermosa did not deal directly with the major buyers but was a sub-contractor to a larger producer who did.

Hermosa had been in financial difficulty since 2004 and experienced a series of strikes and work stoppages in early 2005, mainly concerning unpaid overtime. In April 2005, the STITTAS union organized at the factory and tried to negotiate for the payment of Sunday work. When the negotiations broke down, a strike was called and 164 unionized workers occupied the factory. The Department of Labor declared the strike illegal. The following month the company applied to the Government for, and received a permit to temporarily suspend commercial activities. The company owed some \$825,000 to workers for unpaid benefits, salaries and severance, as well as significant amounts to the bank for the mortgage and machinery. Workers brought a number of court cases against the owner and criminal charges were also filed by the government for failure to make full retirement and social security payments and for misuse of such funds.

As in many closures, workers were left with unpaid wages and benefits, but in this case the situation was complicated by the fraudulent conduct of the owner who had gone to some lengths to conceal his misuse of funds. The question that arose was “who bears responsibility for the situation at Hermosa and for making the workers whole again”? The two parties who had direct and immediate responsibility for ensuring that workers’ legal rights were respected were the owner, Salvador Montalvo Machado, and the government. The owner had clearly engaged in deceit and bore legal responsibility for the debts of the enterprise, but the government had also been remiss in allowing the company to avoid payments of certain social security benefits and therefore bore some of the responsibility. To make matters worse, when the company did cease its activities, the government did not take appropriate action to either enforce the law or assist the workers to access the social security benefits they had been denied.

Labor rights support groups felt that the buyers also bore some of the responsibility because they had been working with Hermosa for many years and had conducted labor compliance audits of the facility. As such, they should have been aware that wages and benefits were not being correctly paid. Some support groups argued that the buyers should actually accept a legal responsibility to pay the wages and benefits owed to workers, but most acknowledged that the buyers did not have a direct legal responsibility but did bear some moral responsibility. This debate, while valid and relevant, actually hampered the search for solutions because some buyers were hesitant to provide assistance lest it be construed as an acceptance of legal liability or responsibility for the situation at Hermosa. By creating a no-

fault/no responsibility basis for cooperation, a lot more could be achieved in terms of developing social plans for the workers.

A German NGO decided to bring a Third Party Complaint to the FLA in December 2005. With the owner facing criminal charges and apparently bankrupt and the factory close, most initial action by FLA brands to provide relief to the workers was focused on the Government of El Salvador. As a result of intense lobbying by companies and support groups, the Government agreed to provide access to health and employment services for ex-Hermosa workers but neither of those commitments were honored.²³ This left the ex-Hermosa workers in a very precarious position, particularly those who belonged to the union. Some workers were evicted from their formerly-subsidized housing and could not afford food, rent, school fees or medical expenses. About 50 workers were employed at another factory reportedly owned by Mr. Montalvo (MB Knitting), and another group was hired at the Chi Fung factory, but none of the ex-union members were able to find alternative employment.

The FLA conducted an independent verification of an earlier audit that concluded that ex-Hermosa workers, in particular the members of the union, were facing discrimination in their efforts to find employment, partly as a result of a blacklist. In order to counter the employment discrimination the FLA conducted training on non-discriminatory hiring policies and procedures for suppliers, and urged FLA-affiliated companies to encourage their suppliers to give preference to ex-Hermosa workers. Despite these measures however, there was no improvement in the situation of the ex-union members and the FLA therefore decided to examine the possibility of creating an emergency fund to provide immediate and direct assistance to the former Hermosa workers.²⁴ After consultations with key buyers and NGOs it was decided to launch such a fund while action to force the owner and the government of El Salvador to accept their legal responsibilities continued.

It was clear from the outset that the fear of setting a precedent for the acceptance of responsibility in cases of factory closure would prevent or restrain buyers in making contributions to the fund so two important measures were taken. The terms of reference of the fund therefore made it clear that it was an emergency relief fund and in no way designed to compensate workers for unpaid wages and benefits. Secondly, contributions were anonymous, so donors did not have to worry about implied liability.

²³ See "Interim Report, Third Party Complaint Involving Hermosa Manufacturing, El Salvador," (August 25, 2006), http://www.fairlabor.org/all/complaint/Reports/Hermosa_InterimReport_8.25.06.pdf

²⁴ See "FLA Creates Emergency Fund for Hermosa Workers," (December 22, 2006), http://www.fairlabor.org/all/news/HermosaPressRelease_12.22.06.pdf

The fund was duly established and although it collected relatively little money, the FLA's local NGO partners did an excellent job of identifying recipients and distributing the funds.

The decision to establish the fund was not without its controversy, but it was nonetheless an innovative response to a rather desperate situation and it did achieve its immediate goal of providing temporary emergency relief to the most affected workers.²⁵ It also demonstrated the ability of the FLA to bring together a diverse range of stakeholders to discuss and agree on a highly risky course of action. This role of convener and mediator is often lacking in such situations and as a result, stakeholders who have something to contribute end up working at cross purposes. The FLA is probably unlikely to mount another emergency fund but there are certainly lessons that can be drawn from the experience.

One of them concerns the adequacy of national social security systems. Social security contributions are meant to provide a safety net for workers. Unfortunately that net is often full of holes. In many countries, the funds are under-capitalized or poorly managed and some are even corrupt. As a result workers may not receive the monies due to them and both the employer and buyers sourcing from that facility may face claims for compensation. These risks can be identified, measured and assessed and employers and buyers should be making provision for them.

There are also important differences in the types of social security fund. Some countries use an insurance system with regular premiums shared between employers and workers. Such schemes have the advantage of accumulating the funds for unemployment over a period of time. The system of severance pay, however, generally does not carry an obligation to make any provision for eventual severance obligations. As a result, when an enterprise terminates the employment of a large proportion of its workforce, it often lacks the funds to make its severance payments. In many countries workers are entitled to severance pay in addition to their unemployment insurance, but in some countries it is the only termination benefit workers are entitled to and if it is not paid they are left in a highly precarious situation.

Some countries mitigate this risk by allowing for individual savings accounts into which severance payments can be made during the tenure of the employment relationship. It should be possible for a variety of institutions, such as exporters associations, government agencies, trade unions and even

²⁵ For a description and analysis of the emergency fund by the Maquila Solidarity Network, see <http://en.maquilasolidarity.org/en/currentcampaigns/Hermosa/MSNReport>. The report was commissioned by the FLA.

buyers to establish similar funds (either individual or collective) into which contributions could be paid to cater for eventual severance and unemployment payments. It may even be necessary to consider the establishment of private social security schemes into which buyers and suppliers may make contributions. Even very small levies (one penny per piece) could accumulate significant amounts of money to cover worker claims in case of bankruptcy or closure. The concept may be ambitious, but the scale of the problem demands a response that goes beyond the existing means of action available to buyers and other stakeholders. This could be envisaged at export processing zone, sectoral, national, regional or even global level.

Without entering into the debate about the eventual responsibility of the buyers, it is clear that there is much that they can do to avoid situations where workers suffer unpaid wages and benefits upon closure of the enterprise. This starts with a level of due diligence before placing orders with new suppliers and a high level of vigilance regarding wage and benefit payments throughout the contractual relationship. In countries where the social security system is weak or incomplete, this may require the buyer to make specific provision for such payments in the purchase agreement with the supplier or to hold back a certain percentage of the order payment until the supplier has provided proof that all wages and benefits have been paid.

Ultimately, it is the responsibility of governments to provide adequate social security coverage to workers and all stakeholders should continue to advocate the need for such, but in the absence of effective action by governments, we will continue to be confronted by situations in which workers are allowed to fall through the cracks. Workers everywhere have the right to a certain level of social security coverage (for old-age, unemployment and accidents) and buyers have a key role to play in ensuring that their suppliers provide such coverage. Private voluntary initiatives like the FLA can assist in formulating specific performance benchmarks, generating consensus around those and then monitoring performance. This would help to create a more level playing field in global supply chains and to coordinate action for the provision and enforcement of social security schemes. By working together, buyers, NGOs, trade unions and even suppliers and government agencies could pool their resources to provide more extensive and reliable social security coverage. The FLA can and should continue to bring together the various parties to explore such options and to cooperate in the field.

Lessons Learned

The BJ&B and Hermosa cases are sometimes cited as examples of why codes of conduct do not work. This argument completely misrepresents and

misunderstands the nature and purpose of codes and monitoring. Labor laws and codes of conduct cannot prevent enterprises from downsizing or closing – they can only hope to ensure that workers rights are respected when that happens. It could equally be argued that the workers at BJ&B and of Hermosa Manufacturing had the advantage of recourse to a code of conduct that bound the employer and buyers to seek solutions, however imperfect particularly in the case of Hermosa.

If there is one overall lesson that one can take away from these cases of closure it is the importance of good labor-management relations. Regular contacts and consultations between labor and management can provide a channel for seeking solutions or alternatives to potential retrenchments or closure, and if the enterprise does eventually have to close, such forums provide an opportunity for developing social plans for the workers affected. Some countries make legislative provision for such consultations in order to ensure that all options are considered and that contingency plans are made in a timely manner. China is the most recent country to adopt such legislation: the much discussed Employment Contract Law provides for consultation with union representatives and the submission of a redundancy plan to the local Labor Bureau in cases where more than 20 employees or 10% of the workforce are being terminated. Too many countries however, have neither a legislative obligation to consult nor a tradition of social dialogue and so closures are more likely to be unilateral actions by management. As we have seen above, those often ignore the law and workers rights but even when they do they are likely to be challenged by stakeholders if employers do not consult and seek joint solutions to the hardships that retrenchment imposes on workers.

Consultation however, is not as simple as it sounds. ILO Convention No. 158, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)²⁶ and the OECD Guidelines for Multinational Enterprises²⁷ all provide that information relevant to retrenchment be shared with workers and consultations be entered into with workers. These steps are recommended to facilitate the search for alternatives and to mitigate the hardships associated with any retrenchment or closure.

Given the growth of outsourcing and global supply chains all of the guidelines on responsible retrenchment or closure published recently also recommend that the buyer assess the probable consequences to the supplier and to workers of any decision to shift orders and take proactive steps to help ensure that the adverse consequences are catered for or avoided.

²⁶ <http://www.ilo.org/public/english/employment/multi/index.htm>

²⁷ http://www.oecd.org/about/0,3347,en_2649_34889_1_1_1_1_1,00.html

However, the realities of global trade and local labor relations often mean that buyers and employers are reluctant, or even unable, to provide any advance notice or to consult.

The buyer and the supplier are in an adversarial relationship as they bargain over price, delivery dates and other contractual provisions. The buyer may not want to signal to the supplier that it plans to reduce or cut orders, especially if the buyer still has goods in production at that facility. The buyer may also want to avoid telegraphing sourcing strategies to competitors, and so the range of consultation over planned moves is considerably restricted. Similarly, the supplier company will not want buyers to know if it is experiencing financial difficulties and may have to downsize or even close, lest they shake the confidence of buyers and lose orders. And if the supplier is cheating workers on wages or social security benefits they will certainly want to hide that from buyers, auditors and government inspectors. So neither the buyer nor the supplier has an incentive to advertise decisions that may result in retrenchment, neither to each other nor to workers, unions, NGOs and, in some cases, even to government agencies.

Even in those instances where a supplier does decide to enter into consultation with workers, the results may not be positive. In fact, there have been a number of cases recently in which attempts at consultation exacerbated the situation and provoked premature closure of the supplier. At the Thai Silp company in Thailand, for example, the factory unexpectedly closed as a result of a severe cash flow problem. The Thai government, the garment manufacturers association and the major buyer all intervened to try to keep the company alive, but when the next pay day arrived, the company still did not have the funds to pay workers. The company therefore proposed to workers that they be paid in installments but workers did not trust the company sufficiently to accept this proposal and demanded payment in full. The result was that the company closed down permanently. Similarly, the Luen Thai facility in Saipan informed workers of its intention to close the factory and leave Saipan. The notice was given six months in advance, as required by law, and despite management assurances that workers would be paid in full, workers did not trust the information, went on strike, and the facility closed early.

These breakdowns in consultation were in part a function of the fact that there was no history of consultation at those facilities and no relationship of trust between management and workers. In that light, it was highly unlikely that successful consultations could be launched at a moment of high tension in the factory such as an impending retrenchment or closure. The provision of information and consultation based on that information is more likely to work in contexts where a relationship has been developed over time and the parties have some understanding of each other.

Given the impact on workers and the risk to labor rights of factory downsizing or closure, a number of groups have been trying to develop measures to deal with such situations. The FLA adopted its retrenchment guidelines in February 2006²⁸ and the International Finance Corporation (IFC) developed a similar package in August 2005.²⁹ Since then, the Multifibre Arrangement Forum (MFAF) developed a framework for governments, buyers, suppliers, trade unions and NGOs and its working group on “Responsible Transitions” is discussing a full set of recommendations.

Getting buyers and employers to commit to clear measures to try and avoid retrenchment, or to deal with it when it occurs, is partly a question of policy and procedure, and partly of labor-management relations. The latter are essential and can go a long way to protect workers rights. The national social security systems and responsible government agencies will also need to be addressed however, and it is difficult for individual companies to do so. It will require leadership and coordination by associations, preferably multi-stakeholder ones, to get governments to acknowledge the failings of their labor laws and social security systems and then to take action to address those. Even if they did, the legislative and institutional reforms required would most likely take years to effect, so we can expect to see private regulation of this area for some time to come. Such private measures, mostly by way of contractual conditions, can only operate on individual companies and the challenge will be to use those isolated examples to set new standards for groups of companies and even for industrial sectors as a whole. Presumably, if enough companies are contractually bound to apply certain standards in respect of termination or social security benefits those standards could become the norm in a particular labor market, particularly if other buyers recognize the prudence and benefits of that approach. That would allow code initiatives to not only enforce existing laws but to raise the level of protection.

²⁸ “Retrenchment: Guide for FLA-Affiliated Companies,” (February 2006), [www. Fairlabor.org](http://www.Fairlabor.org);

²⁹ “Good Practice Note: Managing Retrenchment,” (August 2005),

[http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p_Retrenchment/\\$FILE/Retrenchment.pdf](http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p_Retrenchment/$FILE/Retrenchment.pdf)