

FAIR LABOR ASSOCIATION 2009 ANNUAL REPORT



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www.FairLabor.org

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Board of Directors 2009

Our board of directors includes six representatives of universities, six representatives of NGOs, six company representatives and an independent chair.

Independent Chair

Carol Bellamy, World Learning, served from August 2007 until February 2009

Bob Durkee, Princeton University, Acting Chair from March 2009

Business Caucus	NGO Caucus	University Caucus
Corinne Adam Gildan Inc.	Marsha Dickson Educators for Socially Responsible Apparel Business	Karen Daubert Washington University in St. Louis
Daryl Brown Liz Claiborne Inc.	Linda Golodner National Consumers League	Bob Durkee Princeton University
Nicole Bassett (until June 2009) Patagonia	Pharis Harvey (until February 2009) Formerly of International Labor Rights Fund	Joe Ebaugh University of Maryland
Marcela Manubens Phillips-Van Heusen Corp.	Mike Posner (until October 2009) Elisa Massimino (beginning October 2009) Human Rights First	Carol Kaesebier (until May 2009) Michael Low (beginning June 2009) University of Notre Dame
Caitlin Morris Nike, Inc.	James Silk Orville H. Schell, Jr. Center for International Human Rights, Yale Law School	Maureen Riedel Penn State University
Gregg Nebel adidas Group	Karen Tramontano Global Fairness Initiative	Craig Westemeier University of Texas
Vivienne Riggio (beginning August 2009) Asics	Lynda Yanz (beginning October 2009) Maquila Solidarity Network	

The FLA thanks its Board members for their dedicated service to the organization and its mission. The FLA owes a special debt of gratitude to two distinguished and long-standing members who retired from the Board in 2009, Pharis Harvey and Michael Posner, who have been with the FLA from the beginning.

FRONT COVER AND BELOW PHOTOGRAPHY: © 2007 UNIVERSITY OF DELAWARE SOCIAL RESPONSIBILITY PROJECT



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MESSAGE FROM THE PRESIDENT

When President Clinton convened a meeting of multinational companies and NGOs at the White House in 1996 and challenged them to work together to improve working conditions in the apparel and footwear industry—a process that led to the formation of the Fair Labor Association in 1999—the dialogue was highly adversarial. The parties had to hammer out a system for respecting labor rights with meaningful performance obligations for companies and sufficient safeguards to ensure that the companies lived up to those obligations. Securing those safeguards in a context in which there was no trust, precedent or template took a lot of hard bargaining. The result, however, was an unprecedented level of commitment by all to respect human rights in global supply chains. In the space of three years, the negotiations went from a point at which companies contested whether they were responsible for labor standards at contract facilities to one in which they agreed to adopt a code of conduct and apply it throughout their supply chains.

Once the FLA was formed and the negotiations moved from questions of principle and ideology to questions of technical detail, the character of the process changed noticeably and the focus shifted to how companies should take responsibility for conditions in their supply chains. The commitments made by the companies won a degree of trust and respect from the NGOs and universities at the table, and everyone started to trust the process. By mid-2002, the negotiations had produced a methodology with unheard-of levels of

commitment by companies to internally monitor their global supply chains and to allow the FLA staff to arrange for unannounced audits of randomly selected facilities with transparent results. No multi-stakeholder initiative in any sector of industry has agreed to performance standards anywhere near those of the FLA. Why? What was so special about the negotiating process that it allowed the FLA constituents to achieve these agreements and then to implement them (since agreement is one thing and implementation entirely another)?

Looking back on the last ten years, I believe that one of the key factors is the concept of safe space. The FLA constituents were able to create a safe space in which adversaries could discuss and negotiate highly sensitive issues without fear of being judged, betrayed or ridiculed. Participants did not question the motives, good faith or values of those at the table and were willing to give each other the benefit of the doubt. Whatever private thoughts or feelings participants may have had about each other were hung on the coat rack outside the door and once they sat down to work, the issues were treated in their technical and practical context without emotion or ideology.

That does not mean for an instant that the participants were uncritically accepting of each other. The ground-rules of company participation are substantial and involve a formal, legal engagement to implement the Obligations of Companies set out in the FLA Charter. The independent external monitoring that follows is pursued with absolute rigor by the staff. Companies that stick with the program enjoy the support and trust of all concerned. Companies that



Looking back on the last ten years, I believe that one of the key factors is the concept of safe space.

do not may find themselves subjected to continuous scrutiny by the Board and may even be placed on special review if they are not upholding their commitments. All companies may be the object of a Third Party Complaint that could be investigated by the FLA. This robust system is one of the reasons that the safe space created within the FLA works so well—it is based on real performance and accountability.

The space the FLA creates is safe for other constituents as well. NGOs, for example, can engage with companies in a highly regulated process that protects their independence but gives them significant leverage. The fact that the FLA system is based on performance obligations means that many of the demands NGOs often make of companies outside the FLA are actually built into the FLA system and thus are not contested. Companies affiliated with the FLA are bound to performance standards, and the debate among constituents is about the most effective ways of getting the job done.

Many of the key NGOs dealing with human, labor or environmental issues are skeptical of multi-stakeholder initiatives because of a perceived lack of commitment by companies to monitoring, remediation or accountability (or all three). At the same time companies soon realize that there is no value to be had in a toothless exercise, in terms of risk management, social responsibility or credibility. In this respect, it is interesting to note that the companies active in the FLA demand high standards of performance from their peers, partly to avoid free riders and partly to ensure that the initiative does not lose credibility amongst the civil society organizations they engage with.

One of the key objectives of the FLA since its inception has been to

Finding new and novel ways to educate and inform consumers has to be one of our priorities for the next decade.

educate consumers. We publish a lot of information about labor conditions in factories around the world as part of our commitment to transparency, but it is highly technical and requires considerable engagement with the material to understand it and research skills to analyze. Finding new and novel ways to educate and inform consumers so that they can distinguish a monitored product from an unmonitored product at the point of sale has to be one of our priorities for the next decade.

What are the other challenges we need to confront? One of them is the issue of sustainable compliance. Many of the remedial measures FLA-affiliated companies implement fail to make a lasting change. This may be due to a lack of capacity at the factory level to maintain the standards required for code compliance. The need for capacity building is well known, but attempts to develop it have bumped up against the shortage of local resources. The FLA has developed an online training portal and organizes courses to help build local capacity, but this remains a real constraint.

Systemic flaws in the local labor market are equally hard to address. Many countries have reasonable labor laws but are not fully implementing them. Others have an oversupply of labor that tends to drive down wages and working conditions. These issues exceed the influence or scope of individual companies and even groups of companies,

but we will have to find creative ways of getting at them. Those creative options will include alliances with the ILO and other international organizations, government-to-government relations and even multi-stakeholder alliances to try to get systemic changes made. The plight of migrant workers in many parts of the world is an example of an area requiring the intervention of international organizations, national governments (sending and receiving countries), multinational and national companies and civil society.

To systemic flaws we can add structural issues. These relate to the structure of certain supply chains and industrial sectors. Some involve raw materials or production processes that are considered high risk, and others are produced in high-risk countries. Product categories that are driven by price competition are particularly likely to put pressure on wages and working conditions.

Tackling these risks will once again require broad, multi-stakeholder alliances. These complicated and sensitive issues will most certainly test the limits of the FLA's safe space, but it has served us well in difficult conversations before, and I am confident we can make progress on these topics as well.



AURET VAN HEERDEN
PRESIDENT AND CEO

FLA Celebrates *a Decade of Achievement*



AT A RECENT OPEN MEETING OF THE BOARD OF DIRECTORS OF THE FAIR LABOR ASSOCIATION,

Acting Chair Bob

Durkee looked around the room and was struck by what he saw. “We have managed to sit ourselves in an integrated way, and I like the symbolism of that,” he said. With potentially divisive topics on the agenda coming before the Board that day, Durkee appreciated that Board members chose to sit not according to constituencies but as members of an integrated board.

As Princeton University’s longstanding representative to the FLA and a member of the Board since 1999, Durkee noted that the FLA had come a long way from the first confrontational meetings of leading apparel and footwear companies and representatives of labor, consumer and human rights groups set into motion by a direct challenge from President Clinton in 1996. This group had been called to the White House to

find a way to work together to monitor labor conditions worldwide and to raise the standards of factories supplying products to U.S. companies.

Few would have thought so much could be accomplished in such a short span of time, but the group, then known as the Apparel Industry Partnership (AIP), took up Clinton’s challenge. On November 3, 1998, the AIP presented its agreement on a Workplace Code of Conduct and Principles of Monitoring to the President. Shortly thereafter, the AIP announced the formation of the Fair Labor Association (FLA) as the independent body that would monitor conditions and hold companies accountable.

Incorporated ten years ago in May 1999, the nonprofit FLA would require affiliated companies to abide by the FLA Code and monitoring requirements, establish an accreditation program to determine whether companies met their obligations, develop procedures to accredit factory monitors around the world, and institute a public reporting

mechanism to inform consumers about company participation and compliance. Colleges and universities joined the coalition, and the FLA began its journey to improve working conditions and workers’ lives worldwide through tripartite collaboration.

As the FLA enters its second decade, we revisit some points along that journey, what makes the FLA unique and some of its biggest achievements, as well as the roles its constituents have played in the success of the organization.

The Multi-Stakeholder Approach

Globalization revealed governance gaps in state systems, and labor law violations surfacing in supplier factories around the globe were evidence of governments’ failure to implement and enforce worker protection and labor rights—especially in developing countries. With many countries seeking to promote exports by taking a lax attitude toward worker rights, international attention shifted toward expanding the responsibility and

Protecting Workers’ Rights 1999–2009

FLA TIMELINE: 1999–2009

1999

- The Fair Labor Association is formally incorporated
- Over 100 colleges and universities join and establish the University Advisory Council (UAC)
- NGO Advisory Council is created with 15 representatives from human rights, labor rights and religious organizations

2000

- Justice Department issues favorable business review letter supporting the FLA monitoring approach
- UAC adopts resolution calling on all school affiliates to require their licensees to disclose factories producing collegiate products
- Collegiate Licensee Program launches
- Implementation Benchmarks supporting the FLA Code and the FLA Monitoring Guidance and Audit Instrument are adopted
- FLA reviews first applications for monitors





role of multinational corporations in solving many social, economic and environmental concerns in the countries where they operated.

Many companies had been going it alone and developing their own codes of conduct, but their efforts lacked credibility with consumers and civil society because there was no standardization in codes from one company to another and no accountability. The FLA emerged in

this context to define the roles and responsibilities of affiliate companies with regard to working conditions in their supply chains, and to promote and implement international standards in the absence of state laws and enforcement. The multi-stakeholder approach was conceived to ensure legitimacy in the work of the FLA.

The organization's policies, procedures and programs are thus governed by three constituent groups—socially

responsible companies, NGOs and civil society, and universities and colleges—that come to the table with different perspectives and agendas. While this can create tension, this tension is most often constructive and respect is given to the different perspectives. Representatives of these groups must work cooperatively to ensure that the actions taken by the FLA and its affiliates are responsive to constituent needs, while also being practical to implement and credible to the public.

Universities Key to FLA Growth

Universities had a big hand in the growth of the FLA. They were invited to contribute to the process soon after the FLA was formed. Engaging universities and colleges in the process enhanced the credibility of the FLA and had many upsides.

With student activism burgeoning on campuses all around the country over a variety of concerns related to corporate investment and operations in foreign countries, universities were very interested in how they could take up the concerns of the students and use their influence to hold companies accountable. Labor issues had become a focal point following a string of exposés of minors working in factories and generally of very poor working conditions.

Protecting Workers' Rights 1999–2009

FLA TIMELINE: 1999–2009

2001

- University representation on the Board increases from one to three persons
- University licensees begin to submit applications
- Monitor Accreditation is established
- Third Party Complaint (TPC) process is implemented
- Eleven accredited monitors conducted 24 auditing visits

2002

- FLA mediates a case in a Dominican Republic factory that led to the formation of a union and negotiation of a collective bargaining agreement through its first Third Party Complaint
- Board approves the FLA Independent External Monitoring process



“Universities have interests in common with business and with advocacy and humanitarian outreach.” —Karen Daubert, FLA Board Member since 2007

In 1999, over 100 universities and colleges joined the FLA and created the University Advisory Council (UAC). Within the FLA governance structure, the UAC initially had one representative on the FLA Board.

At first, the NGOs and companies were suspicious about the role of universities and colleges in the governance of the organization. According to Durkee and others present at the time, companies were convinced that the university representative would always side with the NGOs and NGOs were convinced that the universities would side with the companies. “We were initially suspicious that the universities would be more like marketers and not upholders of human rights,” confirmed Pharis Harvey of the International Labor Rights Fund. Harvey was present at the early meetings at the White House and of the AIP. These concerns proved to be unfounded.

“Universities have interests in common with business and with advocacy and humanitarian

outreach,” said Karen Daubert, a UAC representative from Washington University in St. Louis since 2000 and on the Board since 2007. “In a unique way, we sit in a position that can be active on both sides of those equations.” At the same time, Daubert noted, universities have more of a connection to the outside perspective through the students. “Universities bring a more naïve perspective, which is really more of a consumer perspective. We’ve had to navigate this terrain with students who are activists and consumers as well.”

The FLA provided a program of monitoring and compliance that universities could not carry out on their own. “No matter how much we cared about the working conditions, we didn’t have the expertise to figure out how to hold the companies accountable,” said Durkee. “The FLA works with companies on a regular basis to develop compliance programs that bring them closer to compliance. It is really important to the schools that the FLA play that role.”

As representatives of a large segment of consumers and licensors of collegiate brands, a pivotal role of universities was to apply pressure to companies producing apparel and other products bearing their logos to join the FLA and enforce the FLA Workplace Code of Conduct in their supply chains.

The FLA launched the Collegiate Licensee Program in 2001. At the end of 2009, over 2,600 licensees were registered with the FLA. Representation by universities and colleges on the FLA Board expanded to three seats in 2001 and to six seats in 2007. Various constituents agree that this was one of the most important actions taken by the FLA Board and may have been the tipping point in creating greater balance in the organization and a more fully integrated FLA.

Mechanisms of Accountability

The FLA governance structure itself created an environment in which constituents hold each other

Protecting Workers’ Rights 1999–2009

2003

- FLA releases its first Annual Public Report
- Aret van Heerden is named President and CEO
- FLA establishes European office in Geneva

2004

- Reebok International Ltd’s compliance program for footwear is the first to be accredited by the FLA
- FLA launches pilot program with Syngenta Seeds to test FLA methodology in agricultural sector
- FLA Board places Gildan on special review for failure to implement remediation plan
- FLA Board reinstates Gildan after significant improvement



accountable. Participation of civil society was critical to this mix because representatives of this group over time have helped to embed in the FLA system the expectations civil society has of corporations.

“The role of the NGOs was to make certain there was some reality in the way that the FLA went about its business,” said Harvey, a charter member of the NGO caucus who was instrumental in developing the FLA code and chaired the FLA Monitoring Committee. “This was especially important during crucially difficult years when tensions with stakeholders outside of the FLA were high.”

Several measures were built into the FLA system early on to ensure greater accountability and credibility in its processes. “Joining the FLA is a voluntary action, but from then on participation is anything but voluntary,” said Aurret van Heerden, President and CEO of the FLA. When a company joins the FLA as a Participating Company, it agrees to comply with ten obligations, which are structured to help companies create a culture of compliance company-wide and throughout their supply chain.

One of these obligations is to provide up-to-date factory lists; the FLA samples that list and sends monitors unannounced

to selected factories to assess working conditions. The unannounced audit ensures that we know real conditions on the ground. The results of the audits and remediation plans are then made public.

The FLA Third Party Complaint Process was of particular importance to the NGOs, according to Harvey. The complaint mechanism was put into the structure in order to provide a grievance channel for workers in factories producing for FLA companies that had not been visited by an FLA monitor or to call attention to issues that might not have surfaced in the FLA auditing process. When a complaint triggers an independent investigation by the FLA, any reports and corrective action plans also are made public.

In a multi-stakeholder organization, transparency is important for building trust among FLA constituents and with stakeholders outside of the organization. Public reporting of FLA factory audits, verifications and third party complaint investigations is a foundation of the FLA’s commitment to transparency. For a company to join the FLA and commit to this level of transparency is not a small step because the issues in its factories are laid bare to the public as are the remediation plans to address these issues.

Some FLA company affiliates and

collegiate licensees freely admit that at first they were concerned that the FLA’s transparency requirements could prove harmful to their interests, but companies like Asgard Press and Syngenta Seed Inc. found them to be a positive.

“The FLA forces us down this path of transparency and accountability that allows us to tell our story,” said Peter Shin of Asgard Press. “Being part of the FLA is now part of our company identity; we’re proud of our sourcing and manufacturing and it’s a good story to tell.”

Transparency was an attractive component from the start, said Juan González-Valero, Syngenta’s Head of Public Policy and Partnerships. Syngenta wanted to be more forthcoming with its stakeholders about its work with the FLA and its efforts to monitor and prevent child labor on its seed farms, as well as its efforts to ensure fair labor standards for farm workers. “We have received very positive feedback about our transparency.”

Meeting Companies Where They Are

Early company affiliates—adidas, Eddie Bauer, Liz Claiborne, Reebok (now an adidas Group brand), Nike, Nordstrom,

Protecting Workers’ Rights 1999–2009

FLA TIMELINE: 1999–2009

2005

- FLA launches pilot of new sustainable compliance methodology (FLA 3.0) in soccer equipment factories in China and Thailand
- The labor compliance programs of adidas, Eddie Bauer, Liz Claiborne, Nike, Phillips-Van Heusen and Reebok (apparel) are accredited

2006

- Chen Feng becomes the first Participating Supplier to join the FLA
- Board increased UAC representation from three to six persons
- Nordstrom’s is first retail labor compliance program to be accredited by the FLA
- FLA creates emergency fund to benefit workers at the Hermosa Manufacturing plant when the owner unilaterally closed its doors without providing compensation to workers



Patagonia, Phillips-Van Heusen, among others—have done a lot to pave the way for other companies that have joined the FLA.

Many FLA companies are what Marsha Dickson, FLA Monitoring Committee Chair, described at a stakeholder meeting in June 2009 as social responsibility leaders (“SR leaders”)—those that have buy-in of their top management, join organizations and are accountable to external parties, engage with stakeholders, and perhaps most importantly have SR decision makers on the ground with veto power over the sourcing departments. These companies are doing far more than others in their industry.

Within the FLA, affiliated companies have actively participated in pilot projects to test new methodologies to improve monitoring and remediation in factories, engaged in training their suppliers’ staff about labor compliance, and shared best practices with colleagues. They have opened their labor compliance programs up for scrutiny, and taken responsibility for issues in their supply chains.

For many of these companies, the learning curve was steep but through their participation, the FLA has been able to improve its approach to labor

compliance and improve its services so that the learning curve for newcomers to CSR and labor compliance isn’t as steep. “Based on the experience of other businesses and the ability of the FLA to adapt the tools to the agribusiness, we were in a position to learn faster and make fewer mistakes than others may have,” said González-Valero, Syngenta.

While the FLA’s Participating Companies are often the most visible representatives of the organization, the FLA works with thousands of small and medium-sized licensees (SMEs) striving for better labor compliance programs. The FLA has taken many of the tools and training developed and piloted in projects with Participating Companies to provide SMEs services—such as online tools, training, factory assessments and checklists for assessing new suppliers—that make achieving their goals possible even with fewer resources. “The FLA has been willing to work with people where they are and find solutions to the issues,” said Daubert. “They don’t want to leave anyone behind.”

Collegiate licensees agree that any early fears about whether they would be able to fulfill the expectations of their licensors and of the FLA dissipated quickly once they started learning more about the FLA and consulting with the

FLA’s program managers. “We were barely crawling in labor compliance when we started,” said Ben Turner of Colosseum Athletics. “We realized that we needed a lot of training and support and the FLA has been a great help in providing those.... The FLA is very structured and continues to expand what they offer to companies and to define the steps companies need to take to put together a compliance program.”

“Each year that I have belonged they are trying to making it easier for companies to participate and to make things increasingly electronic,” said Holly Strohm, Herff-Jones Inc. “The hard part is getting started but once you get on board, it’s rewarding. We’re here and we’re going to stay here.”

“You need not fear the FLA or the work involved; it’s a process and not ‘a judgment from people on high’ with mandates beyond your control,” said Shin. “The FLA encourages us to be part of the conversation...about transparency and continuous improvement, with a program where we feel like we are working toward a common goal, rather than complying with a strict set of rules.”

These SMEs say that participation has helped them open a new dialogue with their suppliers, make better decisions

Protecting Workers’ Rights 1999–2009

FLA TIMELINE: 1999–2009

2007

- FLA launches the Enhanced Licensee Program and web-based assessment and training tools
- The June FLA Board meeting and stakeholder forum is held in the Dominican Republic to focus attention on labor challenges in that region
- The labor compliance programs of Puma AG, Gildan Activewear and New Era Cap are accredited

2008

- FLA holds first Board meeting in Asia (Kunshan City, China) and holds stakeholder forum on China’s new Labor Law Reform
- FLA launches web-based Licensee Profile and Self-Assessment tool



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“... we find our membership increasingly meaningful as a differentiator in the market.” —Peter Shin, Asgard Press

about their partners, and thus have a bigger impact on their factories or suppliers.

“A few years ago our participation with the FLA may have resonated more with niche groups, but as fair labor standards become a more mainstream concern, we find our membership increasingly meaningful as a differentiator in the market,” added Shin of Asgard Press.

A Confederation of Constituencies United

As the FLA has matured, it has continued to strengthen its requirements and procedures, broaden its oversight, and increase its reach. Today, the FLA's policy-making Board of Directors includes equal representation (six members) from its three core constituencies (companies, civil society organizations, and colleges and universities). There is increased accountability for FLA-affiliated companies and oversight of product areas that reach well beyond the apparel and footwear industries, to agriculture, non-profits and technology sectors to name a few. The FLA has had

substantial impact on the ground in China, Central America and many other exporting countries addressing systemic labor law challenges.

“One of the greatest accomplishments is that we have in place a viable respected, functioning organization that has evolved from a confederation of constituencies to an integrated organization that is having a positive impact on companies,” said Durkee.

“There has been recognition that a broader number of companies have been taking the process seriously,” said Harvey. “There hasn't been the need for frequently coalescing to develop counter arguments against the other constituent groups.”

As it enters its second decade, the FLA is working to fulfill its mission in more innovative and comprehensive ways, putting even greater emphasis on collaboration among companies and with local civil society organizations to increase the likelihood that compliance efforts will be effective and sustained over the long term.

The FLA has embarked on a Sustainable Compliance Initiative (SCI) that analyzes workplace conditions in an entirely new way. Alternative to current auditing techniques, the SCI approach evaluates how a facility's practices, policies, and procedures impact workers throughout the lifecycle of their employment. This leads to greater understanding about workplace conditions and how sustainable improvements can be made. “Our hope is that SCI will be the enabler of collaboration in the industry,” said Nike representative Angela Frank. “It has the potential to change the DNA of compliance.” Leading FLA companies once again are contributing their expertise to bear on the project, with FLA stakeholders guiding its implementation in the FLA program.

FLA constituents agree that the organization's shift from “policing to coaching” is the right direction. “We're lucky to have as visionary a CEO as we have to keep the FLA current and moving forward,” said Harvey.

Protecting Workers' Rights 1999–2009

FLA TIMELINE: 1999–2009

2009

- FLA places Russell Athletic on special review for insufficient remediation efforts regarding a shuttered factory
- FLA reinstates Russell following historic agreement with unions in Honduras
- FLA receives a grant from the State Department to foster sustainable compliance in Vietnam



The global economic crisis that began in 2008 and continued into 2009 generated a mood among American and other western consumers that we as a society could not go back to business as usual. Faith in a U.S. consumer-driven economic model had been shaken. People lost trust in companies and their products, and organizations like the Fair Labor Association proved to have even greater relevance in this climate.

Companies' corporate responsibility programs did not become casualties of the economic crisis, and on the contrary were often seen as differentiators that reflected well on brands. Surveys have

shown an increasing sophistication in consumers' abilities to ask questions about the companies and products they buy, and even to be more discriminating about claims with the explosion of ethical labels and trust marks. Companies that treated the environment and its employees well were seen to be the most socially responsible. Where labor issues had been more of a second-tier social issue, more recent studies show greater support for workers and fair treatment.

This was the backdrop for many of the activities and issues addressed by the FLA in 2009, and supported the continued growth and enhancement of the FLA programs.

Enlarging the Tent

Despite the economic challenges in manufacturing, the number of companies and collegiate licensees affiliated with the FLA grew in 2009. There were 32 leading brands affiliated with the FLA as Participating Companies and 12 Participating Suppliers. Affiliates that join the FLA at this level agree to comply with ten obligations, which include submitting their entire supply chain to the FLA independent external monitoring process. Barnes and Noble College Booksellers, ChicoBag Company, and New Balance Athletic Shoe, Inc. joined as Participating Companies and Maxport Limited (Vietnam) joined as a Participating Supplier.



Companies and suppliers that meet the obligations and demonstrate substantial compliance with the Workplace Code of Conduct throughout their supply chain are eligible to have their labor compliance programs accredited by the FLA. Accreditation is the most advanced recognition by the FLA of a company's labor compliance program. This dedicated group currently includes adidas, H&M, Gildan, Liz Claiborne, New Era Cap, Nike, Nordstrom, Patagonia, Phillips-Van Heusen and PUMA AG. Each program must be re-accredited every three years.

One of the strategic goals of the FLA is to expand our methodology into new sectors and to expand the range of participants in the FLA. The FLA's recent work in the agricultural sector monitoring labor conditions on Syngenta Seeds farms and initiatives we have undertaken in non-industrial sectors such as with the nonprofit Zeitz Foundation has attracted increasing interest in 2009 from other sectors.

Growing the Collegiate Licensee Program

The fastest growing affiliate groups are collegiate licensees, with more than 2,600 registered with the FLA, including 38 Category B Licensees, 800 Category C Licensees, and over 1,800 Category D Licensees. More than 200 colleges and universities are affiliated with the FLA and have placed requirements on these licensees to join the FLA, to disclose the names of facilities producing collegiate products and to uphold the FLA Workplace Code of Conduct in their supplier facilities.

The FLA's Collegiate Licensee Program staff and materials meet licensees at their knowledge and resource level, providing guidance and tools to help them progressively implement

FLA Factory Audits and Workers Impacted 2009

Factories Audited by the FLA	120
FLA Audits (including shared facilities)	140
Total Number of Factories	4,202
Estimated Number of Workers in Factories that Received FLA Audits in 2009	112,298
Estimated Number of Workers	4,012,157

and sustain labor standards in their supply chains. Certain categories of licensees must submit their facilities producing collegiate products to the FLA independent external monitoring process as well. In 2009, the FLA expanded our monitoring program to a pilot group of collegiate licensees.

Monitoring and Verification

The FLA system is a verification of companies' internal programs. The FLA performs due diligence on companies' internal monitoring programs through independent, unannounced external monitoring and verification, and assists with training, capacity building efforts and in measuring impact.

The FLA conducts factory audits all over the world, including: the Americas; Europe, Middle East, and Africa (EMEA); South Asia; South East Asia; and East Asia. In 2009 there were over 4,000 facilities subject to FLA independent monitoring. In that year, FLA accredited monitors conducted 120 factory visits in 22 countries across the globe.

The majority of factories the FLA audited in 2009 were in the apparel and footwear sector (over 72%), followed by a variety of other industries including collectibles, jewelry, hosiery, paper products, home goods, electronic products, and bags. The FLA also expanded its auditing of Syngenta Seeds farms in 2009 and has posted the results of those audits on our website.

FLA affiliates are responsible for working with the facilities following an inspection to develop a corrective action plan (CAP) to address any violations of the code and for conducting follow-up visits to ensure the plan is implemented. The FLA also conducts follow-up visits for a select group of audits to verify the actions taken by the FLA affiliate and supplier.

Transparency is a cornerstone of the FLA system. The FLA posts the results of all audits on our website, as well as the actions plans that FLA-affiliated companies develop with their suppliers to correct any issues that are found. Companies that submit to the FLA external monitoring process demonstrate a willingness to open up their labor compliance programs to the scrutiny of consumers and other stakeholders.

Aggregate findings from audits conducted in 2009 can be found on page 19.

Developing New Approaches to Sustainable Compliance

While the FLA's current monitoring system is a valuable tool for identifying labor issues and assessing compliance with the code of conduct, the process neither identifies the root causes of labor violations nor does it necessarily result in sustainable improvements in working conditions. The result is often a vicious cycle of policing, quick fixes, and recurring noncompliance issues. The

Supplier Profile

In 2009, FLA-affiliated companies reported that they sourced from 4,202 factories, located in 81 countries. Approximately 17% of the factories supplied collegiate licensees. The largest concentration of factories supplying FLA companies in 2009 was in China, where 1,519 factories or 36.2% of the total number of factories were located.

The FLA estimates that the facilities supplying FLA companies reported to the FLA employed over 4 million workers in 2009.¹ As a group, the top-ten locations accounted for over 86% of total employment in factories supplying FLA companies. China also accounted for the largest number of workers in factories supplying FLA affiliates with 1.5 million workers.

The distribution of the FLA supplier base by FLA region shows some interesting shifts in sourcing, which has largely favored China over the last five years. The share of FLA suppliers located in East Asia (primarily China) began to drop back to 2006 levels in 2008 and has continued to dip in 2009. However, the table shows a big gain in 2009 for the EMEA region. The Americas have continued to remain relatively stable with some pick-up in 2009.

1. In some instances, employment levels are estimated since employment information was not available for each factory. In such cases, missing data were extrapolated from factories in that country for which data were reported.

2009 Top Ten Countries Hosting Factories Supplying FLA Companies*

Country	Number of Factories	Percent of Total
China	1,519	36.2
Turkey	310	7.4
United States	306	7.3
Vietnam	250	6.0
India	205	4.9
Indonesia	171	4.1
Thailand	155	3.7
Bangladesh	112	2.7
Mexico	90	2.1
Sri Lanka	68	1.6
Top Ten	3,186	75.8
Rest of the World	1,016	24.2
Total	4,202	100

*PC, PS, and Category B Licensees

2009 Top Ten Countries with the Largest Workforce in Factories Supplying FLA Companies (in thousands)*

Country	Estimated Number of Workers	Percent of Total
China	1,513	38
Vietnam	575	14
Indonesia	432	11
India	187	5
Bangladesh	179	5
Thailand	171	4
Cambodia	136	3
Honduras	82	2
Sri Lanka	81	2
Turkey	80	2
Top Ten	3,436	86
Rest of the World	576	14
Total	4,012	100

*PC, PS, and Category B Licensees

Distribution of Suppliers by FLA Region (percent of suppliers)

Region	2005	2006	2007	2008	2009
Americas	18.2	19.1	16.0	16.7	17.2
Europe, Middle East and Africa (EMEA)	17.4	11.2	9.9	8.3	13.1
South Asia	8.4	7.2	8.3	9.9	10.8
East Asia	35.5	45.3	48.0	45.8	41.3
Southeast Asia	20.5	17.2	17.8	19.4	17.6

Companies that submit to the FLA external monitoring process demonstrate a willingness to open up their labor compliance programs to the scrutiny of consumers and other stakeholders.

FLA has been focusing on innovative approaches to sustainable compliance, which represents a fundamental change in monitoring philosophy.

Based on more than a decade of experience monitoring factories, conducting extensive surveys of factory management and their employees, and exploring new methodologies, the FLA came to recognize that simply assessing whether a factory meets international labor standards is not enough. An assessment must evaluate how a facility's policies, procedures, and practices impact workers throughout the lifecycle of their employment—from recruitment and hiring, through workplace conduct and industrial relations, to termination and retrenchment. The monitor must evaluate whether the factory has systems in place to ensure workplace standards are upheld.

In 2009, the FLA undertook an initiative to develop a new approach to sustainable compliance. The initiative envisions the creation of a technology platform that will help FLA-company affiliates develop internal sustainable compliance programs, as well as engage in greater cooperation and sharing of information. The platform also will enhance the FLA's current monitoring

and verification process and allow the FLA to collect comparable data across assessments for better analysis of impact and more actionable information to help guide companies in remediation, training and capacity building. More information about this new approach and new tools will be forthcoming in 2010.

Creating Fora for Dialogue on Global Concerns

The global economic crisis focused the concerns of many international labor rights and human rights organizations, as well as of multi-stakeholder initiatives like the FLA, on the plight of the workers, especially the most vulnerable laborers such as women and migrant workers, and other labor issues exacerbated by the global crisis.

Retrenchment and Responsible Recovery

The FLA participated in various MFA Forum multi-stakeholder discussions concerning industry restructuring and recovery from the global crisis. The group sought solutions for protecting retrenched workers and extending credit to the more responsible factories that had orders in hand but still faced possible closure or were retrenching workers because of high operation costs

and shrinking access to credit. The overarching goal of the group was to limit the impacts of the global crisis on workers and to promote “responsible competitiveness” as the economy recovered.

The FLA convened in June 2009 a range of stakeholders to discuss the impacts of the global economic crisis and to gather views from different regions and stakeholder groups. The panels explored various approaches for mitigating the impacts on workers and the prospects for the industry's recovery and opportunities for the promotion of labor standards. U.S. Government officials provided insight into the Obama Administration's approach to international labor standards.

Protecting Rights of Migrant Workers in Malaysia

Fundamental labor rights, as embodied in the ILO Core Conventions, apply to all workers without exception, including migrant workers. Despite the importance of migrant workers to the Malaysian economy, a number of national and international reports have independently documented the prevalence of labor and human rights violations against migrant workers throughout the recruitment and migration process and their employment in Malaysia. The number of cases involving labor and human rights violations against migrant workers in Malaysia points to systemic deficiencies in labor migration policies and labor protection systems.

The FLA joined with the Malaysian Bar Council to hold a multi-stakeholder roundtable discussion on the issues surrounding migrant workers in Kuala Lumpur, Malaysia, in August 2009. Participants discussed risk factors for migrant workers in Malaysia during distinct phases of the



employment lifecycle—recruitment, employment, and retrenchment. Stakeholders provided their collective input to the development of specific recommendations prioritized around: recruitment of migrant workers, including the use of agencies; employment contracts with migrant workers; health care for migrant workers; retrenchment processes of migrant workers and cancellation of work permits; and freedom of movement. The work on migrant workers in Malaysia is ongoing.

Wage Issues Along the Supply Chain

Within global trade, wage practices along the supply chain are characterized by a number of serious problems, which have long gone unaddressed and were further exacerbated by the current global economic crisis. While there is increasing international concern on

wages, work on this topic has remained rather fragmented.

The FLA held a conference in October 2009 in Washington aimed at mobilizing a more cohesive and enhanced approach to addressing wage issues along the supply chain. Academics and practitioners provided different theoretical and empirical perspectives on wage issues, as well as reported on current wage practices and the work of various corporate social responsibility CSR initiatives in this field.

The conference also sought to clarify the most relevant dimensions of “fair” wages and to launch future engagement on the topic that could lead to a dynamic framework for improving wages for workers within a broad “fair wage” spectrum. Participants in the fair wage conference recommended that the FLA create a Fair Wage Network. A website is currently under development

to support the network that will allow the FLA and other stakeholders to collaborate on data collection, research, case studies and pilot projects.

Innovating for Greater Impact and Reach

The FLA engages in special projects to test new methodologies, to develop new FLA services, and to help constituents adapt to new and changing circumstances affecting labor compliance. In 2009, the FLA traced cotton back to the fields to assess feasibility of monitoring risks along the supply chain, helped an EU-funded project develop and deliver training in CSR to various sectors, and continued to develop the FLA sustainable compliance methodologies through implementation in different countries. Increasing collaboration with local stakeholders is at the heart of many of the FLA’s activities.

Tracing Cotton Production and Identifying Risks

Uzbekistan's state-sanctioned use of child labor in the harvesting of cotton has focused international and consumer concerns on the social and environmental issues associated with cotton cultivation and harvesting. Apparel companies understand the need to be aware of whether the cotton they use in apparel production embodies violations of human rights, labor standards or environmental norms. The FLA Cotton Project conducted a pilot exercise to transparently trace cotton along an entire supply chain of apparel producers to identify risks in the chain. The tracing exercise led to interesting discoveries and some recommendations that can be useful to retailers and brands.

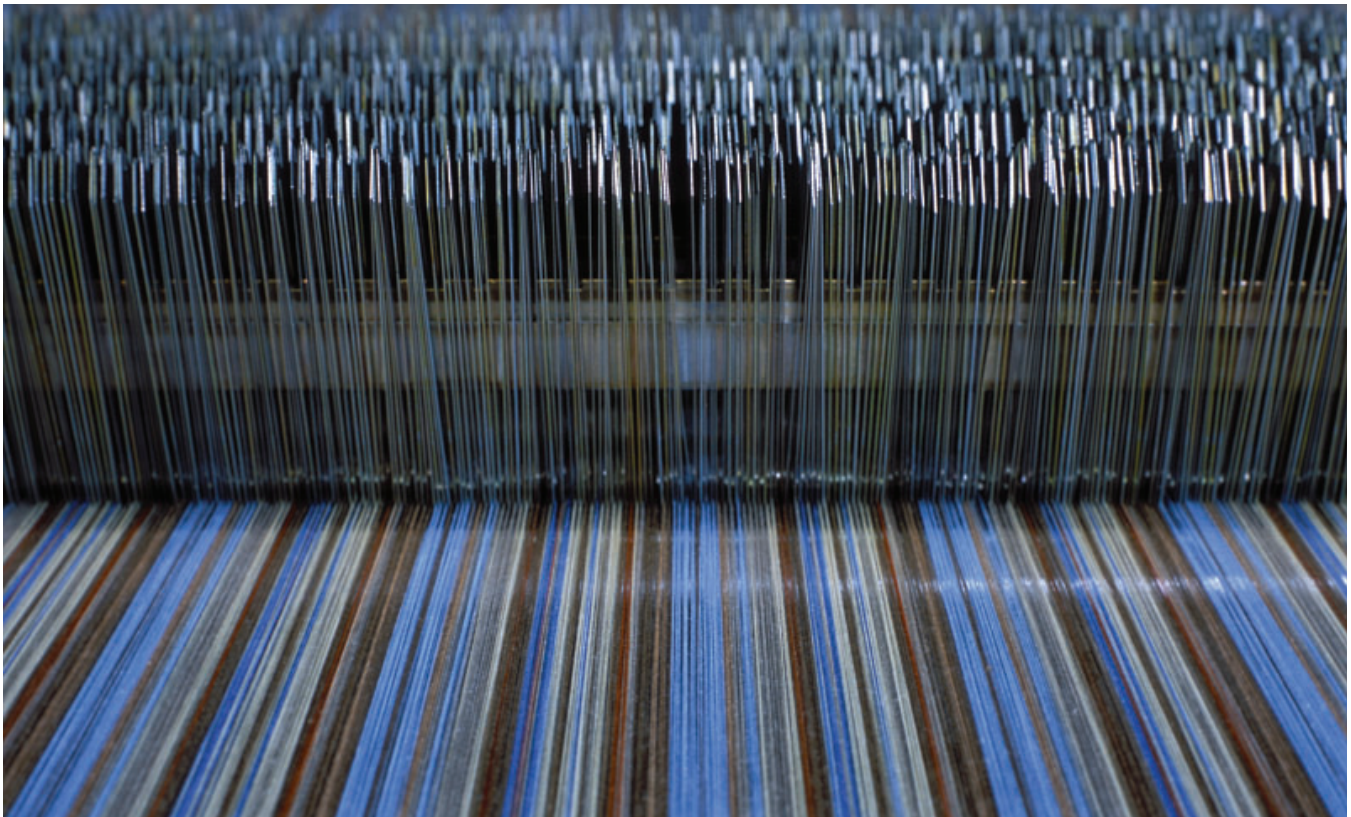
Training Professionals in CSR

Eight European partners joined together in 2007 for a two-year multi-stakeholder, collaborative approach to improve the human resource and CSR standards and policies of companies across many industries. The HERMES-OSR project developed training programs to train trainers, who will in turn train executive staff. Modules covering CSR broadly, including such topics as labor compliance, corporate ethics, and the environment, were completed and translated into several languages. Pilot seminars were conducted to train the trainers and end-users in a number of small and medium sized enterprises. With a grant from the Swiss government, the FLA oversaw the overall methodology, reviewed the training content and helped define the strategy for labeling and dissemination of the HERMES trainings.

Bringing Sustainable Compliance to Bangladesh and Vietnam

The PREPARE project in Bangladesh aims to improve the efficacy of worker representation in factories by providing a platform for labor-management dialogue; establish a system of communication, consultation, and negotiation; provide capacity training to worker representatives and factory management on their roles and responsibilities; and promote a sustainable training model that will ensure that all workers and supervisors in the factory receive regular training on local labor laws.

A "top-down bottom-up" approach was used to ensure ownership at all levels of the company and baseline assessments to assess gaps in factory performance. In-factory trainings and key performance indicators for workers and management were completed to address issues. As the PREPARE project comes to a conclusion, impact assessment are underway to



determine actual progress. The project's success will be measured by the ability of managers and workers at participating factories to identify and resolve problems which have an effect on compliance.

FLA received a grant from the U.S. Department of State to foster sustainable compliance in Vietnam through the FLA 3.0 methodology. Borrowing from some of the PREPARE project's tools and the FLA sustainable compliance methodology, the Vietnam Project aims to enlist 50 factories supplying FLA-affiliated companies and non-affiliated companies to engage in a consultative, multi-stakeholder process working toward increasing respect for workers' rights and improving working conditions in Vietnamese factories. The project also seeks to enable workers and managers to regulate their own workplaces in a sustainable manner consistent with national labor law, international labor standards, and labor best practices; and foster multi-stakeholder engagement in the region. The FLA has conducted several preliminary meetings with government agencies, trade unions, industry associations and brands and looks forward to working with factories as soon as it receives the requisite operation permit from the Government of Vietnam.

Achieving Resolutions through the Third Party Complaint Process

The FLA constantly strives to have greater impact and reach with our programs, but our monitors cannot be in all factories. The FLA Third Party Complaint process allows workers, companies, NGOs or any other stakeholder to bring a complaint about persistent issues at a factory to the FLA's attention. There are several steps in our process intended to identify and correct any noncompliances found. In 2009, the FLA successfully resolved two Third Party Complaints filed with the FLA.

The FLA Third Party Complaint Process was built into the FLA system early on to ensure greater accountability.

Estofel, S.A.

Eight workers at the Estofel, S.A. factory that shut down in late 2007 raised allegations of labor violations, including failure to pay severance. The FLA and the Worker Rights Consortium (WRC) therefore commissioned an investigation that estimated that 974 former Estofel workers were owed total benefits of more than twice what was paid. The collaborative efforts of the FLA, the WRC, University of Washington, GFSI, Inc., Hanesbrands, Phillips-Van Heusen, Ghim Li (former owner of Estofel), and the Collegiate Licensing Company resulted in securing additional severance payments of over \$520,00 for former Estofel workers.

Russell Corporation

Throughout 2009, the FLA was deeply involved in a high-profile labor dispute involving Russell Corporation and its closure of Jerzees de Honduras (JDH). The FLA launched three investigations in response to allegations that Russell's decision to close the factory was motivated by a desire to shut down the union SITRAJERZEESH in violation of the FLA Workplace Code of Conduct on freedom of association. An investigation into the business case was conducted at Russell headquarters in Bowling Green, Kentucky, and two independent investigations were conducted on freedom of association at JDH. While the FLA could not determine definitely that anti-union sentiments and actions

were the primary reason for the closure of the plant, clearly inappropriate and unacceptable actions were taken that raised serious questions about Russell Corporation's adherence to freedom of association and the protection of workers' rights.

The FLA Board made recommendations to Russell on a remediation plan. Based on insufficient progress in remediation efforts identified through an independent investigation in June 2009, the FLA Board placed Russell on special review. Special review required specific actions be taken by Russell within 90 days to address issues related to the closure of the JDH factory in order to be in good standing with the FLA. This included negotiating in good faith with SITRAJERZEESH and the General Confederation of Workers (CGT) in Honduras.

Negotiations resulted in an agreement with the unions that is being hailed as historic. The negotiations addressed many of the key concerns that the FLA Board expressed in placing Russell on special review and went beyond opening a new factory in Honduras, Jerzees Nuevo Dia, hiring workers from JDH and engaging in collective bargaining discussions with SITRAJERZEESH union.

More details about these Third Party Complaints, including investigative reports and FLA Board resolutions, can be found on the FLA website.

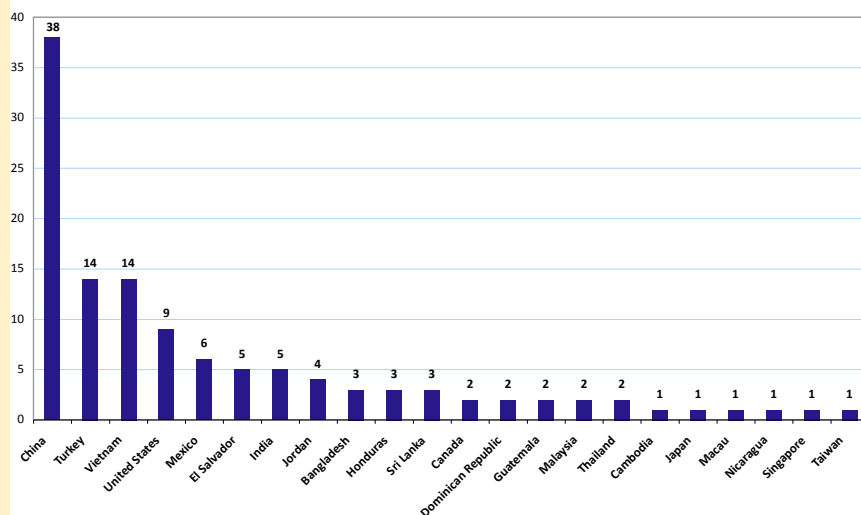
INDEPENDENT EXTERNAL MONITORING

The Fair Labor Association (FLA) is committed to ensuring the implementation of our Workplace Code of Conduct. Upholding that commitment requires due diligence. A core component of the FLA's program is conducting unannounced Independent External Monitoring (IEM) of factories used by FLA affiliates and evaluating compliance with all code elements. Submitting to the FLA's monitoring program is one of the ten obligations affiliated companies are required to fulfill. Transparency is important to the process and therefore, the findings for all inspections are posted to our website as Tracking Charts, which can be found at www.FairLabor.org under Public Reporting.

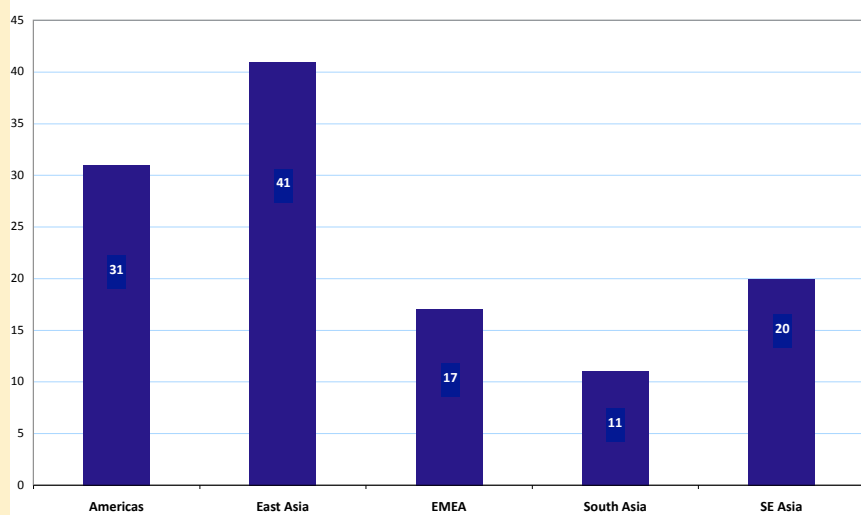
In 2009, FLA-accredited monitors conducted 120 factory visits in 22 countries across all five regions. Participating Companies accounted for the bulk of the monitoring in 2009 with 74 of 120 audits. FLA-accredited monitors conducted 12 audits for Participating Suppliers, a new but expanding group of affiliates. There were 27 IEMs conducted for Category B Collegiate Licensees and for the first time in 2009, Category C Collegiate Licensees were brought under the scope of the FLA's monitoring program with 9 factories owned and/or producing for these companies audited by FLA-accredited monitors in the Americas, East Asia and South East Asia.¹

In addition, the FLA conducted 5 IEMs at seed farms operated by Syngenta in India. These audits are not covered in this section as they follow a different

2009 IEMS by Country



2009 IEMS by Region



methodology due to their agricultural scope. As with all the IEMs, the Tracking Charts for these audits are available on the FLA's website.

1. One of these audits was shared by a Participating Company and a Category B Licensee, and another by a Participating Company and a Category C Licensee, which were counted twice in the breakdown by affiliate category above.

CODE COMPLIANCE AND REMEDIATION

The FLA's Workplace Code of Conduct is based on International Labour Organization (ILO) standards. Each code element is supported by specific benchmarks that help us measure a factory's compliance with that code element. The charts on page 21 show the distribution of noncompliances by code element. At least one benchmark in the Health and Safety code element was breached in 93 percent of the factories audited in 2009. Noncompliances in factories were also high for Hours of Work, Wages, Benefits, and Overtime, and Freedom of Association.

FLA affiliates are responsible for working with the factory following an inspection to develop a corrective action plan (CAP) to address the noncompliances, to conduct follow-up visits to ensure the plan is implemented, and to provide status reports to the FLA.

Different forms of noncompliance lead to different approaches and timing regarding remediation plans. Some noncompliances may be relatively easy to fix, such as adding fire extinguishers or recharging them. In these cases, remediation can be carried out quickly and documented through certificates, photographs, and other simple documentation.

Other noncompliances, however, are more complex and take much longer to remediate, such as violations of freedom of association, discrimination, or excessive hours of work. In the case of excessive hours of work, for example, a corrective action plan might



involve better production planning, the creation of a new work shift, or even the expansion of a facility or construction of a new one so that additional workers can be recruited. Multi-year remediation plans are common with regard to complex noncompliance issues.

Each code element is evaluated based on a combination of compliance benchmarks:

Substantive benchmarks are considered a direct violation of the rights and duties embodied in the FLA Workplace Code of Conduct.

Procedural benchmarks refer to systems or administrative processes whose absence in a factory could lead to the violation of a code provision.

Miscellaneous benchmarks refer to issues that do not fall squarely under existing FLA benchmarks.

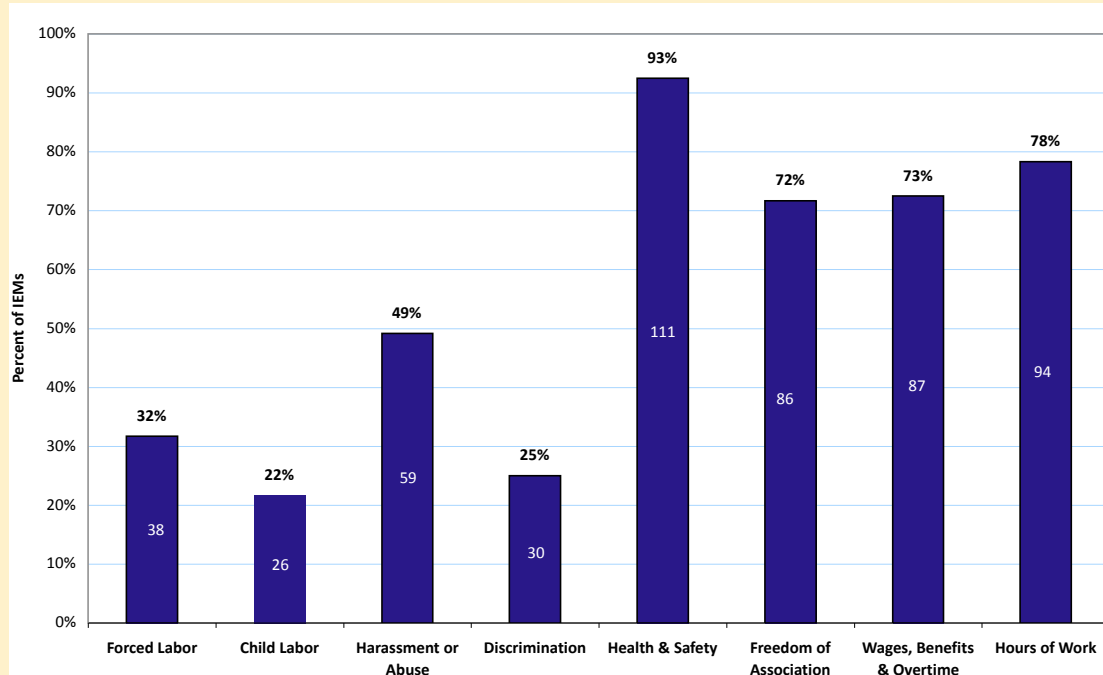
This distinction is important because, as you will note, for example, the vast majority of noncompliances with respect to the Child Labor code

element were of a procedural or miscellaneous nature (94% in 2009) rather than a direct violation involving the employment of children. Procedural violations included, for example, not having an age verification system that meets FLA standards or ignoring certain legal procedures, such as employing juvenile workers of an eligible age but who have not registered with the local labor bureau or who have not had the physical examination required by law. More details on the FLA benchmarks can be found at www.FairLabor.org.

In 2009, the total number of instances of noncompliance found dropped by 578 compared to the previous year, with the same number of IEMs conducted in both years. This significant decline was due, in large part, to the decrease in the number of procedural and miscellaneous violations reported by monitors, who were urged by FLA to focus their efforts more on issues of a substantive nature.

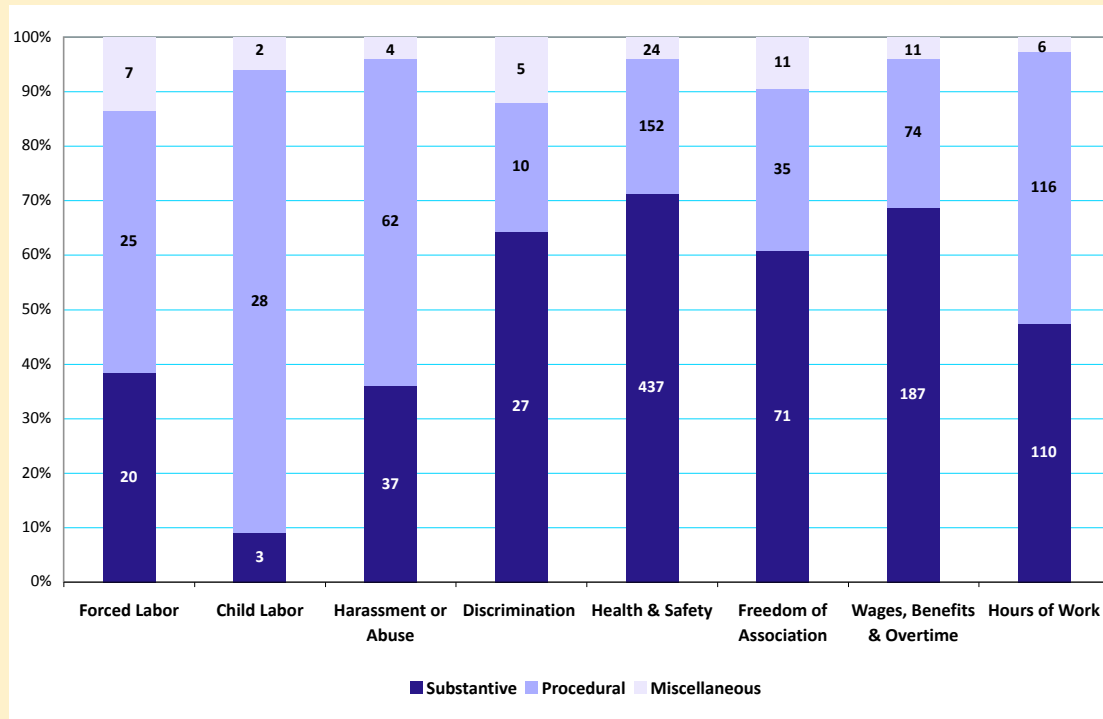
The charts on page 21 show the distribution of noncompliances by code element for 2009.

2009 Non-Compliances by Code Element



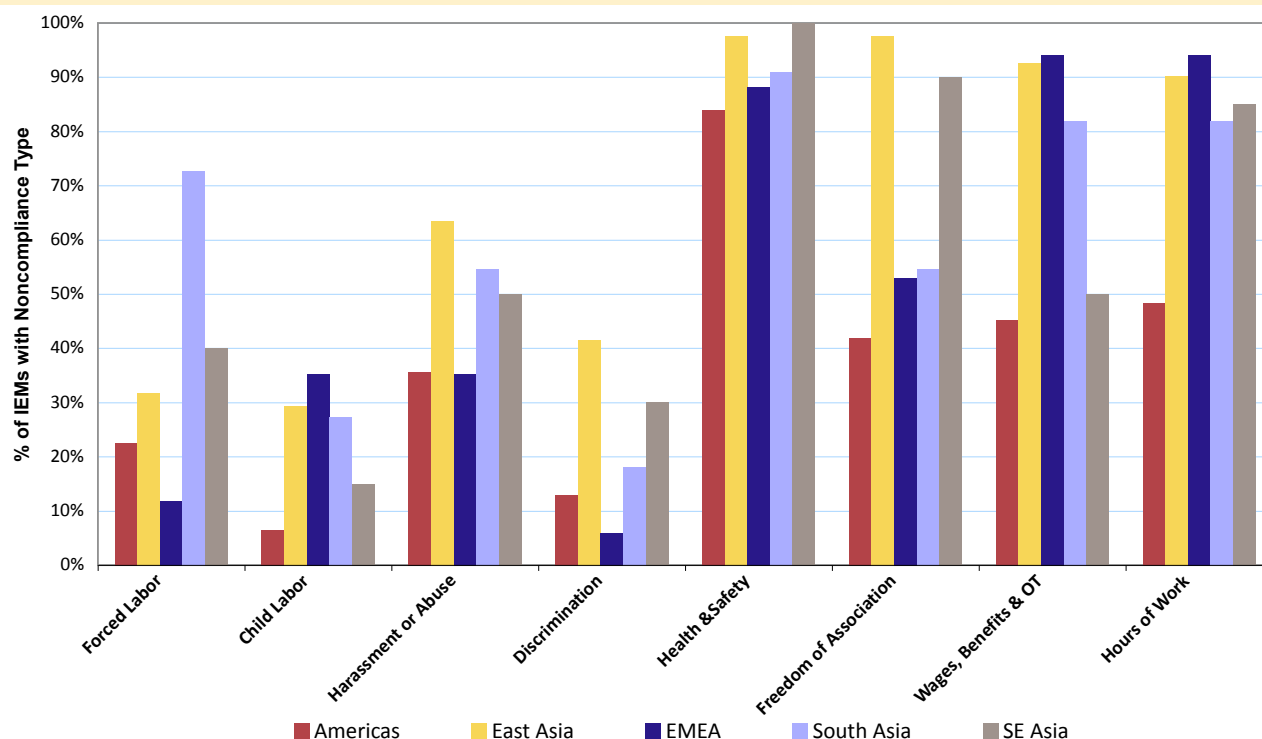
There were 531 instances in which at least one benchmark of the FLA Workplace Conduct of Conduct was breached.

2009 Procedural vs. Substantive Non-Compliances



There were 1,464 instances of noncompliance based on the benchmarks reported by accredited monitors in 2009, which translates into an average of 12.2 instances of noncompliance per factory inspection.

2009 Regional Non-Compliances in Comparison



Overview: The 120 audits conducted across all five regions resulted in 1,464 findings of noncompliance, or roughly 12.2 findings of noncompliance per audit. The code element most frequently breached was Health & Safety, with at least one breach of the benchmarks associated with this code element identified in 111 out of 120 audits (93%), followed by one or more in 94 of the audits (78%) for Hours of Work and 87 (73%) in Wages, Benefits, and Overtime.

The Americas: The 31 audits conducted in the Americas resulted in 220 findings of noncompliance, or roughly 7.1 findings of noncompliance per audit. The code element most frequently breached in the Americas was Health & Safety, with at least one breach of the compliance benchmarks associated with this code element identified in 26 out of 31 IEMs.

EMEA: The 17 audits conducted in the EMEA region resulted in 216 findings of noncompliance, or roughly 12.7 findings of noncompliance per inspection. At least one benchmark regarding the Hours of Work and Wages, Benefits, and Overtime code elements was breached in 16 of the 17 audits conducted in the region. Noncompliances were also high for Health & Safety, with at least one benchmark of this code element breached in 15 of 17 inspections.

East Asia: The 41 audits conducted in East Asia resulted in 625 findings of noncompliance, or roughly 15.2 findings of noncompliance per audit. For all 38 IEMs conducted in China, FLA-accredited monitors recorded a violation of the benchmark regarding the right to freedom of association.* In total, 40 out of 47 audits conducted in this region had at least one noncompliance with respect to the Freedom of Association and Collective Bargaining code element. Noncompliances were also high for Health & Safety, Hours of Work, and Wages, Benefits, and Overtime, with at least one benchmark in each element breached in at least 37 of 41 inspections.

South Asia: The 11 audits conducted in South Asia resulted in 146 findings of noncompliance, or roughly 13.3 findings

of noncompliance per audit. In 91% of the audits conducted in the region, FLA-accredited monitors recorded at least one violation of the benchmark regarding Health & Safety.

South East Asia: The 20 audits conducted in South East Asia resulted in 257 findings of noncompliance, or roughly 12.9 findings of noncompliance per audit. One or more of the benchmarks associated with Health & Safety were recorded by FLA-accredited monitors as breached in all 20 audits. For all 14 IEMs conducted in Vietnam, FLA-accredited monitors recorded a violation of the benchmark regarding the right to freedom of association.** In total, 18 out of 20 audits (90%) conducted in the region had at least one noncompliance with respect to the Freedom of Association and Collective Bargaining code element.

* Each of the IEMs conducted in China has the following text included on the corresponding tracking chart to reflect the systemic noncompliance with the FLA benchmark on Freedom of Association: "The Chinese constitution guarantees Freedom of Associations (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."

** Each of the IEMs conducted in Vietnam has the following text included on the corresponding tracking chart to reflect systemic noncompliance with the FLA benchmark on Freedom of Association: "Vietnam has not ratified ILO Conventions 87 or 98. Under Vietnamese law, all unions are required to affiliate with the single trade union, the Vietnam General Confederation of Labor (VGCL), which is affiliated with the Communist Party. With respect to such union monopolies, the ILO Committee on Freedom of Association has stated that the rights of workers to establish organizations of their own choosing implies... the effective possibility of forming... [trade unions] independent both of those which exist already and of any political party. Vietnam's legal framework is therefore not compatible with the ILO Principles on Freedom of Association and, as such, all factories in Vietnam fail to comply with the FLA Code standard on Freedom of Association."

INDEPENDENT EXTERNAL VERIFICATION

The FLA selects a sample of the audits conducted in previous years and arranges for an accredited independent external monitor to revisit the factories to verify that corrective actions were taken to remedy noncompliances. In 2009, the FLA conducted 24 Independent External Verifications of corrective action plans for inspections conducted in previous years. In our experience, a two- to three-year period should lapse between the development of a corrective action plan and verification in order to be able to measure the impact of the more

complex remediation plans. Verification reports are posted on the FLA website.

Two important points should be taken into consideration in reviewing the results of the verifications. First, unlike inspections that are selected at random, the verification visits target some factories facing critical and challenging noncompliance issues, such as nonpayment of wages, egregious safety and health violations, freedom of association, and harassment or abuse issues. The FLA targets cases for verification based on the severity of the issues that emerged from the inspections.

Verifications highlight issues that the FLA's sustainable compliance initiative aims to address.



Second, in returning to these factories, FLA-accredited monitors were asked to focus on the original noncompliances or risks of noncompliance identified in the audits and to evaluate progress toward remediation. The monitors were also asked to cite any new noncompliance issues they observed.

The largest number of noncompliances monitors reviewed was in the Health & Safety area, reflective of the distribution of noncompliances for all inspections in general. Since the verification audits were weighted toward reevaluating situations where complex and critical issues had emerged in the inspections, there were a higher number of cases involving Harassment or Abuse

than one finds overall in general inspections.

Verifications illustrate a challenge with using a monitoring system alone for due diligence. An unannounced, external audit of a factory provides a snapshot of issues within the factory at a point in time but does not identify the root causes of the problems. In revisiting factories to verify remediation of past noncompliances, monitors often identified additional or new noncompliances. As we have come to understand the limitations of monitoring, the FLA has been at the forefront in developing a sustainable compliance methodology that we believe will have significant impact for change at the factory level.



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IEVs by Region

Region	Number of Verifications	Percent
Americas	7	29%
East Asia	9	38%
EMEA	0	0%
South Asia	6	25%
Southeast Asia	2	8%
TOTAL	24	

In 2009, 37% of noncompliances were found to be fully remediated by the FLA affiliate and its suppliers, and in 66% of the issues identified previously, monitors were able to verify full or partial remediation. Within 24 factories, 128 new findings of noncompliances surfaced during the verification audits, requiring additional remediation steps. The majority of the newly-identified noncompliances were also in Health & Safety (41%), followed distantly by Wages and Benefits (16%).

2009 Verification Audit Results by Code Element

Code Element	Complete / Verified	Improved / Pending	No Change	Risks Addressed	Risks Not Addressed	Original Findings	% Success* Rate	New Findings
Code Awareness	16	9	20	1	3	49	53%	2
Forced Labor	10	1	3	3	4	21	67%	9
Child Labor	4	1	2	6	3	16	69%	6
Harassment or Abuse	17	0	9	6	6	38	61%	12
Discrimination	11	2	3	9	3	28	79%	4
Health & Safety	72	31	26	17	6	152	79%	52
Freedom of Association	2	3	5	13	2	25	72%	3
Wages & Benefits	27	12	31	7	3	80	58%	21
Hours of Work	17	11	33	8	1	70	51%	12
Overtime Compensation	9	1	7	0	0	17	59%	5
Miscellaneous	2	1	3	2	1	9	56%	2
Total Verifications	187	72	142	72	32	505	66%	128
% By Status	37%	14%	28%	14%	6%	n/a	n/a	n/a

* Completed plus improved remediation on noncompliances plus risks addressed.

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To learn more about affiliating with the FLA,
please visit our website at
www.FairLabor.org or contact
flamembership@FairLabor.org.



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