



FAIR LABOR
ASSOCIATION[®]

Improving Workers' Lives Worldwide

2011 ANNUAL REPORT

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Board of Directors*

The Fair Labor Association's Board of Directors includes an independent Chair and six representatives each from our three constituent groups: companies, NGOs, and colleges and universities.

CHAIR

Kathryn "Kitty" Higgins

Former U.S. Deputy Secretary of Labor

COMPANY REPRESENTATIVES

Juan Gonzalez-Valero

Syngenta

Brad Grider

Hanesbrands

Marcela Manubens

PVH Corp.

Gregg Nebel

adidas-Group

Nicole Tillman

(until September 2011)

Outdoor Cap

Amanda Tucker

Nike, Inc.

UNIVERSITY REPRESENTATIVES

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Washington University in St. Louis

Bob Durkee

Princeton University

Kathy Hoggan

University of Washington

Michael Low

University of Notre Dame

Maureen Riedel

Pennsylvania State University

Craig Westemeier

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NGO REPRESENTATIVES

Marsha Dickson

Educators for Socially Responsible Apparel Business

Linda Golodner

National Consumers League

Meg Roggensack

Human Rights First

Jim Silk

Orville H. Schell, Jr. Center for International Human Rights

Karen Tramontano

Global Fairness Initiative

Lynda Yanz

Maquila Solidarity Network

FLA extends its thanks to our Board members for their dedicated service to the organization and its mission.

** Bob Durkee, Princeton University, served as Acting Chair until March 31, 2011. Joe Ebaugh, University of Maryland, served as a University Representative until June 30, 2011. Elisa Massimino, Human Rights First, served as an NGO Representative until June 30, 2011.*

Foreword

As a Board member of the Ethical Trading Initiative (ETI) since its inception and as Chair over the past eleven years, I've seen the dialogue shift regarding social compliance and corporate responsibility.

We're no longer asking whether companies, NGOs and universities can work together to improve workers' lives. Instead, today the question is *how do we take the lessons we've learned to scale?*

How do we know that the work of organizations like the Fair Labor Association (FLA) have had an impact over the past decade? Experience shows that it is superficial to measure success by the number of audits conducted. Although large-scale auditing can help paint a global picture of how workers are treated throughout the supply chain, the real indication of impact is whether workers are seeing positive changes in their daily lives. Over the years I have witnessed this type of impact time and again – workers reporting they are more respected after a supervisor training in Kenya; new mothers able to bring children to the workplace after a brand required the development of a daycare facility in a Turkish factory. Our work is having an impact. Now we must examine best practices and replicate those successes across industries and borders.

This type of impact is possible only through collaboration between all parties with a stake in improving working conditions in global supply chains: NGOs, companies, trade unions, universities, consumers and others. Like ETI, FLA was built on the belief that organizations with different and sometimes competing agendas can and must work together to protect workers. Despite challenges along the way, these organizations have thrived by staying true to one fundamental concept: collaboration.



Photo courtesy of ETI by Claudia Janke.

Last year, ETI member companies' ethical trade activities reached 9.8m workers.

True collaboration requires that all stakeholders have a seat at the table in discussions about both problems and solutions. Collaboration means that the trade unions and NGOs who are in the field and represent workers share their experiences and expertise. It means that companies listen to these stories, learn from them, and work with civil society to find solutions and make improvements in their supply chains and business operations. The stakeholders participating in initiatives like FLA embrace this approach.

In 2011, more than 100 global brands were affiliated with either ETI or FLA. Imagine if that number were to be quadrupled, or multiplied by a hundred. Real change for workers is possible only to the extent that more companies build ethical practices into their core business model, and embrace social responsibility not only as a risk management exercise, but also as a competitive advantage. Without both of these motivators, companies' efforts would fall flat and fail to tackle the types of egregious labor and human rights violations occurring every day.

The violations routinely found in factories around the globe do not always get the attention they deserve. While more than 3 billion people are struggling to survive on less than \$2 per day around the world, millions of consumers throughout the United States and Europe demand more, faster, cheaper. But at what cost?

Today another class of consumers has emerged, who want to know that the products they buy have been produced in conditions that don't exploit workers. These consumers want companies to do better. Consumers with this mindset are not necessarily calling for boycotts of their favorite products; rather, they are calling for improvements and for tangible progress. They want assurances that companies are behaving ethically and treating workers with dignity and respect in the manufacturing of everything they buy - from chocolate to MP3 players to floral arrangements.

When ETI and FLA were founded, support for this type of long-term improvement was widespread, including at the highest levels of government. At that time there was a realistic understanding that change wouldn't happen overnight, but that the key to long-term sustainability was collaboration and a serious commitment of resources across sectors. I believe that's what Claire Short, then Secretary of State for Development in the U.K. had in mind when she supported the development of ETI, and I believe that's what President Bill Clinton envisioned when he brought stakeholders together to form FLA in the mid-90s.

Support for this approach is stronger than ever today. In 2011, the United Nations endorsed John Ruggie's Guiding Principles on Business and Human Rights, a set of guidelines designed to help businesses protect human rights. The European Commission has embraced the principles, and I encourage all business to pay attention to how

it fits with their existing compliance programs. Notably, FLA's Code of Conduct - which is based on conventions of the International Labour Organization - was enhanced significantly in 2011. Taken together, these developments strengthen the foundation in place for protecting workers and will allow us to more directly measure impact against concrete milestones.

After years of work on fields and in factories, we know that while principles and codes of conduct are essential, collaboration is the key to taking these successes to scale. ETI and FLA may have been founded on different continents over a decade ago, but in the years since inception, both organizations have embraced cross-sector cooperation in their approaches to improving workers' rights. Despite the many challenges that undoubtedly lie ahead, the lessons we have learned through our work thus far have prepared us for another decade of positive changes for workers around the world.



ALAN ROBERTS
FORMER BOARD MEMBER
AND CHAIR,
ETHICAL TRADING
INITIATIVE

Message from the President

In 2001, as the Fair Labor Association was preparing its first Annual Report, the organization had completed 24 unannounced factory visits.

Since then, FLA staff and accredited monitors have conducted nearly 1,500 factory visits, and have empowered workers to make their voices heard through representation and by gaining a seat at the same table as factory management and brand representatives to engage in dialogue.

While we have indeed scaled up due diligence activities to ensure brand accountability, FLA has been focusing this year on developing solutions, not just on identifying problems. In the past decade, we've learned so much about what works and what doesn't in terms of social compliance and labor standards monitoring. We internalize the lessons we learn in our work each year and apply them in everything we do moving forward.

FLA's first Annual Report, which was prepared ten years ago, detailed the activities of FLA's seven Participating Companies sourcing from 2,000 factories. Reviewing that report recently, I was drawn to a passage I can vividly remember writing:

Monitoring, like labor inspection, cannot by itself guarantee compliance, since it cannot cover all factories often enough to be sure that labor standards are being observed. This is why we have to focus on the tools that allow workers and employers to address compliance issues in their own factories on an ongoing basis...Monitors, for example, can never visit a facility regularly enough to ensure that fire safety procedures are maintained. But if FLA concentrates on establishing clear safety policies managed by safety committees with trained safety stewards, and monitors the operations of those, then the safety committees and stewards can ensure compliance day in and day out. Additionally, as well as regulating their own workplaces, workers



need support from government and the public sector, meaning strong labor laws and effective enforcement of them.

Over the past decade we have taken this early insight to heart, weaving the concept of sustainable supply chains into FLA's methodology over the years. In the past decade, the field of social compliance has become too focused on monitoring – on policing factories and slapping management on the wrist for “bad practices” – without considering local realities, and without offering factories the tools and resources they need in order to make necessary improvements for workers. It is easy to focus narrowly on monitoring and get caught up in the “gotcha” game. Of course monitoring is important, but it isn't the solution on its own. Where some traditionalists may be content to point fingers and simply uncover the issues, FLA's model reverses the proposition by asking, “what does the ideal factory or workplace look like?” and then, “how do we get the brand and factory there from where they are today?”

The global business, labor, human rights and university stakeholders must begin to think more strategically about improving workers' lives by making labor compliance attainable for factories and sustainable for the brands sourcing from them. FLA plays a role here, too, by providing training and capacity building resources to factory managers in order to help improve their compliance programs and improve conditions for employees in a lasting way.

This year the civil society organizations, universities and companies affiliated with FLA made strides in these efforts, laying the foundation for the organization's next chapter of impact and growth. In June, for example, FLA's Board of Directors approved a number of enhancements to the FLA Workplace Code of Conduct for the first time since its adoption in 1999. Working together over the course of nearly three years, FLA stakeholders developed substantive improvements to the FLA Code. The Board's approval of the revised Code signaled a major milestone that these groups accomplished together, and was a significant achievement for FLA and for all of the workers we strive to protect.

FLA also made substantial progress in the development and testing of its Sustainable Compliance (SCI) methodology this year. While traditional audits focus on quick fixes, SCI identifies the root causes of noncompliances and risks, and offers recommendations for long-term improvement. Taken with the revised Code of Conduct, SCI will significantly strengthen protections for workers' rights around the world.

Over the years, it has become clear that factory visits or assessments are meaningless without candid and substantial input from the workers whose lives are impacted by the decisions made by factory and brand managers. That's why, in addition to continuing to conduct on- and offsite interviews with workers, we have integrated large-scale worker perception surveys into the FLA monitoring program. This year, assessors surveyed anonymously more than 11,000 workers in 89 factories in China, Bangladesh, Vietnam, Cambodia, India, Indonesia, Guatemala, and the Dominican Republic. Through these surveys, workers provide unfiltered, uncensored insight into the working conditions that affect their lives every day.

Another testament to the growth and development of FLA came this year when Nestlé, the largest food company in the world, announced its intention to apply for affiliation as a Participating

Company. Building upon its experience in addressing child labor and other risks in the agriculture sector, FLA launched a special project with Nestlé to evaluate its hazelnut supply chain in Turkey. Coordinating closely with local NGOs, FLA's assessment team gained access to rural areas in Turkey involved in the hazelnut supply chain in order to evaluate compliance gaps and make recommendations to Nestlé, other international buyers, and the Government of Turkey.

Recommendations for improvement are an important part of our work, but FLA takes it further by working with international experts to provide the tools and resources needed for companies and suppliers to implement necessary changes and to develop effective compliance programs that respect the rights of workers. FLA has also continued to serve as a safe space for companies, universities and NGOs to come together to find solutions to labor issues around the world. In support of this idea of collaboration, in October FLA created the Global Forum for Sustainable Supply Chains. The forum will focus on existing gaps outside of the mainstream of FLA affiliates' efforts and will provide learnings for FLA to consider in its work.

I am astounded and humbled by how much has been accomplished over the last 10 years, and proud of what FLA affiliates have achieved this year. As we look ahead to FLA's next chapter, it is important to be realistic about the obstacles we still face. Too many men, women and children around the world continue working in deplorable conditions - and it's up to all of us to put an end to it, for good.

In 2011, the hard work of our affiliates, staff and supporters has helped position FLA to make a difference in the lives of even more workers in its next decade. One day, fair labor standards can be a reality for every man or woman working in a factory or on a farm - from Shenzhen to the Ivory Coast.



AURET VAN HEERDEN
PRESIDENT AND CEO

2011: Laying the Foundation for FLA's Next Chapter

In 2011, the universities, civil society organizations, and companies participating in FLA helped make a difference in the lives of workers around the world by:

- STRENGTHENING PROTECTIONS FOR WORKERS' RIGHTS.**

The Board of Directors approved revisions to the FLA Workplace Code of Conduct, including the addition of the "Employment Relationship" element, which outlines standards that should be present throughout the entire employment life cycle - from hiring to termination. Enhancements were also made to the Obligations of Companies, now called the Principles of Fair Labor and Responsible Sourcing. [Read more on page 10.](#)

- INNOVATING TO SHIFT THE FOCUS IN SOCIAL COMPLIANCE FROM POLICING TO FINDING SOLUTIONS.**

FLA continued to refine its Sustainable Compliance methodology (SCI), which identifies root causes of noncompliance and makes long-term remedial recommendations. [Read more on page 13.](#)

- HOLDING COMPANIES ACCOUNTABLE FOR TREATING WORKERS FAIRLY.**

FLA staff and independent assessors conducted more than 150 independent external assessment events in 2011, including unannounced factory visits, verifications of remediation, and worker perception surveys. [Read more on pages 16-21.](#)

2011 FLA Factory Audits and Workers Impacted

Number of factory audits (including shared facilities)	141
Estimated number of workers in factories that received FLA audits in 2011	185,437
Total number of factories used by FLA affiliates	4,787
Estimated number of workers impacted by FLA program	5,545,439

- ADDRESSING GLOBAL ISSUES THROUGH THIRD PARTY COMPLAINTS AND INVESTIGATIONS.**

FLA worked to resolve complaints and investigations related to freedom of association, health and safety, and other pressing issues at factories around the world. [Read more on page 23.](#)

- SUPPORTING UNIVERSITIES IN HOLDING LICENSEES ACCOUNTABLE FOR PROTECTING WORKERS THROUGHOUT THE SUPPLY CHAIN.**

FLA provided training, guidance and technical assistance to thousands of collegiate licensees and increased the capacity of university affiliates to monitor licensee compliance and progress. [Read more on page 25.](#)

- **IMPROVING CONDITIONS FOR WORKERS THROUGH SPECIAL PROJECTS.**

Working with local stakeholders, FLA continued promoting workers' rights around the world by mapping supply chains, evaluating conditions on farms, and more. [Read more on page 26.](#)

- **COMMISSIONING RESEARCH AND ENGAGING STAKEHOLDERS.**

FLA continued to provide a safe space for dialogue among all actors in the supply chain – from union representatives to corporate executives – on issues such as migration and human trafficking, the Sumangali Scheme, wages and compensation, and the rights of maquila workers in Central America. [Read more on page 30.](#)

In 2011, the Board of Directors approved the affiliation of Arena Italia S.p.A. and Delta Apparel as Participating Companies; Biesecci A.S., Gibor Alfa, Kay & Emms (Pvt) Ltd and Pou Chen Group as Participating Suppliers;* and 12 new Category B Licensees. This year FLA accredited the compliance programs of Outdoor Cap and Russell Brands.

* The FLA Board of Directors also provisionally approved the application of Ozak Tekstil Konfeksiyon Sanayi ve Ticaret A.S. ("Ozak Tekstil") to become a Participating Supplier on June 14, 2011, contingent on the fulfillment of several administrative requirements for affiliation set out by the FLA Board. Because the company did not fulfill these requirements, Ozak Tekstil did not become an FLA Participating Supplier. See www.fairlabor.org/report/ozak-tekstil-turkey for more information.

FLA-accredited Participating Companies have demonstrated that they have the systems and procedures in place to successfully uphold fair labor standards throughout their supply chains. The complexity and ever-evolving nature of global supply chains make it impossible to guarantee that a product is made in conditions free of labor rights violations. For this reason, FLA does not certify brands. Instead, FLA evaluates companies at the headquarter level – in addition to standard factory-level due diligence activities that are conducted annually – to determine whether they have social compliance systems in place to proactively identify and address risks or instances of noncompliance. Accreditation is the highest level of recognition for FLA-affiliated companies.

The social compliance programs of the following companies were accredited as of 2011:

- **adidas-Group**
- **GFSI, Inc.**
- **Gildan Activewear, Inc.**
- **Hanesbrands**
- **H&M Hennes & Mauritz AB (in China)**
- **Liz Claiborne, Inc.**
- **New Era Cap Co., Inc.**
- **Nike, Inc.**
- **Outdoor Cap**
- **Patagonia**
- **PVH Corp.**
- **Puma AG**
- **Russell Brands, LLC**
- **Zephyr Graf-X**



Enhancing the FLA Code of Conduct to Strengthen Protections for Workers' Rights

In 2011, after a nearly three-year review period, the Board of Directors approved the first revisions to the FLA Code of Conduct since its adoption in 1997.

The Board earlier in the year also approved revisions to the Obligations of Companies, which have been adopted as the “Principles of Fair Labor and Responsible Sourcing.” This document outlines requirements for affiliated companies, including adherence to the FLA Code of Conduct.

The Code of Conduct – consisting of nine broad elements and supported by a network of 162 Compliance Benchmarks – is based on internationally recognized labor standards, and aims to achieve decent and humane working conditions for workers around the world. It is the foundation of FLA’s work – companies affiliated with FLA agree to uphold these standards throughout their supply chains, and are held accountable for doing so through assessments and public reporting.

After over a decade of implementation and insight gained from the field, the FLA Board, staff and stakeholders recognized that it was the appropriate time to strengthen the Code. In February 2008, a working group was created and tasked with reviewing the Code and working with FLA’s university, NGO and company constituents to make recommendations for improvement.

“The Board’s vote to approve the revised Code of Conduct reaffirms the core elements of the original Code while strengthening protections for workers and reinforcing employers’ accountability for each of the provisions of the Code.”

— **Linda Golodner**
*President Emeritus
of the National
Consumers League*

2011 FLA Workplace Code of Conduct

EMPLOYMENT RELATIONSHIP	Employers shall adopt and adhere to rules and conditions of employment that respect workers and, at a minimum, safeguard their rights under national and international labor and social security laws and regulations.
NON-DISCRIMINATION	No person shall be subject to any discrimination in employment, including hiring, compensation, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social group or ethnic origin.
HARASSMENT OR ABUSE	Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.
FORCED LABOR	There shall be no use of forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor.
CHILD LABOR	No person shall be employed under the age of 15 or under the age for completion of compulsory education, whichever is higher.
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING	Employers shall recognize and respect the right of employees to freedom of association and collective bargaining.
HEALTH, SAFETY AND ENVIRONMENT	Employers shall provide a safe and healthy workplace setting to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employers' facilities. Employers shall adopt responsible measures to mitigate negative impacts that the workplace has on the environment.
HOURS OF WORK	Employers shall not require workers to work more than the regular and overtime hours allowed by the law of the country where the workers are employed. The regular work week shall not exceed 48 hours. Employers shall allow workers at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be consensual. Employers shall not request overtime on a regular basis and shall compensate all overtime work at a premium rate. Other than in exceptional circumstances, the sum of regular and overtime hours in a week shall not exceed 60 hours.
COMPENSATION	Every worker has a right to compensation for a regular work week that is sufficient to meet the worker's basic needs and provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract. Where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall work with the FLA to take appropriate actions that seek to progressively realize a level of compensation that does.

The Board appointed Carol Kaesebier (University Caucus), Gregg Nebel (Business Caucus), and Linda Golodner (NGO Caucus) to this Code Review Working Group. Karen Daubert replaced Ms. Kaesebier in the group in May 2009. In consultation with their caucuses, the Working Group examined each Code element, analyzed its effectiveness and impact, consulted external stakeholders and recommended changes that could further protect and promote the rights of workers around the world.

Some of the most significant changes to the Code include a new preamble, improvements in several Code elements and supporting benchmarks that explicitly address hours of work and overtime, compensation, and egregious human rights violations such as child labor. The new preamble positions FLA as a dynamic and growing organization that strives to be a leader in holding companies accountable for treating workers fairly throughout their global supply chains.

One significant enhancement is the inclusion of a new Code element, “Employment Relationship,” which requires employers to adhere to rules and conditions of employment that respect workers and, at a minimum, safeguard their rights under national and international labor laws.

The 2011 Code outlines stringent standards regarding hours of work and compensation. The work week should not exceed 48 hours and employers must allow at least 24 consecutive rest hours in every seven-day period. In addition, regular and overtime hours cannot exceed 60 per week. The Code includes a more detailed compensation element, which requires wages sufficient to meet workers’ basic needs. When compensation does not meet workers’ basic needs and provides some discretionary income, the Code requires the employer to work with FLA to take appropriate actions to better meet those fundamental human necessities.

Another important Code enhancement raises the minimum age of employment to 15 for employees of manufacturers producing goods for affiliate brands. Several new benchmarks also reinforce the requirements of factories to ensure workers have not been trafficked or employed against their will.

The 2011 FLA Code of Conduct and Benchmarks apply across sectors and industries and are an important step in protecting workers around the world. The revised Code strengthens protections for workers’ rights, empowering brands and factory management to tackle poor labor practices directly as they work to improve the lives of workers worldwide.



Training on the FLA Code of Conduct for workers in El Salvador.



FLA Code of Conduct posted in supplier facility.



FLA's Approach to Sustainable Compliance

When the same violations occur repeatedly in a factory or other production facility, it undermines the efforts of both factory management and the sourcing brands.

Worse, it puts workers at risk. While the conventional framework for conducting audits is useful for remedying immediate problems and has, over time, succeeded in protecting workers from the most egregious threats, conventional audits do little to prevent recurring violations or drive sustainable and progressive improvements in working conditions.

Typical audits follow a “checklist” methodology, meaning that auditors check for the presence or absence of specific conditions and practices based on a code of conduct. Manufacturers might then resolve violations, such as improving lighting, replacing abusive supervisors, or providing safety equipment. The problem with this approach, however, is that these fixes don't hold. Over time, the lighting and safety equipment wears out and isn't replaced, or another abusive supervisor continues poor behavior undetected. Because the underlying policies and procedures aren't addressed, the factory's next audit often uncovers similar problems.

This year, FLA continued testing and training related to its Sustainable Compliance methodology (SCI), which shifts the focus from catch-and-fix auditing to identifying risks and root causes of noncompliance. SCI leads to sustained improvements in employment systems because it involves so much more than a one-off, surprise factory visit. An SCI assessment is a thorough analysis of a facility, which includes:

Together, FLA affiliates have been moving toward sustainable compliance. In fact, 72 percent of violations identified by FLA assessors in 2011 were found to have been resolved or significantly improved a year later.

1. A review of policies, procedures and other management documents, and consultation with local civil society organizations to identify potential problem areas
2. Mapping of the facility's structure and workflow for each employment function, which tells assessors what to look for and whom to ask about implementation of specific components
3. Collection of data through targeted management interviews and visual observation of conditions at the facility
4. On- and off-site interviews and surveys of workers to get their perspectives on conditions in the factory
5. Entering data into a standardized reporting tool to generate meaningful factory data, which is then translated into findings and used to set action priorities

In 2011, FLA focused on building the capacity of brands and accredited monitors to implement SCI in 2012. FLA staff conducted SCI trainings for companies and the third-party monitoring organizations responsible for conducting SCI assessments. Assessors also piloted SCI assessments, including at two facilities employing nearly 3,000 workers in El Salvador. The facilities were assessed by FLA-accredited NGO monitoring organizations, the Commission for the Verification of Corporate Codes of Conduct and Grupo de Monitoreo Independiente de El Salvador, based on FLA's SCI methodology. Piloting SCI has been essential to testing the methodology and confirming its effectiveness in identifying root causes of labor rights violations. Testing results and feedback from training sessions were incorporated into a guide FLA published for staff, brand monitors and accredited service providers on implementing the SCI methodology during factory assessments.

“I took away two ideas from the SCI training: 1) root cause analysis is the only way to sustainably address compliance issues; and 2) collaborating with stakeholders is incredibly important.”

— From participant in FLA's Istanbul training session

Simultaneously, FLA continued to work on developing a technology platform to provide SCI assessors with cutting-edge reporting tools and eliminate the challenges posed by the cumbersome paperwork and pen-and-pencil documentation normally associated with auditing. FLA has embraced technology as a way to connect stakeholders around the world and improve

the effectiveness of social compliance and due diligence activities. FLA launched an initial phase of the technology platform in 2011.

FLA assessments in 2012 will be conducted based on the SCI methodology. The following data and findings are from FLA's 2011 due diligence activities.

DUE DILIGENCE IN 2011

In 2011, FLA-affiliated companies reported that they sourced from 4,787 factories. The largest concentration of factories supplying FLA companies in 2011 was in China, where 1,841 factories or 38.5% were located. An estimated 5.5 million workers were employed by facilities supplying FLA affiliates in 2011.

Distribution of Suppliers by FLA Region							
REGION	2005	2006	2007	2008	2009	2010	2011
Americas	18.2	19.1	16	16.7	17.2	16.6	15.2
Europe, Middle East and Africa (EMEA)	17.4	11.2	9.9	8.3	13.1	10.3	9.9
South Asia	8.4	7.2	8.3	9.9	10.8	11.6	12.4
East Asia	35.5	45.3	48	45.8	41.3	42.3	42.1
Southeast Asia	20.5	17.2	17.8	19.4	17.6	19.2	20.1

2011 Top 10 Countries Hosting Factories Supplying FLA Companies		
COUNTRY	NUMBER OF FACTORIES	PERCENT OF TOTAL
China	1,841	38.5%
Vietnam	355	7.4%
USA	332	6.9%
Turkey	305	6.4%
Indonesia	280	5.8%
India	257	5.4%
Bangladesh	205	4.3%
Thailand	154	3.2%
Taiwan	79	1.7%
Mexico	73	1.5%
TOP-TEN	3,881	81.1%
Rest of the World	906	18.9%
Total	4,787	100

2011 Top 10 Countries with the Largest Workforce in Factories		
COUNTRY	ESTIMATED NUMBER OF WORKERS	PERCENT OF TOTAL
China	2,385,559	43.0%
Vietnam	809,350	14.6%
Indonesia	682,133	12.3%
Bangladesh	384,155	6.9%
India	192,075	3.5%
Thailand	164,578	3.0%
Cambodia	129,499	2.3%
Turkey	94,517	1.7%
Sri Lanka	88,609	1.6%
Honduras	87,784	1.6%
TOP-TEN	5,018,257	90.5%
Rest of the World	527,182	9.5%
Total	5,545,439	100

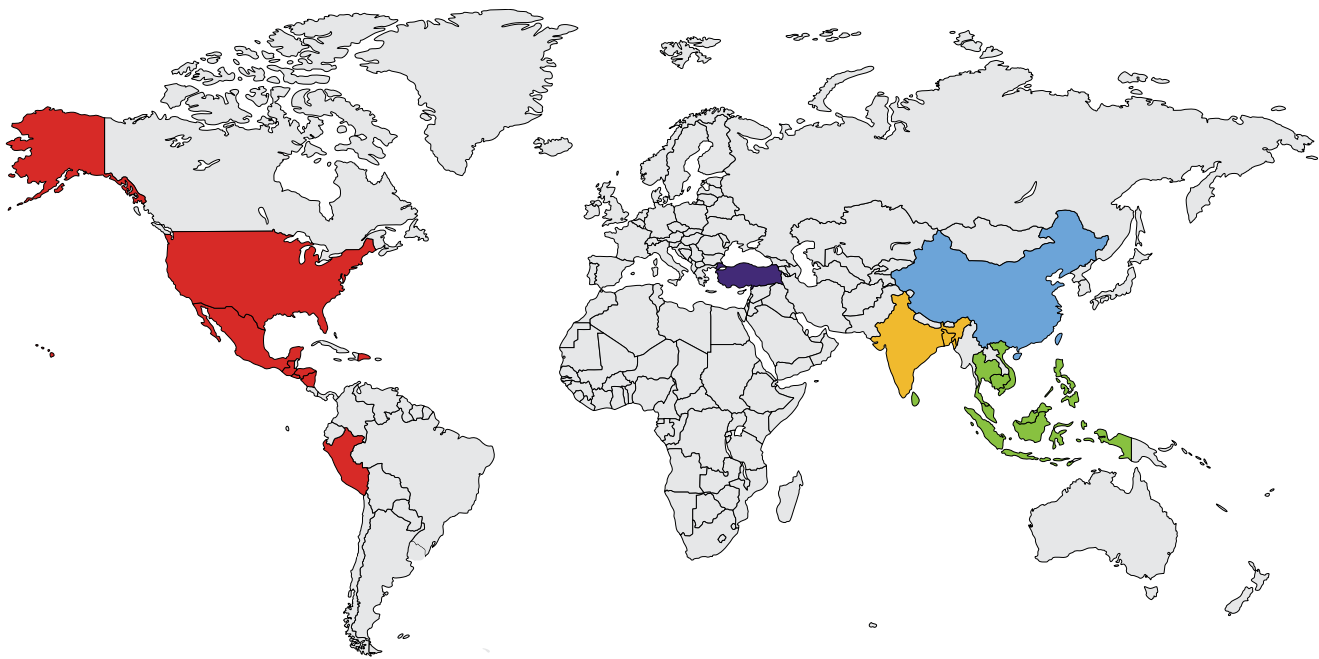
INDEPENDENT EXTERNAL MONITORING

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 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 from all inspections are available at www.fairlabor.org under Transparency.

In 2011, FLA-accredited monitors conducted 132 factory visits in 20 countries across five regions. Fifty-nine of these were first-time visits (IEM). FLA-accredited monitors also conducted 73 Independent External Verification (IEV) audits where a factory previously audited by FLA was revisited to assess remediation progress. Results of IEM and IEV audits are presented separately below.

Participating Companies accounted for the bulk of the monitoring in 2011 with 70 of 132 audits, followed by Category B Collegiate Licensees, which received 54 audits.* Additionally, FLA-accredited monitors conducted 10 audits of Participating Supplier Facilities.

2011 IEMS AND IEVS BY REGION



■ Americas (19 IEMS, 10 IEVS)

■ EMEA (6 IEMS, 4 IEVS)

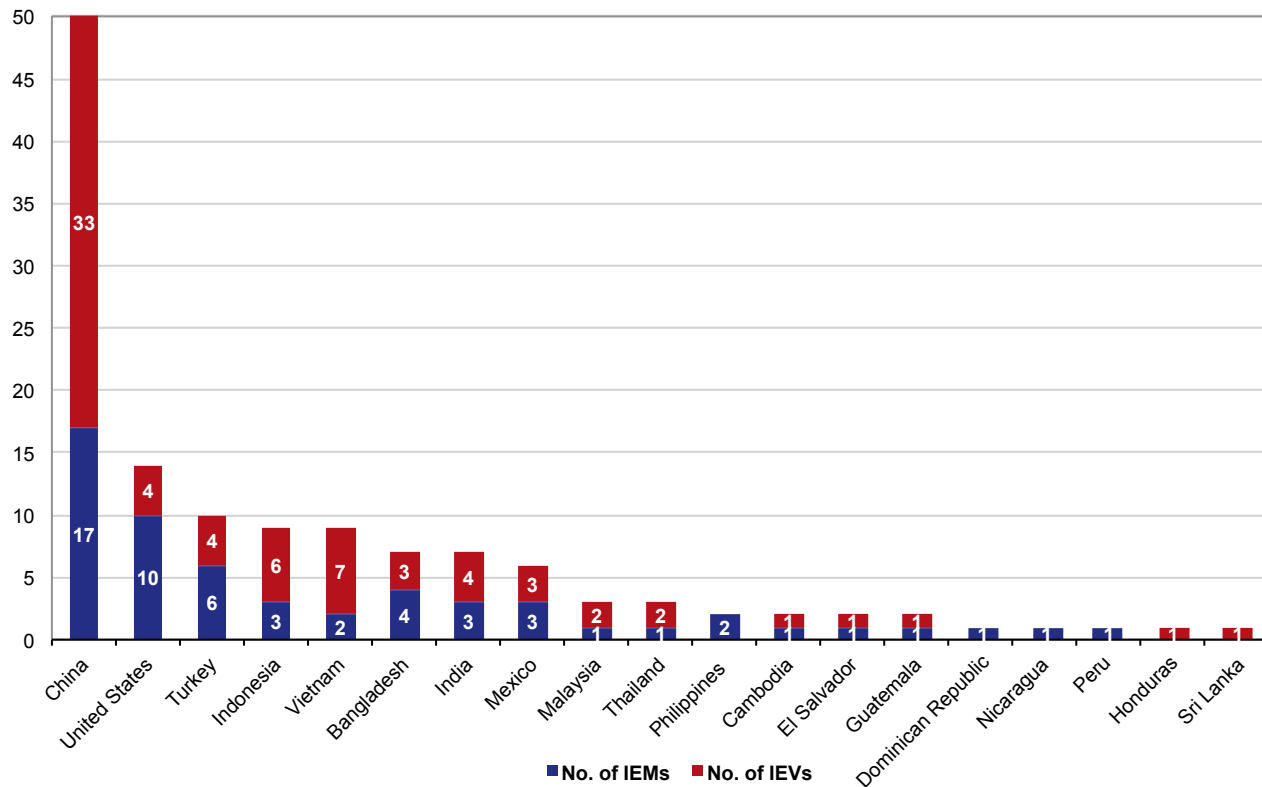
■ SE Asia (10 IEMS, 18 IEVS)

■ East Asia (17 IEMS, 33 IEVS)

■ South Asia (7 IEMS, 8 IEVS)

* Two of these audits were shared by a Participating Company and a Category B Licensee and were counted twice in the breakdown by affiliate category above.

2011 IEMS AND IEVS BY COUNTRY



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 chart on page 19 shows 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 2011. Noncompliances in factories were also high for Wages, Benefits and Overtime, Hours of Work, and Freedom of Association.

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

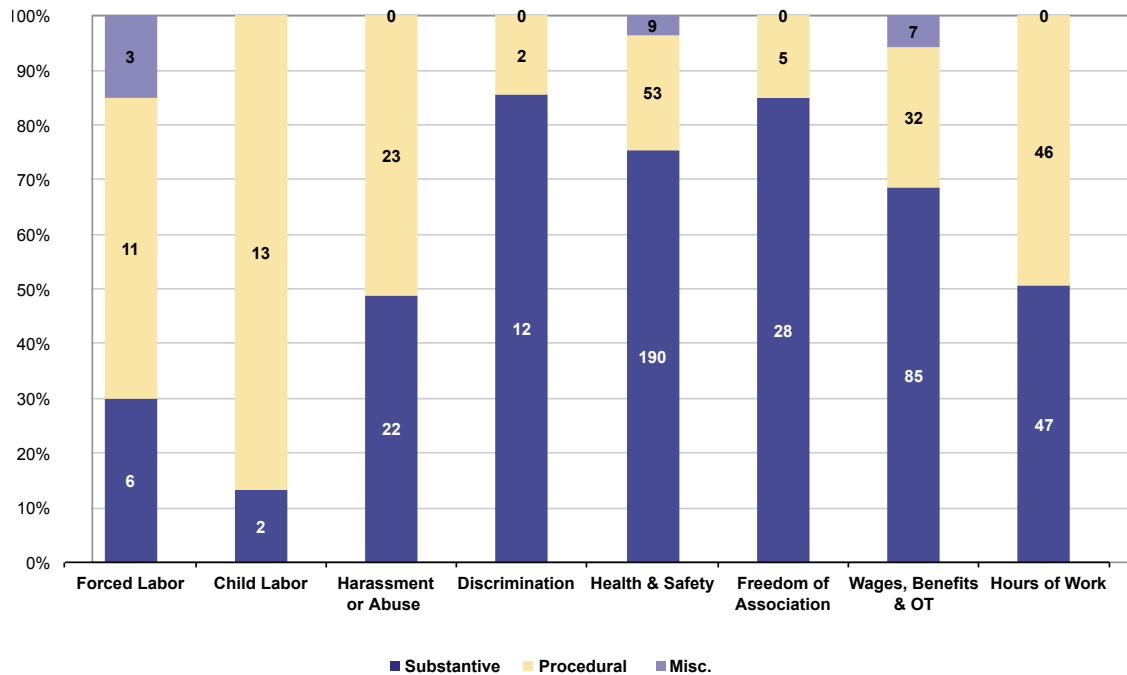
Substantive benchmarks are considered a direct violation of the rights and duties embodied in the FLA Workplace Code of Conduct.

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.

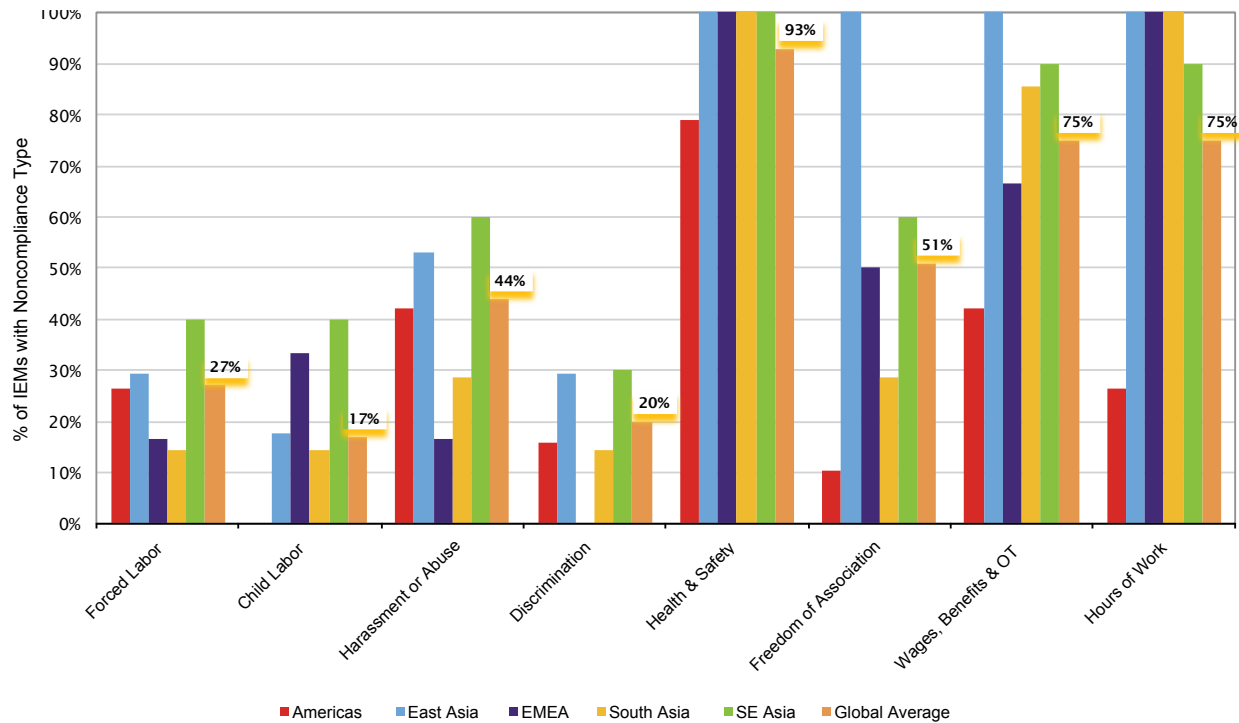
This distinction is important because, as indicated in the chart below, the vast majority of noncompliances with respect to the Child Labor Code element were of a procedural nature (87% in 2011) rather than a direct violation involving the employment of children. Procedural violations included, for example, not having an age verification system that meeting 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 authorities.

2011 PROCEDURAL VS. SUBSTANTIVE NONCOMPLIANCES



There were a total of 596 instances of noncompliance based on the benchmarks reported by accredited monitors in 2011. Overall 66% of these noncompliances were of a substantive nature.

2011 REGIONAL NON-COMPLIANCES IN COMPARISON



The 59 audits conducted across all five regions resulted in 596 findings of noncompliance, or roughly 10.6 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 55 out of 59 audits (93%), followed by one or more in 44 of the audits (75%) for Hours of Work and Wages, Benefits & Overtime.

The Americas: The 19 audits conducted in the Americas resulted in 116 findings of noncompliance, or roughly 6.1 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 17 out of 19 IEMs.

EMEA: The 6 audits conducted in the EMEA region resulted in 57 findings of noncompliance, or roughly 9.5 findings of noncompliance per inspection. At least one benchmark regarding the Hours of Work and Health & Safety elements was breached in each of the 6 audits conducted in the region.

East Asia: The 17 audits conducted in East Asia resulted in 202 findings of noncompliance, or roughly 11.9 findings of noncompliance per audit. For all 17 IEMs conducted in China, FLA-accredited monitors recorded a violation of a benchmark regarding the right to freedom of association.* Noncompliances were also high for Health & Safety, Hours of Work, and Wages, Benefits & Overtime, with at least one benchmark in each element breached in all 17 audits in this region.

South Asia: The 7 audits conducted in South Asia resulted in 75 findings of noncompliance, or roughly 10.7 findings of noncompliance per audit. In all of the 7 audits conducted in the region, FLA-accredited monitors recorded at least one violation of the benchmark regarding Health & Safety and Hours of Work. Noncompliances were also high for Wages, Benefits & Overtime with at least one benchmark of this code element breached in 6 of 7 inspections.

South East Asia: The 10 audits conducted in South Asia resulted in 146 findings of noncompliance, or roughly 14.6 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 10 audits. 9 out of 10 audits conducted in the region had at least one noncompliance with respect to the Hours of Work and Wages, Benefits & Overtime code elements. In 6 of 10 audits conducted in the region, there was a violation of a benchmark regarding the right to freedom of association.**

* 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

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 2011, in parallel with the transition to the SCI methodology, FLA put more emphasis on Independent External Verification (IEV) visits in order to assess the impact of corrective action plans for issues identified in IEMs conducted in previous years. To that end, FLA conducted 73 IEV visits in 15 countries across the globe. In our experience, a two- to three-year period should lapse between the development of a corrective action plan and verification in order to evaluate the impact of the more complex remediation plans. Verification reports are posted at www.fairlabor.org.

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. FLA targets cases for verification based on the severity of the issues that emerged from the inspections.

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.

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 problem. 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 (SCI) that we believe will significantly increase improvements at the factory level.

2011 IEVs by Country

COUNTRY	NUMBER
China	33
Vietnam	7
Indonesia	6
India	4
Turkey	4
USA	4
Mexico	3
Bangladesh	3
Malaysia	2
Thailand	2
Cambodia	1
El Salvador	1
Guatemala	1
Honduras	1
Sri Lanka	1
Total	73

2011 IEVs by Region

REGION	NUMBER	PERCENT
Americas	10	14%
East Asia	33	45%
EMEA	4	5%
South Asia	8	11%
Southeast Asia	18	25%
TOTAL	73	

2011 Verification Audit Results by Code Element

	COMPLETED VERIFIED	IMPROVED ONGOING	NO CHANGE	RISKS ADDRESSED	RISKS NOT ADDRESSED	TOTAL ORIGINAL	% SUCCESS RATE	NEW FINDINGS
Code Awareness	48	21	30	2	2	103	69%	7
Forced Labor	25	8	10	1	0	44	77%	10
Child Labor	27	3	12	1	0	43	72%	9
Harassment or Abuse	53	8	17	5	0	83	80%	17
Discrimination	21	5	6	3	0	35	83%	4
Health & Safety	246	114	84	7	1	452	81%	98
Freedom of Association	22	13	31	4	3	73	53%	13
Wages & Benefits	117	29	50	8	4	208	74%	60
Hours of Work	49	20	83	1	1	154	45%	39
Overtime Compensation	20	2	11	0	1	34	65%	4
Miscellaneous	7	3	3	1	3	17	65%	3
Total Verifications	635	226	337	33	15	1246	n/a	264
% By Status	51%	18%	27%	3%	1%	n/a	72%	n/a

Completed: The corrective action plan for noncompliances was fully implemented in a verifiable manner.

Improved: Progress was made on noncompliances but not all steps had been completed.

No Change: No progress was made on remediation.

Risks Addressed: Steps had been taken to address procedural issues that could lead to noncompliance.

Risks Not Addressed: Steps were not taken to address procedural issues that could lead to noncompliance.

% Success Rate: Completed plus improved remediation plus risks addressed.

In 2011, 51% of noncompliances were found to be fully remediated by FLA affiliates and their suppliers, and in 72% of the issues identified previously, monitors were able to verify full or partial remediation. The largest number of noncompliances monitors reviewed was in the Health & Safety area, reflective of the distribution of noncompliances for all inspections in general. Discrimination, Health & Safety, and Harassment or Abuse were the code elements with the highest success rate (80% or higher) in terms of remediation. Hours of Work and Freedom of Association, on the other hand, proved more challenging with full or partial remediation rate of 45% and 53%, respectively. Within 73 factories, 264 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 (37%), followed by Hours of Work (23%).

SCOPE WORKER PERCEPTION SURVEYS

SCOPE Worker Perception Surveys are designed to obtain quantitative information regarding workers' perspectives on specific compliance issues. Workers' views are gathered through a standardized survey, which involves responding to a questionnaire mainly composed of multiple

choice questions. The organization of the survey—i.e., group sizes, degree of tutor support for workers, etc.—is adapted to the factory's circumstances and to the literacy level of workers. Workers participate in the survey anonymously to safeguard against possible retaliation by management. Workers participating in the survey are chosen randomly and are a representative sample of the factory's workforce.

FLA has conducted numerous SCOPEs since 2007, which Participating Companies and suppliers have found to be highly useful in identifying gaps for capacity building.

In 2011, SCOPEs were integrated into FLA's standard monitoring program for the first time, with a total of 27 assessments carried out in 8 countries for 8 Participating Companies on the topics of Worker Participation and Grievance Procedure.* Each SCOPE has a Management Self-Assessment counterpart, which helps to compare and contrast the workers' perspective with that of the management to gain a fuller picture of factory dynamics.

SCOPEs examine the subject area from multiple dimensions, which are scored on a scale of 1 to 5. A score below 3 indicates substantive issues, a score between 3 and 4 indicates a somewhat satisfactory performance, and a score above 4 indicates good performance.

Worker Participation			
DIMENSION	AVERAGE SCORE	MAXIMUM SCORE	MINIMUM SCORE
Information	3.58	4.47	2.53
Consultation	3.27	4.3	1.63
Communication	3.23	4.29	2.54
Integration	3.37	4.51	2.04
Awareness	4.19	4.75	3.44

Overall, workers gave high scores to Awareness, indicating that they recognize the importance of worker integration into factory affairs. Scores for the other dimensions suggest that while on average the factories have in place policies and procedures to involve workers in factory decisions that impact their work, there is still ample room for improvement regarding worker participation.

* There were 14 SCOPEs in China; 4 in Vietnam; 3 in India; 2 in Guatemala; and 1 each in Bangladesh, Colombia, Dominican Republic, and Indonesia. All SCOPEs focused on Worker Participation, except for the 4 in Vietnam, which were on Grievance Procedure.

There is, of course, variance between the performance of different suppliers as reflected in the maximum and minimum scores on the table. For example, scores on Consultation ranged widely from 1.63 to 4.3, indicating significant differences between the suppliers in regards to this dimension of Worker Participation.

Grievance Procedure	
DIMENSION	SCORE
Policy & Procedure	4.32
Communication	4.42
Training	3.55
Implementation	2.22
Quality of the Responsible Personnel	4.13
Documentation	1.66
Integration	3.34
Awareness	3.95

Grievance Procedure survey results show that Implementation and Documentation received the lowest scores. This indicates that the factories need to (i) provide more grievance channels and/or better utilize the ones that already exist; and (ii) improve on documentation of the grievances raised so as to be able to identify systemic problems and gain workers' trust in the system.

SCOPE Worker Surveys, through the unique insights they provide into labor relations, will not only make the prevailing conditions more visible, but will also help improve them in a more sustainable way.

Detailed results of these Worker Perception Surveys as well as the Management Self-Assessments will be published at www.fairlabor.org/transparency.

Addressing Global Issues: Third Party Complaints & Investigations

As detailed in this report, FLA assessments uncovered hundreds of issues and led to lasting improvements for workers in 2011.

In addition to its standard monitoring activities, FLA also conducts independent investigations through the organization's Third Party Complaint process and empowers workers, union representatives, local NGOs, and others to call attention to pressing issues. This year, FLA investigated and reported on allegations of labor rights abuses at eight factories, from harassment and forced overtime in El Salvador, to violations of freedom of association in Turkey. Reports on these investigations are available at www.fairlabor.org/transparency/complaints-investigations.

HUEY CHUEN CO. LTD. IN CAMBODIA



When workers began fainting in Cambodia at Huey Chuen Co. Ltd. – which employed 3,400 workers producing footwear for PUMA – FLA commissioned an independent investigation at the brand's request. The investigation found a strong possibility that the fainting and illness reported by a large number of workers was due to the type of chemicals used in the factory. Assessors found that illness and fainting among workers might

also be attributable to exhaustion associated with excessive hours worked. They discovered a number of other health and safety risks, and issues related to wages, contracts and leave. PUMA worked with the factory to create a robust remediation plan and to limit working hours to 60 per week, including overtime. FLA will continue to monitor progress, and a verification visit is planned for 2012.

STYLE AVENUE IN EL SALVADOR



In 2011, the Institute for Global Labour & Human Rights released a report alleging harassment and forced overtime at Style Avenue in El Salvador. Outerstuff and College Kids – two licensees registered with FLA who were sourcing from the factory – commissioned FLA-accredited monitoring organization Grupo de Monitoreo Independiente de El Salvador to conduct an independent investigation. The investigation found the factory to be in violation of Code elements pertaining to freedom of association, harassment or abuse, and forced overtime. The licensees worked with the factory on a detailed remediation plan and quickly resolved some of the most pressing issues, such as imposing disciplinary actions against supervisors who verbally abused employees. Marta Zaldaña, director of the El Salvadoran trade union Federacion de Asociaciones y Sindicatos Independientes de El

Salvador, has been involved in remediation and is helping to create a union process at Style Avenue. According to Ms. Zaldaña, "FLA intervention at Style Avenue brought the brand, employers, workers and unions closer together. FLA served as an intermediary between the parties but kept a low profile during the dialogue, allowing the stakeholders who are directly involved to reach a balance and compromise."

INDUSTRIA TEXTIL CHOISHIN S.A. IN GUATEMALA



In 2011, FLA closed a Third Party Complaint regarding Industria Textil Choishin, which employed 667 workers when the factory shut down on July 18, 2008. The union Sindicato de Trabajadores de Industria Textil Choishin filed a Third Party Complaint with FLA to flag potential violations, including the illegal termination of employment contracts and nonpayment of severance. FLA commissioned an independent assessment, and Liz Claiborne, Inc., an FLA Participating Company, pressed the factory's owners to make payments of entitlements and severance to the former workers. Choishin management engaged in negotiations and settled workers' claims. FLA commissioned a second assessment to verify progress and confirm that all affected workers had received their entitlement and severance payments.

As part of FLA's ongoing effort to develop and strengthen its Third Party Complaint process, the Board of Directors established a working group in 2011 to examine the process and develop recommendations for making this essential human rights safeguard even more effective.

UNION HELPS TO MONITOR PROGRESS AT HANESBRAND SUPPLIER F&D IN EL SALVADOR

On May 5, 2011, FLA convened a meeting with leaders of the union Sindicato de la Industria Textil y Actividades Conexas y Similares (SITS) – the complainants in the third party complaint regarding F&D, S.A. de C.V. in El Salvador – to review Hanesbrands' proposed remediation plan and get feedback on progress. SITS reported substantial improvements in the workplace environment since the initiation of the FLA complaint process. They commended the Hanesbrands' prompt response to the complaint and indicated that they had seen immediate positive changes in the factory, including:

- Resolution to the issue of collective vacations
- Significant changes to medical leave
- Proactive measures taken by management to resolve workplace issues

SITS reported ongoing issues related to payment of overtime hours for new hires, and said that while there had been a notable decrease in anti-union harassment, some discriminatory treatment of union members was still present. SITS made a number of recommendations for further improvement, including increased efforts to eliminate anti-union behavior by management, in particular through training and education of management and supervisors on freedom of association. FLA supported the union's recommendations and will continue to track the factory's progress.



University & Licensee Program

This was another year of progress for the FLA university program. University affiliates require that the nearly 4,000 licensees manufacturing their collegiate products register with FLA and commit to internationally recognized labor standards.

In another step toward ensuring ethical and sustainable production of collegiate merchandise, university affiliates began using FLA's new technology platform to stay updated on their licensees' compliance status in FLA. FLA also launched an educational webinar series to help university affiliates understand and learn how to address some of the complex issues facing workers and licensees in global supply chains.

FLA provided universities with updates on assessments, third party complaints and investigations related to licensee facilities, and reported on remediation progress throughout the year. Several licensees registered with FLA were recognized for achievements in 2011, such as SustainU, a Category D Licensee, whose business model was spotlighted by the White House, and J. America, a Category C Licensee, which made a presentation on compliance best practices at an industry event.

FLA staff conducted trainings, headquarter visits and consultations to help licensees strengthen compliance programs and effectively meet university affiliates' requirements. School House, a Category C Licensee based in North Carolina, visited FLA headquarters to brief staff



Rachel Weeks (center), CEO & Founder of School House, a Category C Licensee based in North Carolina

on challenges and lessons learned in its work to provide a living wage for women at a factory in Sri Lanka.

This year, the Board of Directors voted to revise the definitions of FLA's licensee categories C and D, and also approved the creation of the new Category E. Fine artisans or photographers, and companies with total annual revenues below \$25,000 may now join FLA as Category E Licensees. The FLA Board's Licensee Categorization Review Working Group will discuss the Category B definition in 2012.

Learn more about FLA licensee categories at www.fairlabor.org/affiliates/collegiate-licensees.



Special Projects

FLA frequently collaborates with other organizations on special projects that advance its mission.

These projects allow for pilot testing of new tools and the development of creative strategies in unique, nontraditional sectors or in underserved communities. FLA is working on special projects from Vietnam to Kenya. These projects build on FLA's methodology and have one important thing in common: they crystallize innovative solutions for improving workers' lives.

COTTON PROJECT

A number of human, labor and environmental issues plague the cotton industry – from children being removed from school and forced to work during the cotton harvest, to workers being poisoned from pesticides used on the farms. Brands that are serious about protecting workers' rights must look beyond supplier factories and address issues at this level, too, if they can ever hope to develop a supply chain that truly respects the rights of workers. FLA launched its Cotton Project several years ago to help brands track the origins of cotton and map risks all the way down to the farm level.

The first phase of the FLA Cotton Project concluded at the end of 2010. In preparation for the second phase of this project, which will launch in 2012, FLA conducted a series of activities in 2011 to further develop the tools and resources available to brands and others striving to improve conditions for workers in this underserved sector.

In partnership with the Better Cotton Initiative (BCI), FLA conducted 13 independent external monitoring visits covering more than 300 cotton farms in India and Pakistan to evaluate working conditions in the production of cotton used by major clothing brands. These assessments informed the BCI decision-making process regarding licensee selection, and assisted BCI in rewarding farmers for producing “better cotton” – raw material meeting the principles and guidelines outlined by the Initiative. In addition to the farm visits, FLA conducted four capacity building workshops and trained more than 100 farmers in India and Pakistan. FLA and other BCI partners also worked closely with farmers to develop plans to sustainably manage their cotton farms.

FLA was asked to assist in conducting a benchmarking study of the BCI and Cotton Made in Africa (CMiA) initiatives, sponsored by DEG-Deutsche Investitions – und Entwicklungsgesellschaft, Germany. The study included a review of BCI and CMiA standards, and analysis of the structure and implementation of the organizational strategies. The project also included field visits to cotton farms in Zambia and Mali to verify implementation of the BCI and CMiA programs.

In October, FLA joined other labor and human rights groups, American trade unions, investors, brands and retailers in appealing to U.S. Secretary of State Hillary Clinton to raise with Uzbek President Islam Karimov the important issue of allowing a mission from the International Labour Organization (ILO) to inspect conditions in Uzbekistan cotton fields, where children are reportedly forced to work on cotton farms.

The second phase of FLA's Cotton Project will include monitoring of working conditions at different levels of the cotton supply chain, and assistance for FLA-affiliated companies in building their internal capacities to address risks and labor violations. Additional verification visits and trainings are planned for the BCI in 2012.

PRODUCT TRACEABILITY TOOL

Consumers have become more aware of how the products they buy are manufactured than they were even a decade ago. More than ever, they are demanding fair treatment of workers throughout the entire supply chain – from the farms where cotton is harvested to the village where that raw material may be dyed and processed, and finally to the facility where it is used to make a t-shirt.

Full traceability of a product and all of its components is a challenge that some companies would prefer not to address. But consumers, governments and civil society organizations like FLA believe that transparency and accountability throughout the entire product lifecycle is essential to developing more sustainable and reliable supply chains and ensuring that workers are treated fairly.

FLA has designed an online Product Tracking Tool to assist companies and suppliers in mapping their supply chains and tracing the origins of a product from the point at which the design is conceptualized and prototype development begins. Workers are vulnerable to risks well before the manufacturing of a product even commences, and this tool aims to alert companies to those risks at critical levels of the supply chain.

This year, FLA began working on a pilot program to further test the Product Tracking Tool with Primark, a European retailer. This project used the tool as a means to trace risks in the company's cotton supply chain for a product that was being manufactured in India. The tool maps upstream supply chains, identifies risks, and helps in the development of plans to manage violations of Code elements.

"This [FLA] pilot project, implemented over several months, helped us to understand on a practical level the challenges and complexities involved in mapping supply chains."

— Primark

Primark provided the following feedback on FLA's product traceability tool: *As Primark continues to build its ethical trading programme and activities, having increasing visibility and transparency down the supply chain is a key aim. In 2011, we worked with the Fair Labor Association to trace production of key garment supply chains in India down to the primary stage of raw cotton. This pilot project, implemented over several months, helped us to understand on a practical level the challenges and complexities involved in mapping supply chains.*

Key to the success of the project was the training and induction programme provided for our suppliers by FLA. This helped to create engagement, and initiated dialogue between the various stakeholders in the supply chain around potential blockages and how to address them. We found the tool itself to be user-friendly, which became more important the further down the supply chain we mapped. Attaining complete information was time-intensive, and often supply chain stakeholders needed to understand why this information was required, and how it would be used. There was also a lack of IT infrastructure and knowledge particularly at the lower levels of the supply chain. At this stage, on-the-ground support provided by FLA was vital in ensuring information was provided.

Our next steps are to look at how we can extend the pilot further and test it in other key sourcing countries, working closely with our buyers, and with support from FLA.

ASSESSMENT OF NESTLÉ'S HAZELNUT SUPPLY CHAIN



Common tent area provided for seasonal migrant workers.

In August 2011, the Fair Labor Association began working with Nestlé to evaluate labor and human rights issues in the hazelnut supply chain in Turkey. Although Nestlé was not an FLA Participating Company at the time, FLA agreed to the special project because our methodology and agriculture work had uniquely positioned us to be able to offer tools and strategies that could make a real difference in the lives of workers on hazelnut farms in Turkey. FLA commissioned a team of six experts to conduct an assessment of labor conditions in Turkey regarding the production, harvesting and transportation of hazelnuts. In collaboration with FLA staff, the assessors conducted research and gathered information through interviews and meetings with civil society organizations, workers, and other local stakeholders.

The assessment team visited a total of 26 farms from August 15 to 26, 2011. They conducted on-site and off-site interviews with nearly 400 workers involved in the hazelnut harvest, which include local workers, foreign migrant workers, family workers, growers, labor contractors, supervisors, and processors.

Assessors evaluated labor conditions based on internationally recognized standards, including the FLA Workplace Code of Conduct, conventions of the International Labour Organization (ILO), and Turkish law. A number of risks and noncompliances were found, including:

- The presence of illegal foreign workers;
- Lack of employment records;
- Compensation discrimination;
- Harassment;
- Under-age workers; and
- Lack of supply chain traceability.

Noncompliances and risks were found to result from several factors, including a lack of policies and procedures at the government level; cultural or local norms in the region; poor management practices within the supply chain; and a lack of engagement from international buyers. FLA made a number of recommendations to the Government of Turkey and to Nestlé and other international buyers. Nestlé developed a corrective action plan to address issues identified by FLA, which is available at www.fairlabor.org.

Nestlé announced its intention to join FLA as a Participating Company, which would make it the first food company to become an affiliate. A second special project – an independent assessment of the company’s cocoa supply chain in Ivory Coast – is scheduled for 2012.

GLOBAL FORUM FOR SUSTAINABLE SUPPLY CHAINS

In October, the Board of Directors approved the creation within FLA of the Global Forum for Sustainable Supply Chains, an institution intended to engage multiple stakeholders to address labor, human rights



and environmental issues in various industrial sectors or product categories that are not within the mainstream of FLA and where there are identifiable regulatory gaps. The Global Forum will provide research, advice and solutions especially for non-affiliated companies in other industrial sectors who seek the expertise and guidance of FLA based on the effectiveness of its methodology and tools.

The Global Forum will engage representatives across various sectors to provide a forum – a safe space – where stakeholders feel comfortable discussing contentious issues and sharing controversial views to reach agreement on possible solutions.

The Global Forum undertook its first project in the fall, convening experts on social profit and loss at the request of PPR HOME, PUMA’s parent company. This 1.5-day workshop brought together 22 participants from trade unions, the International Labour Organization (ILO), academia, representatives of other interested brands, and supply chain experts from Europe and China. A workshop on forced labor in Brazil is being jointly planned for 2012 with the National Pact for the Eradication of Slave Labour.



Migration & Modern-Day Slavery in Supply Chains

There are more than 214 million international migrants worldwide, the majority of whom move in order to find work and provide for their families.

In India, for example, an estimated 70-80 million people move within the country to work on a contract basis. An estimated 7.5 million Bangladeshis have left the country to find work. Labor protections for migrant men and women are notoriously weak. This means that millions of migrant workers face abysmal working conditions and some may become victims of trafficking.

In 2011, FLA commissioned research and brought together stakeholders to address threats posed to migrant workers across the globe. In October, the University of Notre Dame hosted an FLA stakeholder forum bringing together students, leading labor experts, advocates and representatives from major apparel brands to learn more about how migration and trafficking affect the manufacturing of clothing and other products. Speakers included representatives from the University of Notre Dame, Educators for Socially Responsible Apparel Business, H&M, the International Labour Organization, PVH Corp., and Manusher Jonno Foundation.

CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT

The 2010 California Transparency in Supply Chains Act - which took effect January 1, 2012 - requires manufacturers who do business in the state of California and have annual gross receipts of more than \$100 million to disclose their efforts, if any, to eradicate slavery and trafficking in their supply chain.

FROM THE FLA GUIDE TO THE CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT

In support of the California Transparency in Supply Chains Act, one modern-day slavery victim, Flor Molina, testified before California's legislature about her experience of being enslaved:

“We need to find a way to get to the root of the problem—the demand for all products tainted with slave labor. The companies who bought these garments could have stopped me and others from being slaves, if they had made an effort. If those big companies can show consumers they are doing things to make sure the company is not using slave labor in the making of their products, these companies can be the key to freedom for hundreds of thousands of enslaved people. If companies post what they do to stop slavery, people will understand that they can buy from these companies and that will help stop the demand for these products. All of us working together can end slavery forever. Let's make it happen.”

The Act is intended to build awareness among consumers and, in doing so, help strengthen protections for migrant workers. It also has a number of implications for many FLA affiliated companies. In anticipation of the Act's implementation, FLA published a detailed guide for affiliates to use as a tool to ensure they are in compliance and that adequate protections against human trafficking are in place throughout their supply chains. In addition, FLA hosted a panel discussion with a representative from the office of California State Senator Darrell Steinberg, who sponsored the bill in 2010.

SUMANGALI SCHEME

This year, FLA brought stakeholders together and marshaled resources to address the Sumangali Scheme in India. The scheme - a prevailing practice affecting young, unmarried women - promotes families sending away their daughters to work for three years in return for the promise of a lump sum wage, which typically is used to pay a dowry. This practice has been known to lead to forced labor, restricted freedom of movement, excessive overtime, health and safety risks, and a number of other violations of the FLA Code of Conduct in factories in India. The October Stakeholder Forum featured panelists and presentations offering insight and recommendations for addressing the Sumangali Scheme.

FLA also partnered with Solidaridad-South & South East Asia (Solidaridad) and commissioned a research study of the Sumangali Scheme in the Tamil Nadu textile and garment industry. The research was conducted over a period of six months, and involved interviews with key industry associations; interviews with representative samples of workers and their parents and relatives; and meetings with brands and retailers. The research findings describe highly exploitative working conditions in the textile mills, and provide a comprehensive understanding of the prevalence of the Sumangali Scheme within the industry. A report of the research study is expected in the spring of 2012.

UNDERSTANDING THE DANGERS OF THE SUMANGALI SCHEME IN INDIA

As part of the FLA-commissioned study, researchers from Solidaridad met with Neelavathi, whose 17-year-old daughter Kavitha died after working in a mill for nearly three years. Although Kavitha's death was caused by injuries sustained at the mill, her family did not receive the money they were owed. Villagers stormed the facility after Kavitha's death, but the gates were closed and the other girls working in the mill were dismissed. The girls have yet to receive compensation for their work, and management at the mill has repeatedly refused their calls.



Enhancing Social Protection in the Apparel and Footwear Industry in Central America

At an event in Washington, DC, in March, Omar Salazar Alvarado of the Asociación Servicios de Promoción Laboral (ASEPROLA), a Costa Rican civil society organization, presented research conducted for FLA on enhancing social protection in the apparel and footwear industry in Central America.

The study focused on Guatemala, El Salvador, Honduras, and Nicaragua – which saw an estimated 20% decrease in employment in the industry over the past three years caused by the financial crisis in the United States and an increased shift of apparel and footwear production to Asian countries. Mr. Salazar presented a number of proposals outlined in the report to strengthen worker protections in Central America, focusing on the role of the government, workers and social justice organizations in this effort.

Following Mr. Salazar's presentation, FLA convened a panel of experts to discuss the report and steps for moving forward. FLA Executive Director Jorge Perez-Lopez moderated the panel, which included Jennifer Bair of the Department of Sociology at the University of Colorado; Ana Aslan of the U.S. Department of Labor's Bureau of International Labor Affairs; Homero Fuentes of the Commission for the Verification of Corporate Codes of Conduct; and Veronica Alaimo of the Inter-American Development Bank.

FROM THE ASEPROLA REPORT

“The sudden closure of an enterprise, particularly when this is done without meeting its obligations to provide benefits, is a complex situation, given that generally maquilas do not have assets to seize. The structures where the maquila operates often is leased from the free zone corporations; machinery is leased from a third party; and the goods being produced (manufactured) do not generally belong to the maquila employer but rather to the company requesting the service, generally a subcontractor or a brand if it is a direct contract. Under these circumstances, there is little to seize to meet the benefits owed to affected workers, although, the law establishes that in the case of closure or bankruptcy, worker claims have payment priority.”



Analyzing and Improving Wage Standards and Compensation Practices

Despite the vital role that factory and farm workers play in the manufacturing of products from footwear to electronics, they often do not earn enough to support themselves or their families.

Many are unable to afford even the most basic necessities such as food and health care, which puts their lives in danger and may result in costly risks for suppliers and brands such as high turnover, low productivity, strikes, legal and Code noncompliance, and more.

The revised FLA Code of Conduct reflects even more stringent standards related to compensation, requiring workers' compensation for a regular work week to be sufficient to meet the worker's basic needs and provide some discretionary income. The Code goes further to define "basic needs" as "the minimum necessary for a worker and two dependents to have access to resources, including food, safe drinking water, clothing, shelter, energy, transportation, education, sanitation facilities and access to health care services."

In June, FLA hosted its third stakeholder forum on global wage issues. Held in Istanbul, the forum brought together experts and representatives from civil society organizations, universities and companies to discuss trends, solutions and current initiatives. Panelists and speakers at the forum included representatives from the International Labour Organization (ILO), the Turkish Textile Workers Trade Union (TEKSIF), H&M, Gibor Alfa, Knights Apparel, the Fair Wear Foundation, University of Northumbria, Jatiya Sramik League, the Bangladesh National Council of Textile

Garments and Leather Workers Federation, Women Working Worldwide, and the Alternative Movement for Resources and Freedom Society.

One troubling trend, presented by Daniel Vaughan-Whitehead of the ILO at the forum, is an increase in the number of "low-paid" workers—those who are paid less than two-thirds of the median wage in their country of employment. While recent rises in employment worldwide are encouraging, Vaughan-Whitehead cautioned that most of this growth is in the low-paid sector. The growth of low-paid employment is giving rise to several issues that have long-term social implications for workers across the globe, and the widening gap between low-paid workers and other workers will continue to result in growing global inequality. As low-paid jobs increase, more workers are unable to transition to higher paying jobs – meaning they live in poverty for longer periods of time or are never able to earn a living wage. In fact, 17.5 million people suffer from "in-work" poverty in the 27 member-states of the European Union.

This year, Vaughan-Whitehead led an extensive study by FLA and the Fair Wage Network across India, Bangladesh, Vietnam and China, to gather information about wage systems across countries and product types. The study was conducted among 200 managers and 5,000 workers in 35 factories manufacturing products from accessories to shoes and underwear. A briefing on the study is planned for 2012.

Join the Fair Labor Association in improving workers' lives worldwide.

To learn more about affiliating or getting
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