FAIR LABOR ASSOCIATION

2006 Annual Public Report

January 1 - December 31, 2005

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DEDICATION

The Fair Labor Association community was saddened by the untimely death of Executive Director Rutledge Tufts in May 2006. Rut made enormous contributions to the Fair Labor Association at two stages of its evolution: at the very beginning of the organization, when he helped create a role for colleges and universities, and more recently through the steady leadership he provided as Executive Director.

The Association is a much stronger and more effective organization because of Rut's dedication to it and to the goals that mattered so deeply to him: ensuring fair treatment for workers, protecting their rights, and improving conditions in factories around the world. We dedicate this 2006 Annual Public Report to Rut and convey our deepest sympathy to his family.

FOREWORD

I am convinced that globalization as we know it today is not sustainable in the long run, for the simple reason that market rationality has never been a sufficient basis for social solidarity and human community. We know that from the historical experience of the industrialized countries, and we are beginning to learn it from the experience of the developing countries and the transition economies in the world today.

We have seen previous eras of globalization collapse. Markets erode traditional standards and relationships much quicker than they give rise to new ones. If a society does not move fast enough to put in place new forms of human community as markets erode the existing ones, gaps are created. Dislocations result and tensions emerge that often breed undesirable measures of social protection, such as protectionism, anti-immigration policies, or even extreme forms of nationalism, xenophobia, and anti-modernism. However much they differed, national socialism, fascism in Italy, and the Communist revolution in their own ways all sought to assert social control over market relations that were seen to be out of control.

Capitalism was saved in the West by the New Deal, Keynes, and by Social Democracy, which figured out ways of reconciling markets and community, embedding market forces in shared values and institutions. However, they also assumed that markets were essentially national in scope. And as markets have become global, the relevance of those traditional forms of reconciling markets and human community has eroded. The challenge before us is to figure out ways of doing, at the global level, what we learned painfully—after two world wars and a great depression—at the national level in the West: to reconcile and to embed market forces and shared principles, shared values, institutional forms, and processes.

Human Rights, at the global level, must be a core element of the solution. At the national level, we were able to draw on our shared identity as citizens of individual nations in constructing the grand social bargains represented by the New Deal, social democracy, the social market economy. The provision of social safety nets to the most vulnerable was seen as an extension of the concept of citizenship into the economic and social realms.

But what do we do at the global level? The world is highly divided. There is no nation, no concept of citizenship, to draw upon beyond the level of states in building stronger social bonds. Yet what we do share is our common humanity. And for more than a half century, that core idea has become progressively refined and elaborated in the growing edifice of human rights instruments, discourse and practice, universally endorsed by governments even if sometimes honored only in the breach. Thus, human rights have a central role in the sustainability of globalization. And I think that if we can get it right it is worth trying to sustain globalization because, at the end of the day, it has the potential to do enormous good and, in fact, in many ways it already has done so, despite the challenges and problems created in its wake.

The role of Corporate Social Responsibility similarly is intended to reconcile global markets with the core values of human dignity and social justice, in the workplace and beyond. It is what you strive for in the Fair Labor Association, as described in this 2006 FLA Annual Public Report. You may not talk much about the social pillars of sustainable globalization when you're down there in the trenches, but when you succeed in your work it is also a victory for that larger historic project.

John Ruggie

U.N. Special Representative for Business and Human Rights and
Harvard University

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PRESIDENT'S MESSAGE

In today's global economy, making the workplace fair for all workers is increasingly challenging. In striving to meet this goal, the Fair Labor Association has continued to strengthen its standards, expand its reach, and launch new initiatives aimed at addressing unfair labor practices at their core. This report highlights our recent accomplishments and lays out the path ahead as we work toward our ultimate objective of ending sweatshop labor worldwide.

In 2005, the Fair Labor Association stepped up its code implementation and monitoring program by placing Regional Coordinators in South Asia, South East Asia, East Asia, and the Americas. The presence of these Coordinators and their cooperation with local stakeholders proved vital to the independent monitoring process. Last year, FLA independent monitors conducted 140 unannounced inspections at 99 factories in 18 countries.

We know that auditing labor violations alone is not enough to protect workers rights over the long term. That's why the Fair Labor Association goes beyond auditing, working with company and factory managers to find real solutions to the issues we uncover. Last year, our accredited monitors reported close to 1,600 violations of the Code of Conduct among member companies. In every case, Fair Labor Association affiliated companies addressed these infringements with management and developed steps to remedy them. Tens of thousands of workers benefited as a result.

Now, an innovative Fair Labor Association program will further step up our efforts to get at the root causes of code violations. FLA 3.0 is the first monitoring program that seeks to create sustainable compliance by working with local stakeholders to identify and address problems through capacity building. FLA 3.0 is currently being piloted in the Sustainable Compliance Project and the Soccer Project. We plan to mainstream this effort in the coming year.

The Fair Labor Association and its constituents are working together to fight sweatshop labor across the globe. By bringing together companies, universities and civil society organizations we are able to create synergies that allow us to make sustainable improvements to working conditions. I am proud of our accomplishments of the past year and our efforts to make a difference in the lives of workers and I look forward to your support for this work in the year ahead.

Sincerely,

Auret van Heerden

President and CEO
Fair Labor Association

EXECUTIVE SUMMARY

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

The 2006 Annual Public Report is the fourth such report published by the FLA. It provides the public with an impartial, in-depth view into the actions of 35 companies during 2005 to improve working conditions in over 3,700 factories around the world where they sourced production. The 2006 Annual Public Report, together with the FLA Tracking Charts—which are detailed reports from FLA unannounced monitoring visits to FLA company supplier factories—provide macro- and micro-level views of companies' labor compliance activities and represent the most comprehensive body of independent reporting published to date on companies' efforts to promote adherence to international labor standards. By reading about a company's labor compliance program and perusing its factory monitoring reports, concerned consumers or shareholders can gain valuable perspective into a company's approach to improving factory conditions.

As did last year's report, the FLA 2006 Annual Public Report covers a wide range of companies—large and small, with domestic and foreign suppliers, sourcing goods ranging from apparel and footwear to class rings and imprinted logoed checks. It strives to report on their activities in an objective and consistent manner.

The 2006 Annual Public Report includes:

- Foreword by John Ruggie, U.N. Special Representative for Business and Human Rights and Harvard University
- Message from Auret van Heerden, President and CEO of the FLA
- Updated progress reports on companies' labor compliance programs for
    - 17 Participating Companies
    - 18 Category B University Licensees
- Overview of the FLA's findings from its independent external monitoring (IEM) visits to companies' supplier factories around the world
- Case study of a Third Party Complaint submitted to the FLA during 2005
- Highlights of FLA special projects
- Feature article on early trade impacts of the expiration of the MFA and challenges related to production shifts and retrenchment faced by FLA companies

Please access the FLA's website, http://www.fairlabor.org/2006report to read the entire 2006 Annual Public Report. Detailed reports on FLA's independent external monitoring visits on a factory-by-factory basis, called FLA tracking charts, can be found at http://www.fairlabor.org/all/transparency/reports.html. Tracking charts will be posted as the corrective actions plans are finalized.

HIGHLIGHTS OF MAIN SECTIONS

Compliance Programs of FLA-Affiliated Companies

The 2006 Annual Public Report provides detailed reports on the efforts of 35 companies during 2005 to improve the working conditions of factories where they produce around the world. FLA-affiliated companies agree to adopt the FLA Workplace Code of Conduct, which is based on the core labor standards of the International Labor Organization (ILO), in the manufacture of their products as a condition for participating in the FLA. Participation in the FLA also requires companies to establish an internal compliance programs throughout their supply chains. This includes internal monitoring and remediation of instances of noncompliance, and various activities to ensure that the Code is implemented.

In the 2006 Annual Public Report, individual company reports are arranged in two categories, Participating Companies and Category B University Licensees. The structure for each category differs slightly, reflecting differences in FLA requirements.

Each report provides:

- An overview of each company—its size, applicable brands, the number and location of facilities, and monitoring visits;
- A description of the staff and program responsible for promoting FLA Standards; and
- Developments in the program focusing on the company's particular approach to labor compliance and, in some cases, developments in the program since the previous FLA Annual Public Report.

Participating Companies commit to implement the FLA Code of Conduct in factories throughout their supply chains. The 17 companies in this category included in the report are apparel and footwear companies or retailers with their own-label apparel. They ranged in size from major publicly traded multinational companies to small, private companies. Approximately half of the participating companies included in this report are FLA university licensees, sometimes referred to as Category A University Licensees. The Participating Companies included in this report are:

adidas AG
Asics Corporation
Eddie Bauer
Gear for Sports, Inc.
Gildan Activewear, Inc.
Liz Claiborne, Inc.
Mountain Equipment Co-Op
New Era Cap Company, Inc.
NIKE, Inc.
Nordstrom, Inc.
Outdoor Cap Company, Inc.
Patagonia
Phillips-Van Heusen Corporation
PUMA AG
Reebok International Ltd.
Top of the World
Zephyr Graph-X

Category B Licensees commit to implement the FLA Code of Conduct in the factories where they produce licensed goods for FLA College or University affiliates. The 18 companies in this category included in the report produce a range of collegiate products ranging from apparel to paper products to commemorative jewelry. The Category B Licensees included in the report are:

Ampad Pad and Paper, LLC
A.T. CROSS Company
Columbia Sportswear Company
Commemorative Brands, Inc.
Jostens, Inc.
MBI, Inc.
MeadWestvaco Consumer & Office Products
MJ Soffe Company

Cutter & Buck, Inc.	Oxford Industries
Deluxe Corporation	Ping, Inc.
Drew Pearson Marketing, Inc.	Russell Corporation
John H. Harland Company	Twins Enterprise, Inc.
Herff Jones, Inc.	VF Corporation

FLA Independent External Monitoring

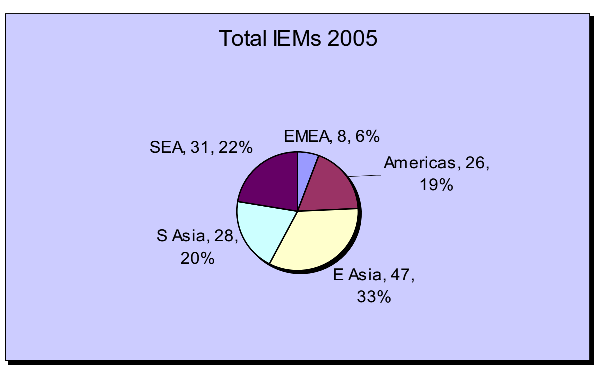
Participating Companies and Category B Licensees reported 3,753 factories as applicable facilities in 2005; these factories employed an estimated 2.9 million workers. With regard to regional distribution, 1,381 or 37% of the applicable facilities used by FLA affiliated companies in 2005 were located in East Asia, followed by 760 or 20% in South Asia, 683 or 18% in the Americas, 601 or 16% in Europe, the Middle East, and Africa (EMEA), and 328 or 9% in South Asia.

In 2005, the FLA conducted unannounced independent external monitoring (IEM) visits to 99 facilities worldwide. Thirty-four of those factory visits were conducted in factories where two or more FLA companies—Participating Companies (PC) or Category B Licensees—were sourcing. In some instances, three FLA brands (Participating Companies or Category B Licensees) sourced from the same factory. Taking into consideration the sharing of factories, the number of IEM events rises to 140. FLA uses independent external monitoring (IEM) to assess company compliance with FLA obligations. FLA accredits the monitors and selected them for each IEM; FLA does not give companies or factories advance notice of the time or the monitoring visits.

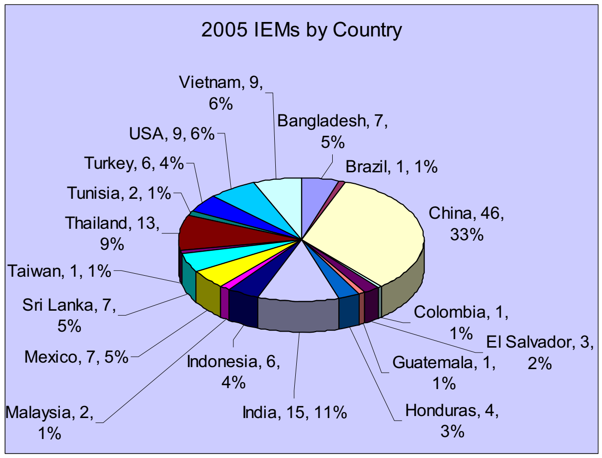
2005 IEM and Supply Chain Facts

Factory Visits	99
IEMs including shared facilities	140
Number of factories (2005 factory list)	3,753
Estimated number of workers (2005 factory list) (thousands)	2,922
Average number of workers per factory	779
Estimated number of workers in factories that received IEMs	77,088

The 2005 IEMs were distributed across 18 countries, with the largest number occurring in East Asia (47 or 33%), followed by South East Asia (31 or 22%), South Asia (28 or 20%), the Americas (26 or 19%), and Europe, the Middle East, and Africa (EMEA) (8 or 6%).

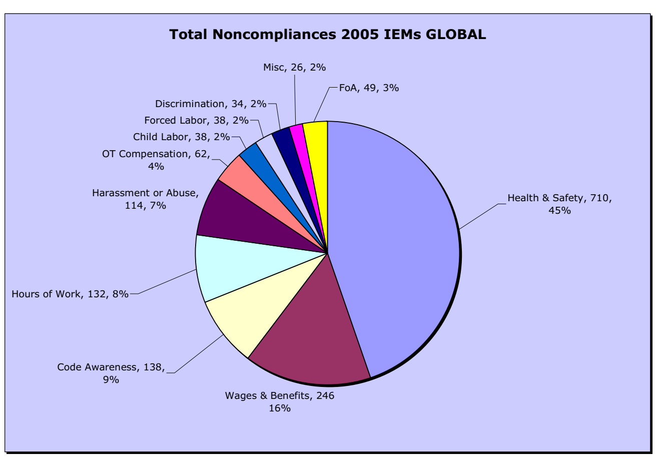


The distribution of the 2005 IEMs by country is given in the chart below. The number of 2006 IEMs by country is as follows: China, 46 (33%); India, 15 (11%); Thailand, 13 (9%); United States and Vietnam, 9 (6%); Bangladesh, Mexico, and Sri Lanka, 7 (5%); Turkey and Indonesia, 6 (4%); Honduras, 4 (3%); El Salvador, 3 (2%); Malaysia and Tunisia, 2 (1%); and Brazil, Colombia, Guatemala, and Taiwan, 1 (1%).



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

The 2006 Annual Public Report examines the results of the 99 IEM visits that were conducted in 2005. Overall, 1,587 noncompliance issues were observed by monitors and reported to the FLA. By far the largest number of reported noncompliances referred to the Health and Safety code element (710 noncompliances or 45%); followed by Wages and Benefits, Hours of Work, and Overtime Compensation combined (440 or 28%); Code Awareness (138 or 9%); Harassment or Abuse (114 or 7%); Freedom of Association (49 or 3%); Forced Labor (38 or 2%); Child Labor (38 or 2%); Discrimination (34 or 2%); and Miscellaneous (26 or 2%). It is important to note that noncompliance with a benchmark associated with a Code Element may reflect a technical violation regarding a labor compliance process rather than a substantive violation of a labor standard.



The 1,587 noncompliances translate into about 16.0 instances of noncompliance per factory subject to an IEM, and compares with 18.2 instances of noncompliances per IEM in 2004 and 15.1 instances of noncompliance in 2003. The reader is cautioned not to interpret increases or declines in the average number of noncompliances per IEM over time as indicating a deterioration or an improvement in working conditions in the supply chain subject to IEMs because they can be affected by an number of factors, among them changes in the quality of monitors used by the FLA, the degree of familiarity of monitors with the audit instrument, and the level of experience of monitors with FLA monitoring requirements.

Third Party Complaints

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

The 2006 Annual Public Report provides a case study of a third party complaint brought before the FLA and processed in 2005. The case study illustrates the challenges of protecting worker rights and ensuring Code compliance around the world and the possibilities for multi-stakeholder solutions. The third party complaint in question involved MSP Sportswear, a NIKE Contract Factory in Thailand, and related to the right of freedom of association.

Special Projects

Special projects allow the FLA to test new concepts, tackle persistent noncompliances in particular regions that have proven difficult to remediate on a factory-by-factory basis, and strengthen collaboration with like-minded multi-stakeholder initiatives. Special projects described in the 2005 Annual Public Report are (1) the Sustainable Compliance Project; (2) the Soccer Project; (3) the Central America Project; and (4) the Joint Initiative on Corporate Accountability and Worker Rights (Jo-In).

After the MFA: Early Trade Results and Challenges from Production Shifts

A special chapter in the 2006 Annual Report analyzes existing information about the impact of the end of the MFA and outlines FLA initiatives to address the potential impact of production shifts on workers.

Statistics on U.S. and EU-25 textiles and apparel imports for 2005—the first year after the expiration of the Multi-Fibre Arrangement (MFA) and its system of quotas—suggest that while overall U.S. and EU-25 imports grew modestly, there were significant shifts in the geographic composition of imports, with those from some countries (primarily China and India) making substantial gains in the U.S. and EU-25 markets, while others remained flat or actually declined. The chapter argues that these trends are likely to intensify in the future as temporary negotiated restraints on Chinese apparel exports come to an end, creating the potential for reductions in production and employment in other textiles and apparel producing countries.

The chapter also discusses FLA initiatives over the last few years to address the potential adverse impact on workers of shifts in production. The dislocations in production and employment that have already occurred, and those that are anticipated, will raise challenges for FLA-affiliated companies that may operate in factories that suddenly reduce employment or even shut down as a result of production shifts. In particular, it discusses the issue of retrenchment and FLA guidance for affiliated companies operating in a post-MFA environment.

FEATURE ARTICLE

AFTER THE MFA: EARLY TRADE RESULTS AND CHALLENGES FROM PRODUCTION SHIFTS

By Jorge Perez-Lopez

More than 18 months have elapsed since the worldwide system of quotas on textile and apparel trade under the Multi-Fibre Arrangement (MFA) came to an end. In the lead up to the expiration of the MFA, much interest was focused on the likely impact of the elimination of the quotas on worldwide textiles and apparel production and trade,[1] on the textiles and apparel industries of industrial and of selected developing countries,[2] and on employment and global labor standards.[3]

Statistical information is not available, and will not be available for some time, to assess fully the impact of the end of the MFA on world textiles and apparel production and trade. Moreover, a full assessment of the impact of the elimination of quotas on other dimensions will also require the application of sophisticated methodologies capable of disaggregating the many factors that are simultaneously at play.

Recently, textiles and apparel import statistics for 2005 have become available for the United States and for the 25-member European Union (EU-25), two countries or regions that (1) maintained quotas under the MFA until the very expiration of the agreement;[4] and (2) are the world's largest textiles and apparel importing countries or regions, each accounting for about 25% of total textiles and apparel imports. Based on these statistics, it is possible to have an early look at trade and production of textiles and apparel after the MFA and to identify some of emerging trends.

The objective of the Chapter is to analyze existing information about the impact of the end of the MFA and to outline FLA initiatives over the last few years to address the potential impact of workers. The first part examines information about post-MFA trade flows and discusses future trends. It does this by reviewing statistics on U.S. and EU-25 textiles and apparel imports in 2005. These statistics suggest that while overall U.S. and EU-25 imports grew modestly, there were significant shifts in the geographic composition of imports, with those from some countries or groups of countries making substantial gains in the U.S. and EU-25 markets, while others remained flat or actually declined. For reasons that are discussed in the Chapter, these trends are likely to intensify in the future, creating the potential for reductions in production and employment in many textiles and apparel producing countries. The dislocations in production and employment that have already occurred, and those that are anticipated, will raise challenges for FLA-affiliated companies that may operate in factories that suddenly reduce employment or even shut down as a result of production shifts. The second part of the Chapter focuses on FLA activities, namely involvement with the MFA Forum and work with companies to address the challenges presented by the end of quotas. In particular, it discusses the issue of retrenchment and presents guidance for FLA-affiliated companies operating in a post-MFA environment.

EARLY CHANGES IN IMPORT FLOWS

The system of country-by-country quotas on trade in textiles and apparel associated with the MFA resulted in a pattern of specialization where countries with strong comparative advantage for textiles and apparel, such as China and India, faced binding quotas on their exports to developed country markets, while countries without such comparative advantage faced liberal (non-binding) quotas or no quotas at all and attracted investments that boosted their textiles and apparel production and exports.[5] Thus, over the four decades that it was in effect in one form or another, the MFA distorted textiles and apparel production and trade flows, dispersing textiles and apparel production for export throughout all corners of the world.

Although the MFA was intended to be a temporary arrangement, allowing participants to derogate from basic rules of the international trading system for a fixed period of time so as to promote "orderly development of trade," neither importing nor exporting countries used the period to adjust. When the MFA ended at the close of 2004, importing and exporting countries were unprepared for the new era of quota-free trade in textiles and apparel. This gave rise to the doomsday scenarios predicted by some analysts. Have the severe changes in trade, production, and employment patterns anticipated by some experts materialized?

In July 2006, the World Trade Organization (WTO) published the latest of its annual reports on trade policy issues.[6] Among other topics, the report contained a preliminary analysis of merchandise trade developments in 2005, and in particular a discussion of developments in textiles and apparel trade since the expiration of the MFA on December 31, 2004. The WTO based its discussion on import statistics for 2005 from the United States and for the first ten months of 2005 (January through October) for the twenty-five-member European Union (EU-25). Since at the time that the MFA expired the United States and the EU were the two major import markets maintaining quotas, elimination of these quota regimes were expected to have the most significant impact on shaping post-MFA global trade flows. This section of the Chapter is based on the aforementioned WTO report.

U.S. Imports

As shown in Table 1, U.S. imports of textiles and apparel in 2005 amounted to $102.6 billion. The top ten suppliers (countries or regions) of textiles and apparel products to the U.S. market in 2005 were China ($27.2 billion or 26.5%), the CAFTA countries as a group[7] ($9.6 billion or 9.4%), East Asia[8] ($9.4 billion or 9.2%), Mexico ($8.1 billion or 7.9%), the EU-25 ($5.8 billion or 5.7%), India ($5.4 billion or 5.3%), Canada ($3.5 billion or 3.4%), Indonesia ($3.4 billion or 3.3%), Pakistan ($3.2 billion or 3.1%), and Vietnam ($3.0 billion or 2.9%). Taken together, these top ten countries or regions supplied $78.6 billion or 76.6% of total U.S. imports of textiles and apparel in 2005.

Table 1: U.S. Imports of Textiles and Apparel, by Country and Region, 2005

Country or region	**Value of Imports (billion US dollars)**	**% Change 2005/2004**
China	27.2	43
CAFTA[1]	9.6	-4
East Asia[2]	9.4	-17
Mexico	8.1	-6
EU (25)	5.8	-3
India	5.4	25
Canada	3.5	-6
Indonesia	3.4	18
Pakistan	3.2	13
Vietnam	3.0	5
Thailand	2.7	-1
Bangladesh	2.7	18
Philippines	2.0	0
Sri Lanka	1.8	6
Cambodia	1.8	19
Turkey	1.7	-9
Sub-Saharan Africa	1.5	-17
Malaysia	1.4	1
Jordan	1.1	13
Peru	0.9	18
World	102.6	6

[1] Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.
[2] Hong Kong, Korea, Macao, Taiwan.

Source: World Trade Organization, *World Trade Report 2006* (Geneva: World Trade Organization, July 2006), p. 14, based on statistics of the U.S. Department of Commerce and Bureau of the Census.

While the growth of U.S. imports of textiles and apparel in 2005 (6%) was similar to the growth rate in 2004—and therefore the case could be made that the expiration of the MFA did not affect significantly the *overall level* of U.S. textiles and apparel imports—there was an important shift among *principal suppliers* to the U.S. market. Growth rates into the U.S. market for the countries or regions listed in Table 1 ranged from an increase of 43% for China to a decrease of 17% for Sub-Saharan Africa and East Asia. In addition to China, supplying countries and regions that increased exports to the U.S. in 2005 included India (25%), Cambodia (19%), Bangladesh, Indonesia, and Peru (18%), and Pakistan and Jordan (13%). Other countries or regions that saw reductions in their exports to the U.S. market in 2005 included Turkey (-9%), Mexico and Canada (-6%), CAFTA (-4%), and the EU (-3%).

EU-25 Imports

The pattern of EU-25 imports of textiles and apparel in 2005[9] was very similar to that of the United States (see Table 2). The top 10 suppliers (countries or regions) of textiles and apparel to the EU-25 in 2005 were China ($24.2 billion or 31.1%), Turkey ($11.5 billion or 14.8%), India ($5.9 billion or 7.6%), Romania ($4.2 billion or 5.4%), Bangladesh ($3.8 billion or 4.9%), East Asia[10] ($3.5 billion or , Tunisia ($2.8 billion or 3.6%), Morocco ($2.5 billion or 3.2%), Pakistan ($2.3 billion or 3.0%), and Indonesia ($1.7 billion or 2.2%). As a group, the 10 suppliers accounted for 80.2% of the EU-25's imports of textiles and apparel in 2005.

Table 2: European Union (25) Imports of Textiles and Clothing, by Country and Region, Jan-Oct 2005

Country or region	**Value of Imports (billion US dollars)**	**% Change 2005/2004**
China	24.2	44
Turkey	11.5	6
India	5.9	19
Romania	4.2	-4
Bangladesh	3.8	-6
East Asia[1]	3.5	-28
Tunisia	2.8	-3
Morocco	2.5	-6
Pakistan	2.3	-10
Indonesia	1.7	-13
Switzerland	1.5	-6
Bulgaria	1.3	4
U.S.	1.3	7
Thailand	1.3	-9
Sub-Saharan Africa	1.0	-11
Sri Lanka	0.9	-2
Vietnam	0.8	1
World (excl. intra-EU trade)	77.8	7

[1] Hong Kong, Korea, Macao, Taiwan.

Source: World Trade Organization, *World Trade Report 2006* (Geneva: World Trade Organization, July 2006), p. 15, based on statistics from Eurostat.

EU-25's growth of imports of textiles and apparel in 2005 was 7%, lower than the growth rate in 2004. As in the case of the United States, there were significant shifts among principal suppliers, with imports from China growing by 44%, from India by 19%, from the United States by 7%, and from Turkey by 6%. At the other extreme, imports from East Asia declined by 28%, from Indonesia by 13%, from Sub-Saharan Africa by 11%, and from Pakistan by 10%.

To sum up, the elimination of quotas by the United States and the EU-25 resulted in modest increases in the overall level of imports in both markets (6% and 7%, respectively). Meanwhile, there were significant shifts among suppliers, with China and India being the largest beneficiaries in both markets, and countries within East Asia and Sub-Saharan Africa being the most adversely affected. Imports from Cambodia, Bangladesh, Indonesia, and Peru also increased significantly in the U.S. market, while those from CAFTA (the Central American nations) and from the NAFTA partners (Canada and Mexico) declined. Countries or regions that gained in the EU-25 market also included Turkey, the United States, Bulgaria, and Vietnam, while Indonesia, Pakistan, Thailand, Bangladesh, and Switzerland saw reductions in imports.

Implications for the Future

It was widely anticipated in earlier analyses that China and India, whose exports to the United States and to the EU-25 were subject to binding quotas under the MFA, would be the main beneficiaries of the elimination of the restraints; data for 2005 in Tables 1 and 2 suggest that this was the case. It was also predicted by analysts that increased imports from China and India would displace those from higher-income South East Asian countries and from the Americas; data for 2005 suggest that this was also the case. The performance of other countries (e.g., Cambodia and Jordan in the U.S. market, South Asian countries in the EU-25 market) may be the result of country-specific factors.

Can it be assumed that the trade patterns in 2005 reflect the full pass through of changes associated with the elimination of MFA quotas? Most likely, the answer is in the negative.

Exports from China to the United States and to the EU-25 of textiles and apparel categories that had been subject to binding quotas skyrocketed in early 2005. Both the United States and the EU-25 reacted by launching procedures to reimpose temporary restraints on Chinese imports pursuant to special safeguards negotiated as part of China's accession to the WTO.[11] The mere consideration by the United States Government and by the Commission of the European Community of new unilateral restrictions on Chinese exports probably had a chilling effect and prompted risk averse U.S, and EU-25 importers to diversity sources of supply in order not to "put all eggs in China's basket."

To eliminate the uncertainty in the marketplace created by the possibility of multiple safeguard actions (see Table 3), in June 2005 the Chinese Government signed a Memorandum of Understanding (MOU) with the European Union limiting the growth of Chinese exports to the EU-25 of ten categories of exports during 2005-2007. A similar MOU was signed between the Governments of China and of the United States on November 8, 2005, covering 21 categories of exports through 2008.

Because of the threat of unilateral import restraints by the United States and the EU-25 early in the year, followed by China's agreement to impose export restraints, it can be argued that the full impact of the elimination of all MFA quotas on China's exports of textiles and apparel products was not felt in 2005, and will not be felt until China's self-restraint agreements with the EU and with the United States lapse at the end of 2007 and 2008, respectively.

Table 3: Chronology of Selected Actions in 2005 Affecting China's Textiles and Apparel Trade with the United States and the European Union

March 21	U.S. Government announces initiation of a system to provide trade statistics on textiles and apparel on an expedited basis. These data could be used to file cases for market disruption associated with imports from China.
April 4	U.S. Government self-initiates investigations regarding market disruption with regard to three categories of imports from China: cotton knit shirts and blouses; cotton trousers; and cotton and man-made fiber underwear.
April 29	European Commission starts investigation on market disruption with respect to nine categories of Chinese textiles and apparel imports.
May 5	U.S. Government resumes consideration of twelve requests for safeguard action against imports of Chinese apparel based on the threat of market disruption.
May 13	U.S. Government imposes restraints on three categories of imports from China: cotton knit shirts and blouses; cotton trousers; and cotton and man-made fiber underwear.
May 18	U.S. Government imposes limits on imports from China of men's and boys' cotton and man-made fiber shirts, not knit; man-made fiber trousers; man-made fiber knit shirts and blouses; and combed cotton yarn.
May 20	China's Ministry of Commerce announces an increase in export taxes for 74 textile and apparel categories effective June 1, 2005.
June 10	The European Commission and China enter into an agreement that limits the growth of Chinese exports for ten apparel categories through 2007. Negotiated growth rates for most products range from 10% to 12.5%.
August 1	U.S. Government accepts for review a request for reapplication of a safeguard action limiting imports of Chinese socks and four other requests regarding women's and girls' woven shirts and blouses, skirts, nightwear, and swimwear.
November 8	The United States and China reach a broad agreement on textile trade. The agreement lasts through 2008 and restricts growth rates on more than 30 individual products.

Sources: World Trade Organization, *World Trade Report 2006* (Geneva: World Trade Organization, July 2006), pp. 18-19 and press releases of the U. S. Department of Commerce and of the Office of the U.S. Trade Representative.

CHALLENGES FROM PRODUCTION SHIFTS

The FLA has been concerned about the challenges posed by end of the MFA, in particular the potential for governments to lower labor standards to remain competitive and for workers in certain countries to lose their jobs as a result of production shifts. At its October 2004 meeting, the FLA Board of Directors adopted a "Resolution on the Elimination of Apparel Quotas" that stated:

> Having discussed the implications of the elimination of quotas; and
>
> Noting with concern the attempts by some governments to remain competitive by deregulating and lowering labor standards, the FLA Board:
>
> Urges FLA Companies to adopt guidelines to ensure they fulfill their commitment to manage shifts in sourcing in a manner consistent with the FLA Charter, Code and national law; and

> Encourage all Companies to support the work of the MFA Alliance and other multi-stakeholder initiatives addressing the consequences of quota elimination.[12]

The Board instructed that the FLA continue to participate in ongoing dialogues concerning the expiry of the MFA and to support efforts to address the social and economic impacts of the expiry. It was also noted that the FLA was developing guidelines for companies and universities so as to enhance their ability to protect workers who may be affected by changes associated with the end of the MFA.

The FLA has been an active participant in the MFA Forum since that multi-stakeholder initiative was established in early 2004 in response to growing anticipation throughout the garment and textile industry that the phase-out of quotas would lead to major changes in the sourcing of garments, and potentially negative consequences for countries that had come to rely on garments exports. The MFA Forum was created to explore how the combined competencies of different actors could guide the transition of the textiles and apparel sector to a post-MFA world. The concern was that failure to responsibly manage the transition would carry several possible dangers or threats: (1) a potentially negative impact on workers, communities, and local and national economies; (2) the perceived culpability of business, as well as other institutions, in not preventing this negative impact, and the impact on their reputation; and (3) the further erosion of trust in the broader agenda of development through trade.

In early 2005, the MFA Forum published "A Collaborative Framework for Guiding Post-MFA Actions"[13] setting out the principles of working with all stakeholders to address challenges in the global textiles and apparel industry and the key roles and responsibilities of various actors. In May 2005, the FLA Board of Directors adopted the following resolution:

> The Fair Labor Association commends the work of the MFA Forum and agrees that its January 2005 Collaborative Framework document offers valuable guidelines for FLA Participating Companies and stakeholders to consider as they address MFA impacts.

Excerpts of the Collaborative Framework addressing the role of Clothing Manufacturers and of Clothing Buyers are given in Box 1.

Box 1: The MFA Forum's Collaborative Framework[14]

Role of Clothing Manufacturers

- Provide decent work through respect for national law and international labor standards and work with their suppliers and/or contractors to the same end.
- Upgrade technology, management, and skills of workers in order to remain responsibly competitive.
- Increase influence of the supply chain on the design and marketing of products by, for example, building up a degree of independence.
- Improve factory standards and working and employment conditions in order to improve quality, and to meet buyers' policies and working conditions and national labor laws, and to respect labor standards.
- Lobby and work with government, trade unions, and NGOs to develop national industrial and social policies that support real and responsible competitiveness.
- Promote workers' access to job banks and retraining programs if they are retrenched.
- Ensure workers are paid their rights in retrenchment according to the law.
- Pay legally required social security/pension payments and ensure that they are up to date.

Role of Clothing Buyers

- Know their supply chain in order to source responsibly. For example, if sourcing is via a buying agent and/or multinational supplier, a company needs to know which countries and suppliers are receiving orders.
- Where feasible, maintain current country supply base and contain consolidation in-country. If exiting a country, this should be done in a manner that respects international labor standards and national labor law, and enables and encourages suppliers to do the same, for example giving adequate note for ending supplier relationships, and working with suppliers to monitor adherence with national laws regarding retrenchment of workers or closing down of a facility so that workers are compensated in line with national law.
- Work with suppliers and governments to help develop a mechanism to prioritize the promotion of opportunities for employment for displaced workers in the remaining and/or new textiles and garment factories.
- Seek to source from countries that respect core labor standards, and work with the public institutions, suppliers, trade unions, and NGOs to maintain decent working conditions in current supply chains.
- Source only from suppliers who provide decent work, thus meeting buyer codes, national and international standards, or who are willing to work with buyers, trade unions, and NGOs to meet these standards.
- Continually develop process improvements so that purchasing practices are aligned with labor standards compliance. Undertake to be transparent in this work, disclosing supply chain information that facilitates accountability to external stakeholders.
- Offer technical assistance to their suppliers to increase productivity, technology, design, marketing, and workers with management skills and training.
- Lobby and support national governments to reduce corruption and bureaucratic red tape.
- Support government efforts in retraining and job banks for workers – both within the industry and for retrenched workers.
- Monitor supplier adherence to payment of legally required social security/pensions payments.
- Collaborate with national governments to pursue trade benefits and build capacity around labor standards and other measures of competitiveness and development.

Retrenchment Guidance for FLA Companies

Retrenchment, also referred to as redundancy, downsizing, or closure based on operational requirements, occurs when the employer has bona fide economic, technological, structural, or similar reasons to reduce the size of the workforce:

- Economic reasons derive from the financial status of the enterprise and can include external factors such as shifts in trade patterns and major changes in market conditions.
- Technological reasons stem from the introduction of new technology which makes existing jobs redundant or necessitates a restructuring of the work place.
- Structural reasons refer to a restructuring of the enterprise for legitimate business reasons resulting in redundancies.

In 2005, the FLA started development of guidelines for FLA companies to deal with retrenchment in their supply chains, and presented them to the FLA Monitoring Committee. In February 2006, the FLA made available to its constituents a document titled *Retrenchment: Guidance for FLA-Affiliated Companies*. The document provides guidance for FLA-affiliated companies whose suppliers or facilities may be involved in retrenchment and closures for operational reasons. Particularly in the post-MFA environment, at a time when the textiles and apparel industries of many countries are in turmoil and tensions run high because of the fear of unemployment, observance by factories that supply FLA-affiliated companies of the guidance provided in the document would ensure that they operate in a manner consistent with international labor standards, domestic law, and the practices of company leaders in the labor compliance field.

The FLA *Guidance* document recommends that the relationship in factories be governed by a set of written policies and procedures backed by the necessary training, communication, and appropriate controls. This means that factories should have in place a written policy on equality of opportunity and treatment and written procedures to implement those policies. Factories should have specific policies and procedures to guide any retrenchment process. The obligations of employers to employees in retrenchment situations are:

- Provide sufficient documentation showing that redundancy was the real reason for retrenchment.
- While retrenchment is being considered, not initiate any recruitment or hiring of personnel to work in the company in the same category or position as the workers who are being retrenched.
- If and when it is possible to hire new workers, offer the jobs first to workers terminated in the same or similar categories.
- Follow procedures that are open and fair to workers, including: (1) providing written notice at the earliest possible opportunity to workers who may be affected; (2) consulting with workers or their representatives before a final decision to dismiss is taken; (3) ensuring that all possible alternatives to retrenchment are explored and workers are treated fairly; (4) ensuring that workers to be retrenched are selected objectively; and (5) allowing workers who are going to be retrenched time off during the notice period to seek another job.
- Ensure that severance pay and other benefits are paid according to law.

The criteria that are generally accepted as fair in retrenchment situations include length of service, skills and qualifications, and implementation of policies of affirmative action. Criteria that infringe on international labor standards or a company's Code of Conduct are considered unfair and cannot be used to select employees for retrenchment. Examples of unfair selection criteria include union membership or activity; race, sex, age, color, political opinion or affiliation, national or social origin, or religion; pregnancy; HIV positive status; contractual status; or any other discriminatory ground addressed by national legislation or company Code of Conduct.

Consultations with workers or their representatives *prior* to effecting a retrenchment are highly recommended. They should commence as soon as it is clear that a reduction of the workforce is likely. The employer should consider in good faith all proposals put forward by workers or their representatives and disclose information relevant to the retrenchment. Time off to seek work during the consultation period should be taken into consideration. Employers should also consider other means to facilitate the transition of terminated workers such as training or micro credits. The consultations should cover at least the following themes: (1) the criteria for selection and the fair application of those criteria in the selection of workers to be dismissed; and (2) the payment of severance pay.

Specifically, the *Guidance* document counseled FLA-affiliated companies to ensure that factories they own or from which they source have a written policy on equality of opportunity and treatment generally, and on retrenchment specifically. Where high risk for retrenchment is present, they should ensure that factories comply with domestic law with respect to contributions to unemployment insurance funds or any other programs designed to assist workers at the time of loss of employment;[15] and that they have the financial capacity to meet severance payments. FLA-affiliated companies should also maintain a dialogue with local stakeholders to keep abreast of local conditions and assess potential retrenchment plans of factories from which they source.

When the decision of an FLA-affiliated company may create a shift in sourcing that could contribute to factory downsizing or closure, the *Guidance* document sets out that the FLA-affiliated company should: (1) as far as possible, provide sufficient notice to factories so that they can give notice to workers and prepare any final settlement in accordance with domestic law; (2) if at all possible, phase out as slowly as possible in order to allow the factory to ensure that any retrenchment or closure meets domestic law regulations on retrenchment and severance; and (3) if a business relationship continues with the parent company or the factory after the withdrawal of orders, ensure that all pending compliance issues, such as retrenchment and severance, are resolved.

Discussion of the Retrenchment Guidance

The FLA invited Professor M. Halton Cheadle, Professor of Law at the University of Cape Town, and Member of the ILO Committee of Experts on the Application of Conventions and Recommendations, to address the February 2006 meeting of its Monitoring Committee on the topic of retrenchment, particularly employer responsibilities and best practices in dealing with retrenchment.

The FLA document *Retrenchment: Guidance for FLA-Affiliated Companies*, Professor Cheadle confirmed, is aligned with international law on the subject. Jurisprudence in this area includes (1) voluntary multinational codes (the OECD Guidelines,[16] the ILO Tripartite Declaration);[17] (2) ILO Convention 158;[18] and (3) EU Directives.[19] The best practices reflected in a 1995 ILO General Survey on termination of employment[20] are also reflected in the FLA document.

With regard to best practices on retrenchment, he identified the following:

- Early notification of any retrenchment;
- Consultation before decision made to close department/factory;
- Disclosure of information prior to and during consultations;
- Mitigate adverse effects through the use of benefits, severance pay;
- Objective selection criteria for termination—dismissals cannot be arbitrary (there should be a valid reason) and must not be used to get rid of union members or target any group of workers. Criteria must be fair and objective.

FLA companies would be well advised to demand that their suppliers have a written policy on retrenchment before an incident of retrenchment might happen and that workers are informed about it. Retrenchment policy is normally part of terms and conditions of employment. The worst possible time to develop (or negotiate) retrenchment rules is when a reduction in the workforce is imminent. Development of retrenchment rules is manageable before a closure occurs but unmanageable once the termination of jobs begins. If the policy exists beforehand, the issue becomes one of application and auditing of a policy already in place to ensure that it was implemented fairly.

In high risk situations, FLA companies may want to (1) conduct outreach to governments to ensure that social payments are being made; (2) ensure that factories have written retrenchment rules; and (3) ensure that retrenchment rules have been distributed to workers and human resources staff are knowledgeable about them. Professor Cheadle reiterated the importance of having retrenchment criteria that are objective:

- Dismissal should not be arbitrary; there should be valid reason for terminating employees based on operational requirements.
- Selection criteria should be related to operational needs and not extraneous, i.e., discrimination based on race, age, gender.
- Criteria should be operationally linked. Seniority is often a criterion, but its use may discriminate against women (who have less tenure or have lower educational levels).

CONCLUDING REMARKS

The expiration of the system of quotas governing world trade in textiles and apparel under the MFA was expected to bring about significant changes in world production and trade patterns. Trade statistics for 2005 suggest that the elimination of quotas by the United States and the EU-25 did not result in a flooding of their markets by imports. Rather, they suggest that there was a significant shift among principal suppliers, with China and India the largest beneficiaries in both markets, and countries comprising East Asia and Sub-Saharan Africa being the most adversely affected. Imports from Cambodia, Bangladesh, Indonesia, and Peru also increased significantly in the U.S. market, while those from CAFTA (the Central American nations) and from the NAFTA partners (Canada and Mexico) declined. Countries or regions that gained in the EU-25 market also included Turkey, the United States, Bulgaria, and Vietnam, while Indonesia, Pakistan, Thailand, Bangladesh, and Switzerland saw reductions in imports. Arguably, the full effect of the expiry of the MFA has not been felt yet, and it is likely that the realignment of world textiles and apparel trade and production favoring China, India, and other producers at the expense of less competitive producers will intensify in the future.

In the post-MFA environment, shifts of production, plant closures, and retrenchment are likely to increase in frequency and severity as textiles and apparel production moves across countries based on their competitive attributes. Simulations of the phase-out of MFA quotas using a general equilibrium model of the world economy suggest that the countries or regions that would have significant loss of apparel market share in the U.S. market would be Mexico, the rest of the Americas, the Philippines, Indonesia, and Bangladesh, while in the EU-25 market they would be Africa, the United States/Canada, Turkey, Central and Eastern European countries, and higher income Asian countries such as Korea and Taiwan.[21] Because these results are driven by changes in relative prices associated with quota elimination and they do not take into consideration transportation costs, time of delivery, and technological innovations (development of new products, identification of competitive niches, upward shifts in the value chain), they may overstate the risk of dislocation in some countries or regions.

The further shifts in production associated with the end of the MFA that are likely to occur will raise challenges for FLA-affiliated companies. It will require that they pay close attention to the policies and practices of contract factories to ensure that workers receive as much advance warning as possible regarding retrenchment and are paid the benefits that they are due according to national law, including being more vigilant with regard to the financial ability of contract factories to pay retrenchment costs. These anticipated shifts may also call for the exploration, in a multi-stakeholder setting, of the creation of a financial or other mechanism to cover all or part of the severance pay of retrenched workers.

END NOTES

[1] See, for example, Hildegunn Kyvik Nordäs, *The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing*, Discussion Paper No. 5 (Geneva: World Trade Organization, 2004).

[2] Among others, U.S. International Trade Commission, *Textiles and Apparel: Assessment of the Competitiveness of Certain Suppliers to the U.S. Market*, Publication 3671 (Washington, 2004); Oxfam, *Stitched Up: How Rich-Country Protectionism in Textiles and Clothing Trade Prevents Poverty Alleviation* (London, 2004); AccountAbility International for the MFA Forum, *Mapping the End of the MFA* (London, 2005); Ashe Haté et al., *The Expiration of the Multi-Fiber Arrangement: An Analysis of the Consequences for South Asia*, Robert M. La Follette School of Public Affairs, University of Wisconsin-Madison (Spring 2005).

[3] See, for example, "Labour Rights, Trade Agreements and the MFA Phase Out," *MSN Codes Memo*, no. 15 (September 2003); Neil Kearney, "What Future for Textile and Clothing Trade After 2005?," *ITGLWF Background* (2003); International Labour Organization, *Promoting Fair Globalization in Textiles and Clothing in a Post-*MFA Environment (Geneva, 2005); Auret van Heerden and Dorothée Baumann, "The Expiration of the Multi-Fibre Agreement (MFA) and Its Consequences for Global Labor Standards," *Fair Labor Association's 2005 Annual Public Report* (Washington, 2005); International Confederation of Free Trade Unions, *Stitched Up!: How Those Imposing Unfair Competition in the Textiles and Clothing Industries are the Only Winners in this Race to the Bottom* (Brussels: ICFTU, December 2005).

[4] Technically speaking, it was the Agreement on Textiles and Clothing (ATC) that expired on December 31, 2004. The ATC was a transitory instrument intended to phase out the MFA, but it is often also considered as part of the MFA. Under the ATC, four countries or regions (Canada, the EU, Norway, and the United States) maintained quotas; by the time of the expiration of the ATC, Norway had already eliminated its quotas and therefore only Canada, the United States, and the EU had MFA quotas in place.

[5] Nordäs, *The Global Textile and Clothing Industry*, p. 34.

[6] World Trade Organization, *World Trade Report 2006* (Geneva: World Trade Organization, July 2006),

especially pp. 13-19.

[7] Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

[8] Hong Kong, Korea, Macao, Taiwan.

[9] The trade statistics for the EU-25 refer only to January-October 2005.

[10] Hong Kong, Korea, Macao, Taiwan.

[11] Paragraph 242 of the China's accession protocol to the WTO permitted a WTO member country who believed that its market for a textile or apparel product was being disrupted and China was playing a role in that disruption to request consultations with the Government of China with a view to ease or avoid such market disruption. Upon receipt of the request, China's exports in the subject category were capped at 7.5% growth. This special safeguard was only available through the end of 2008.

[12] http://www.fairlabor.org/all/news/docs/MFA_resolution.pdf.

[13] http://www.accountability.org.uk/uploadstore/cms/docs/Collaborative.pdf

[14] Source: Extracted from MFA Forum, "A Collaborative Framework for Guiding Post-MFA Actions," (March 2005), pp. 5-7.

[15] The FLA amended its Audit Instrument for 2006 directing accredited monitors to investigate whether factories had in fact made social security and insurance payments to the appropriate authorities.

[16] OECD Guidelines for Multinational Enterprises, http://www.oecd.org.

[17] ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, http://www.ilo.org/public/english/employment/multi/download/english.pdf.

[18] C158, Termination of Employment Convention, 1982, http://www.ilo.org/ilolex/english/convdisp2.htm. The Convention has been ratified by 34 countries.

[19] Among others, Council Directive 98/59/EC, of July 20, 1988, on the approximation of laws of the Member States relating to collective redundancies, and Council Directive 80/987/EC, of October 20, 1980, on the approximation of the laws of the Member States relating to the protection of employees in the event of the insolvency of their employers, http://europa.eu/scadplus/leg/en/s02306.htm.

[20] See General Survey 1995, Protection against Unjustified Dismissal, http://www.ilo.org/ilolex/english/surveyq.htm.

[21] Nordäs, *The Global Textile and Clothing Industry*, pp. 26-31.

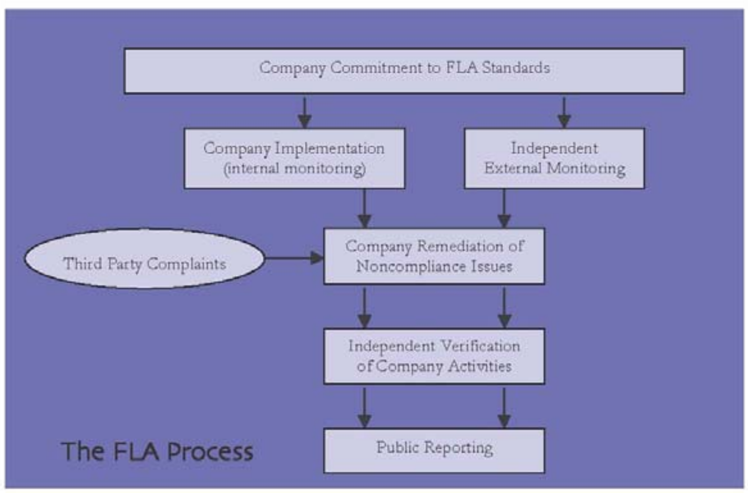
THE FLA PROGRAM

The Fair Labor Association combines the efforts of participating companies, collegiate licensees, universities, and consumer, labor, and human rights groups to promote adherence to international labor standards and improve working conditions worldwide. The FLA works to increase and sustain factory compliance through its Workplace Code of Conduct, which is based on the core labor standards of the International Labor Organization (ILO).

There are four essential components to FLA's work: the Code Implementation and Monitoring Program, Public Reporting, the Third Party Complaint system, and Special Projects. Each program relies on a diverse staff to perform due diligence and communicate the progress of their activities to constituents.

Code Implementation and Monitoring Program (CIMP)

Since the FLA's formation in 1999, its monitoring program has evolved in accord with the experiences gained and lessons learned through code implementation and verification around the world. The FLA has strengthened its processes by making all independent monitoring unannounced and transparent, by providing more specific terms of reference and guidance to its monitors, and by developing new approaches that include root-cause analysis and capacity building. The FLA is now in the process of transitioning to a new system of assessment and remediation called FLA 3.0 that involves more shared and collective action and more stakeholder involvement.



Commitment to FLA Standards

CIMP is the gateway for companies to make a formal commitment to the FLA's standards and system. Companies agree to adopt the FLA Workplace Code of Conduct in the manufacture of their products as a condition for participating in the FLA. Participating Companies undertake this commitment with respect to all applicable facilities, while collegiate licensees commit to do the same with respect to facilities that produce or manufacture products under license from a college or university that participates in the FLA. This marks the first step. The "continuous-improvement approach" of the FLA program then requires companies to put principle into practice.

Monitoring and Verification

Participation in the FLA also requires companies to establish an internal compliance program throughout their supply chains. This includes internal monitoring and remediation of instances of noncompliance, and various activities to ensure that the Code is implemented. The FLA staff conducts onsite visits to company headquarters and field offices to evaluate a company's progress in establishing systems to uphold its FLA commitments.

The FLA uses independent external monitoring (IEM) to verify companies' compliance with their obligations. The FLA selects independent external monitors, accredited by the FLA, to perform unannounced inspection visits of companies' supplier factories around the world. The FLA does not give companies or factories advance notice of the time or location of these monitoring visits.

Remediation and Follow-up

When an IEM visit uncovers Code noncompliance, the FLA process requires companies to work with their suppliers to develop a remediation plan within 60 days, at which point the company must report the correction of the issue back to the FLA. The FLA then evaluates the company's remediation plan, advises it on necessary actions, collects evidence, and, when deemed necessary by FLA staff, conducts a follow-up visit to verify that the company has taken the necessary steps to remediate the noncompliance issue.

When a company joins the FLA, it commits to establishing a workplace standards program that complies with FLA requirements, and chooses either a two– or three-year period in which to do so. The FLA carries out an in-depth evaluation of the company's performance at the end of the designated period. If the FLA determines that a company's compliance program has substantially fulfilled these requirements, the program receives FLA accreditation. Accredited programs are reviewed for re-accreditation every two years.

Public Reporting

The FLA publishes both an Annual Public Report such as this one that describes FLA companies' compliance efforts, and tracking charts that contain detailed information about the IEM findings from each monitored factory, its remediation plan, and the status of actions called for in the plan. The Annual Public Report and the tracking charts can be found on the FLA website.

Third Party Complaints

The FLA has a third party complaint mechanism that provides an additional reporting channel and a further check on systematic monitoring efforts. Any person or group that uncovers instances of noncompliance in a company's supplier facility can file a third-party complaint with the FLA. A summary of a third party complaint processed in 2005 is included in this report.

Special Projects

The FLA has developed a number of special projects to help address systemic noncompliance issues that have proven particularly difficult to remediate on a factory-by-factory basis. The projects seek to involve a wide range of interested parties in testing and innovating new strategies to improve Code compliance. The Special Projects described in this report include a project to develop approaches to sustainable compliance by addressing the root causes of common compliance issues through capacity building and a pilot project implementing that methodology in a limited number of factories engaged in the production of soccer products; a project addressing discrimination, harassment and abuse, and freedom of association in Central America's maquila sector; and a collaborative project that brings together six multi-stakeholder initiatives to maximize the effectiveness and impact of the implementation and enforcement of codes of conduct.

THIRD PARTY COMPLAINTS

Through the Third Party Complaint mechanism, any person, organization, or company can confidentially report to the FLA a situation of persistent or serious noncompliance with the FLA Workplace Code of Conduct in a production facility used by any FLA-affiliated company. The process focuses on corrective action to address noncompliance and ensure conditions that are fair and decent.

A Third Party Complaint is a resource of last resort when serious or persistent noncompliance occurs in a factory. The complaint mechanism uses a four-step process to address complaints lodged with the FLA:

1. When the FLA receives a complaint, staff first checks whether the factory in question produces for an FLA-affiliated company. If the complaint does concern a factory supplying FLA brands, FLA then evaluates if the complaint contains specific, verifiable evidence of noncompliance and whether to accept the complaint.

2. If the FLA accepts the complaint, the process moves to Step Two, during which time the company or brands using the factory have 45 days to conduct an internal assessment of the alleged noncompliance.

3. In Step Three, the FLA conducts further investigation into the situation in the factory, sometimes with the help of an outside, impartial assessor or ombudsperson.

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

In 2005, FLA received eight Third Party Complaints from individuals and organizations. Six of these complaints were lodged by individuals working in the United States. While none of the complainants worked in facilities producing goods for FLA-affiliated companies and therefore were out of the scope of the Third Party Complaint mechanism, the FLA was able to refer them to the appropriate state and federal resources to help them address their workplace concerns.

The other two complaints were at (1) a NIKE contract factory in Thailand, MSP Sportswear; and (2) a contract factory in El Salvador where adidas, NIKE, Russell Corporation, and Majestic Athletic had been involved. The final report of the case regarding MSP Sportswear in Thailand reveals how the Third Party Complaint mechanism can assist workers achieve gains in workplace conditions—in this case, by creating the space for union organization—by bringing together workers, factory management, brands, and government. The complaint regarding the factory in El Salvador was lodged on December 8, 2005; as most of the investigation and remediation work occurred in 2006 and is ongoing, the case will be examined in a subsequent report.

Third Party Complaint Regarding a NIKE Contract Factory in Thailand, MSP Sportswear

Complaint

On January 5, 2005, the Garment Industry Labor Union, with support from the Centre for Labor Information Service and Training (CLIST), filed a third party complaint with the Fair Labor Association regarding MSP Sportswear, a factory located in Nakorn Ratchasima, Thailand, supplying NIKE and other companies not affiliated with the FLA. The complaint alleged, among other noncompliance issues, that three workers were dismissed for organizing a union at the factory.

The FLA initiated a Third Party Complaint at Step 2 on February 1, 2005 and notified the complainant and NIKE about its action. NIKE waived the 45-day period and requested that the process go directly to Step 3. Pursuant to Step 3, the FLA determines whether to proceed with further assessment through use of either an expert or an FLA Independent External Monitor.

Legal Context

Thailand's 1975 Labor Relations Act recognizes the right of private sector workers to organize and bargain collectively, and prohibits anti-union discrimination by employers. Ten workers in the same factory or industry can apply to form a union, which must be registered with the Ministry of Labor and Social Welfare (MOLSW). Workers can be legally fired for any reason provided they receive severance pay, even if they are union leaders, a provision that lends itself to abuse. Members of the bilateral Worker-Employer Welfare Committees are protected from dismissal under the 1998 Labor Protection Act, but even in such cases, reinstatement for unfair dismissals is a very lengthy process. It is reported that employers frequently dismiss workers who try to form trade unions. In some cases, they are dismissed while awaiting registration, while in others they are dismissed ostensibly for non-union reasons made up by the employer. Thai law does not provide for punitive damages in cases of wrongful dismissal.

Background

In November 2003, three worker leaders at a factory in Nakorn Rachasima province, in the northeast region of Thailand, began to collect workers' signatures to support demands to end alleged verbal abuse by supervisors and inappropriate body searches by security guards. Before they had the opportunity to submit the demand to management, two of the workers were dismissed. The workers filed a complaint before the National Commission on Human Rights and Labor Relations. The Commission on Human Rights found in favor of the workers and ordered their reinstatement, which took place in February 2004.

On October 12, 2004, workers at the factory registered the Garment Industry Labor Union with the Ministry of Labor and Social Welfare (MOLSW). A general meeting and union leadership election was held on October 23. Several days later, factory management dismissed three union leaders—including the elected President and General Secretary of the newly-formed union.

According to the letter of employment termination, the three dismissed workers were accused of serious misconduct, including instigating conflict and division among workers, distributing leaflets criticizing company management and supervisors, disseminating distorted facts about the company, and causing disturbances. The dismissed workers again filed a complaint before the National Commission on Human Rights and Labor Relations.

On December 14, a conciliator from the Welfare and Labor Protection Department of the Ministry of Labor informally organized a meeting in order to conciliate the case between management and the three refuse to reinstate the workers, and offered them severance pay in the form of ten months' salary. All three workers refused to accept the severance and stated they would continue to pursue reinstatement.

Remediation
In March 2005, the Thai Labor Relations Committee ruled in favor of reinstatement of the workers. NIKE worked with factory management to draft a remediation plan involving not only reinstatement and payment of back wages, but also the establishment of a factory environment favorable to the exercise of freedom of association. Given the history of tension between the parties, NIKE asked the FLA to mediate the process.

Auret van Heerden, FLA President and CEO, assisted by Tanida Disyabut, FLA Regional Coordinator for South East Asia, mediated three meetings between the union and management in Bangkok. The NIKE regional compliance team observed the process. Management agreed to reinstate the three union workers with back pay and negotiated a Recognition Agreement with the Garment Industry Labor Union and CLIST.

Professor Lae Dilokvidharat, Director of the Labor and Management Center of Chulalongkorn University's Faculty of Arts and Chairman of the Joint Consultation Committee of the Electricity Generating Authority of Thailand (EGAT) was appointed by the FLA as an Ombudsperson to oversee the implementation of the agreement, including training on freedom of association for the unions, workers, supervisors and management.

From March 2005 through January 2006, Dr. Lae and the FLA facilitated meetings with all constituents every six weeks to review progress at the facility. Since one of the major concerns related to disciplinary practices, FLA and NIKE worked with the factory management to restructure grievance and disciplinary policy and procedures. In addition, the factory revised the performance evaluation system and adjusted the wage calculation system to motivate the workers to improve their performance. In an effort to improve internal communications, meetings with management and the welfare committee and safety committee are held every month instead of every three months as required by law. Management has also created a newsletter to communicate with its workforce. The factory has implemented ISO 9000 and the Thai Labour Standards to improve its management systems and is committed to implementing the Quality of Work life Standards initiated by the Industrial Council of Thailand.

Conclusion
According to Professor Lae, the case is an example of a best practice related to reinstatement because "normally, the case is closed when the union leader(s) are reinstated. However, in this case, a series of meetings to facilitate dialogue between the terminated union leaders and MSP management and the actions taken after reinstatement greatly helped labor relations at the factory."

A tangible positive result to the better labor relations is the improvement of productivity at the facility. In addition, the factory has also broadened its customer base.

SPECIAL PROJECTS

Special projects allow the FLA to test new concepts, tackle persistent noncompliances in particular regions that have proven difficult to remediate on a factory-by-factory basis, and strengthen collaboration with like-minded multi-stakeholder initiatives.

In 2005, the FLA engaged in the following projects:

- Sustainable Compliance Project
- Soccer Project
- Central America Project
- Joint Initiative on Corporate Accountability and Worker Rights (Jo-In)

More information about each of these projects can be found at http://www.fairlabor.org/all/resources/projects.

Sustainable Compliance Project/Soccer Project

Recognizing the limits of traditional monitoring to effect real and lasting change in working conditions, the FLA is moving toward a new monitoring methodology called "FLA 3.0" that seeks to create sustainable compliance by working with local stakeholders to address the root causes of noncompliance. Two FLA projects undertaken in 2005, the Sustainable Compliance Project and the Soccer Project, piloted aspects of FLA 3.0.

Sustainable Compliance Project: The Sustainable Compliance Project aimed to develop the capacity of four Chinese factories to manage code elements on a self-sufficient basis. This entailed developing tools to allow factories to sustain their compliance efforts by (1) assessing for compliance gaps; (2) developing systems to address the gaps; and (3) measuring progress. Tools developed by the FLA in the project during 2005 include:

Sustainable Compliance Assessment Tool (SCAT)

Sustainable Compliance Instruction Materials (SCIM)

Sustainable Compliance Indices (SCI)

Two of the factories were assessed by FLA staff and consultants and two conducted self-assessments. Capacity building programs were then developed to address the gaps identified. The implementation of these programs is managed with a Balanced Scorecard tool. One of the priority gaps addressed was the absence of grievance procedures and a training package was developed for this task. Local service providers will be identified and trained so that Chinese suppliers can receive capacity building at local rates on an on-going basis.

A number of diagnostic and capacity building tools were developed in the course of the project. The next phase of the Sustainable Compliance Project involves the placement of these tools on a website that will allow factories to access the materials and to record their progress independently.

Soccer Project: The Soccer Project piloted a methodology to improve labor conditions in factories that is sustainable and addresses the root causes of noncompliance. The pilot was conducted in 20 factories—12 in Thailand and eight in China that produce soccer apparel, footwear, and equipment. The immediate goal was to strengthen the capacity of these suppliers to improve—and sustain—compliance with the FLA Workplace Code of Conduct with respect to hours of work and grievance procedures. These two code elements were selected on the basis of FLA monitoring experience during the last five years that consistently showed systemic noncompliance in these two areas.

In October 2005, FLA hosted two consultations with suppliers in the project, two with NGOs and trade unions, and one with owners to introduce them to the FLA 3.0 methodology and the tools developed in the Sustainable Compliance Project. The factories began to implement the methodology at the end of 2005, and capacity building activities commenced in mid-2006. An interim report on the Soccer Project published in August 2006 is available at www.fairlabor.org/all/resources/projects/Soccer.

Central America Project

The Central America Project sought to develop mechanisms and tools that would produce measurable improvement of workplace conditions in El Salvador, Guatemala, and Honduras. The project concentrated on the issues of discrimination, harassment or abuse, and freedom of association in the apparel assembly or maquila sector. The project was largely funded by a grant from the U.S. Department of State.

The FLA developed Guidelines of Good Practice on Hiring, Termination, Discipline, and Grievance Procedures (www.fairlabor.org/all/resources/projects/camp/FLA_GGP_v2-0_esp.pdf) to prevent discrimination, harassment, or abuse and promote the right of free association. FLA made the Guidelines available to brands, factories, zone authorities, trade associations, and Ministries of Labor, and conducted training on how to incorporate them into their activities. FLA provided such training to a variety of constituents in Guatemala, Honduras, and El Salvador, including brands, factory management, and labor inspectors. The trainings were well-received and recognized as a necessity to develop and implement policies and procedures on discrimination and grievances.

Over the 20 months of its existence, the program delivered trainings on the Guidelines of Good Practice and other labor standards issues to 581 individuals in Guatemala, Honduras, and El Salvador, of which 337 were associated with the private sector (suppliers, brands, trade associations) and 244 with the public sector (Ministries of Labor). Ninety-seven percent of participants in the trainings stated that they believed that the Guidelines of Good Practice were either very necessary or necessary in workplaces in the region. The 97 factories whose management representatives participated in the trainings represented some 78,000 workers. A closing ceremony for the Central America Project was held in January 2006 in Guatemala City. The closing event was co-hosted by the Guatemalan Ministry of Labor, VESTEX (Guatemala Apparel and Textile Industry Commission), INTECAP (Technical Institute of Training and Productivity), and the FLA. For more information on the trainings conducted by the Central America Project see http://www.fairlabor.org/all/resources/projects/camp/reports.html

Joint Initiative on Corporate Accountability and Workers' Rights (JO-IN)

The FLA is one of six multi-stakeholder initiatives (MSIs) participating in the Joint Initiative on Corporate Accountability and Workers' Rights (JO-IN), the first effort to bring together key organizations involved in different aspects of code implementation and/or enforcement in a program of collaborative work. The other MSIs participating in JO-IN are Clean Clothes Campaign (CCC), Ethical Trading Initiative (ETI), Fair Wear Foundation (FWF), Social Accountability International (SAI), and Worker Rights Consortium

(WRC). Each of these organizations is involved in the global effort to improve working conditions in global supply chains. All believe that codes of conduct can only make an effective and credible contribution to this effort if their implementation involves a broad range of stakeholders, including governments, trade unions, employers' associations, and civil society.

The aims of JO-IN are:

- to maximize the effectiveness and impact of multi-stakeholder approaches to the implementation and enforcement of codes of conduct, by ensuring that resources are directed as efficiently as possible to improving the lives of workers and their families;
- to explore possibilities for closer co-operation between MSIs; and
- to share learning on the manner in which voluntary codes of labor practice contribute to better workplace conditions in global supply chains.

Jo-In undertook its first pilot project in Turkey starting in late 2004. Since then, the six organizations have drafted the *Jo-In draft Code of Conduct*, which adopts the highest standard across the different MSI codes. The *draft* Code will be the standard used during the pilot project's trials, which will take place in late 2006 in selected factories, and will be revisited at the end of the project.

Based on consultations with local and international stakeholders, the project's focus is on effective remediation, that is, finding sustainable solutions to some of the most common noncompliance issues in Turkish factories producing for export. The project will therefore focus on freedom of association, hours of work, and wages, along with subcontracting and informal work, practices closely-linked to noncompliance in Turkey.

In 2005, a total of 7 brands committed to participate in the pilot project: adidas, Nike, Patagonia, and Puma from the FLA, Hess Natur (FWF), Marks & Spencer (ETI), and Gap, Inc. (ETI and SAI). After a comprehensive selection process, several factories were invited to participate in the project. A total of six factories are expected to participate in Jo-In trials, due to start in the autumn of 2006.

In preparation for the trials, the project conducted in-depth studies on freedom of association, hours of work, and wages in Turkey and used these as the basis of an international stakeholder meeting held at MIT in July 2005, where project processes were further defined. The MIT meeting, and its follow-up in Turkey in October 2005, in turn led to the development of protocols for factory assessments, guidelines for off-site worker interviews, explanations of the project's approach to the living wage question and public reporting, and other documents which will guide the project. Trial preparations in the first part of 2006 have involved the selection and training of the Jo-In assessment team and the delivery of a training seminar for more than 60 local stakeholders about the six organizations and their cooperation efforts. The project has also developed structures for improved stakeholder involvement at the local and international levels.

The Jo-In project is funded through grants from the European Commission and the U.S. Department of State, as well as from two of the brands involved in it.

More information on the JO-IN program is available at www.jo-in.org.

SUMMARY OF 2005 IEM FINDINGS

2005 SUPPLY CHAIN

Participating companies and category B licensees reported 3,753 factories as applicable facilities in 2005; these factories employed an estimated 2.9 million workers. The distribution of factories by country (for countries having twenty five or more factories producing for FLA brands) is given in Table 1.

Table 1: 2005 Factory Base (Countries with 25 factories or more)

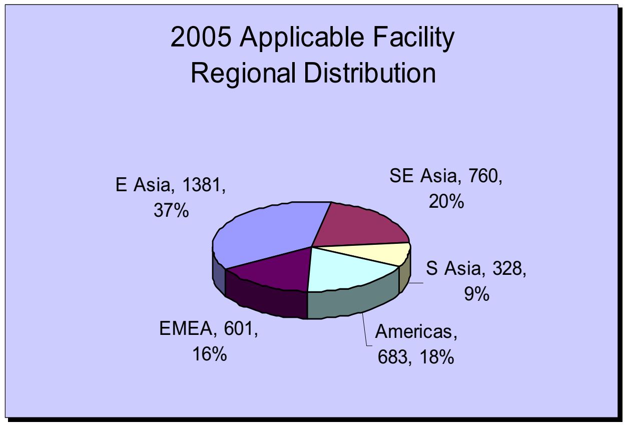
Country	No. of Factories	Estimated No. of Workers* (thousands)
Bangladesh	40	82.2
Brazil	48	30.4
Bulgaria	30	6.8
China	872	1,041.2
Dominican Republic	35	29.5
El Salvador	35	118.6
Honduras	39	38.9
Hong Kong	143	32.8
India	166	113.5
Indonesia	140	301.8
Italy	82	4.0
Japan	46	4.9
Korea	128	9.9
Macao	41	11.4
Malaysia	145	48.4
Mexico	126	49.3
Pakistan	27	44.5
Philippines	57	49.6
Portugal	102	8.9
Spain	29	1.3
Sri Lanka	81	64.8
Taiwan	140	23.7
Thailand	185	200.2
Tunisia	36	8.5
Turkey	149	47.9
United States	263	39.7
Vietnam	168	323.0
TOTAL	**3753**	**2,922.0**

Source: FLA Database

*Based on average number of workers in each country.

Chart 1 shows the distribution of the 2005 FLA factory base by region. Thus, 1,381 or 37% of the applicable facilities used by FLA affiliated companies in 2005 were located in East Asia, followed by 760 or 20% in South East Asia, 683 or 18% in the Americas, 601 or 16% in Europe, the Middle East and Africa (EMEA), and 328 or 9% in South Asia.

Chart 1: FLA Factory Regional Distribution



2005 IEMs

This section of the report provides an overview of the aggregate findings of IEM visits conducted by FLA accredited monitors in 2005. As is evident from the tracking charts reporting on each IEM, the information collected by the FLA during monitoring visits is qualitative in nature. (Tracking Charts can be found at http://www.fairlabor.org/all/transparency/reports.html.) In the interest of providing an overview, the FLA has translated qualitative information collected during IEM visits into quantitative data. See Box 1 for an explanation of how the data were collected and can be interpreted.

Box 1: Understanding IEM Data

To understand the data reported in this section, it is useful to give an example. The FLA Workplace Code of Conduct provision relating to Harassment or Abuse states: "Every employee will be treated with respect and dignity. No employee will be subject to any physical, sexual, psychological or verbal harassment or abuse." The FLA Benchmarks for Harassment or Abuse are the following:

- Employers will utilize progressive discipline, e.g., escalating discipline using steps such as verbal warning, written warning, suspension, termination. Any exceptions to this rule, e.g., immediate termination for theft or assault, shall be in writing and clearly communicated to workers.
- Employers will not use physical discipline, including slaps, pushes or other forms of physical contact (or threats of physical discipline).
- Employers shall not offer preferential work assignments or other preferential treatment of any kind in actual or implied exchange for a sexual relationship, nor subject employees to prejudicial treatment of any kind in retaliation for refused sexual advances.
- Employers will utilize consistent written disciplinary practices that are applied fairly among all workers.
- Employers will provide training to managers and supervisors in appropriate disciplinary prac-

- Management will discipline (could include combinations of counseling, warnings, demotions, and termination) anyone (including managers or fellow workers) who engages in any physical, sexual, psychological or verbal harassment or abuse.
- Employers will maintain written records of disciplinary actions taken.
- Employers will prohibit screaming, threatening, or demeaning verbal language.
- Security practices will be gender-appropriate and non-intrusive.
- Access to food, water, toilets, medical care or health clinics or other basic necessities will not be used as either reward or punishment.
- Employers will not unreasonably restrain freedom of movement of workers, including movement in canteen, during breaks, using toilets, accessing water, or to access necessary medical attention.
- Employers will not use monetary fines and penalties for poor performance.

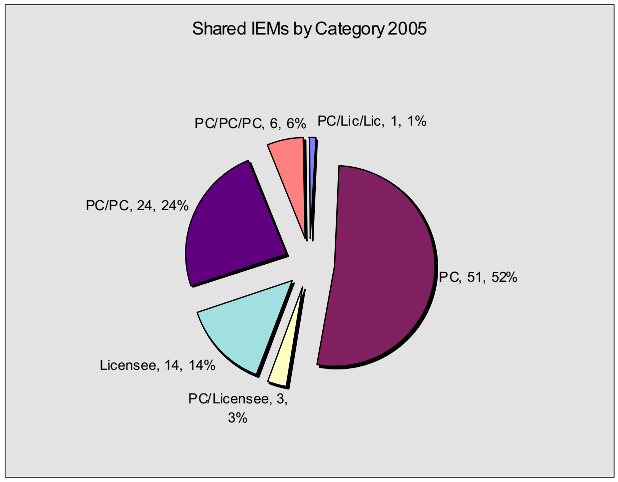
Suppose that in the context of an IEM, a monitor observed that: (1) workers in a factory were not allowed access to toilets; and (2) a manager was abusive to workers. The monitor would report to the FLA noncompliance with two benchmarks, that is two noncompliances within the Harassment or Abuse code element. If the monitor were to observe several instances of noncompliance with the same benchmark (e.g., restrictions regarding access to toilets in several areas of a plant), this would be recorded as a single noncompliance. Thus, the frequency of noncompliance with a given code element can provide some general sense of factory conditions, but does not necessarily present the whole story. Additionally, because the IEMs are qualitative in nature, the data provided in this section should not be taken as hard statistics but rather as indications of trends in the supply chain.

In 2005, FLA accredited monitors conducted independent external monitoring (IEM) visits to 99 facilities worldwide. Thirty-four of those factory visits were conducted in factories where two or more FLA companies—Participating Companies (PC) or Category B Licensees—were sourcing. In some instances, three FLA brands (Participating Companies or Category B Licensees) sourced from the same factory (see Chart 2). Taking into consideration the sharing of factories, the number of IEM events rises to 140 (see Table 2).

Table 2: 2005 IEM and Supply Chain Facts

Factory Visits	99
IEMs Including Shared Facilities	140
Number of Factories (2005 factory list)	3,753
Estimated Number of Workers (2005 factory list) (thousands)	2,922
Average Number of Workers per Factory	779
Estimated Number of Workers in Factories that Received IEMs	77,0888

Chart 2: Shared IEMs by Category



As is shown in Chart 3, the 140 IEMs conducted in 2005 were distributed across 18 countries: China, 46 (33%); India, 15 (11%); Thailand, 13 (9%); United States and Vietnam, 9 (6%); Bangladesh, Mexico, and Sri Lanka 7 (5%);, Turkey and Indonesia, 6 (4%); Honduras, 4 (3%); El Salvador, 3 (2%); Malaysia and Tunisia, 2 (1%); and Brazil, Colombia, Guatemala, and Taiwan, 1 (1%). Thus, 47 IEMs (33%) were conducted in East Asia, 31 (22%) in South East Asia, 28 (20%) in South Asia, 26 (19%) in the Americas, and 8 (6%) in Europe, the Middle East, and Africa (Chart 4).

Chart 3: IEMs by Country

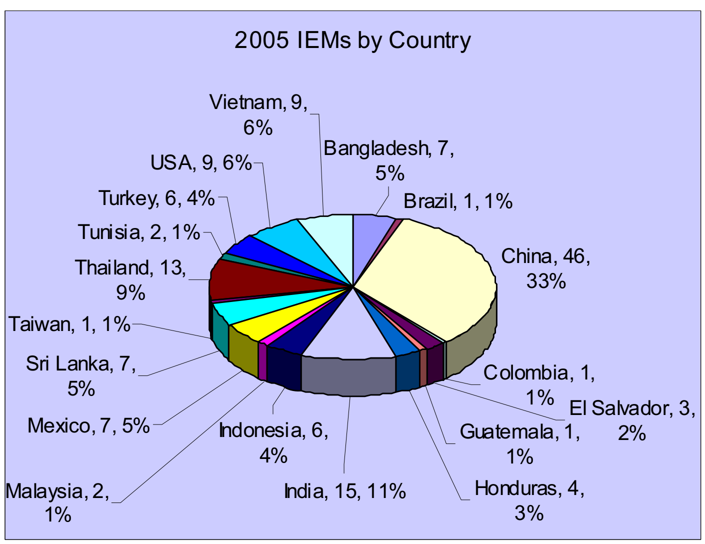
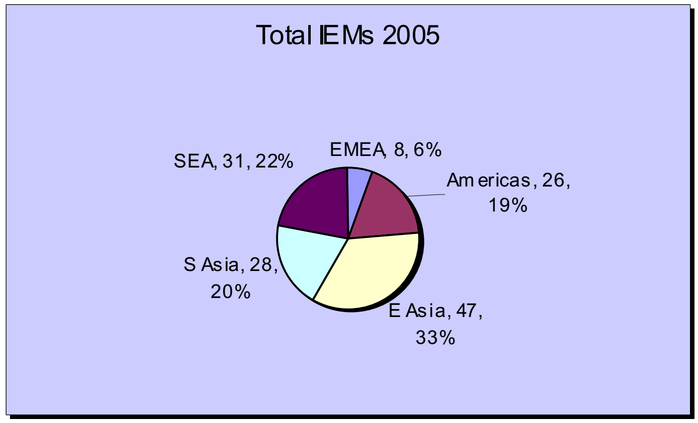


Chart 4: IEMs by Region



The complexity of supply chains and the challenges in scheduling and conducting IEM visits are illustrated from the following examples drawn from IEM visits in the EMEA and South Asia Regions, respectively.

Europe, Middle East, and Africa

While at a factory, the monitors called the Regional Coordinator with a "what should we do?" question. The factory slated for the IEM was formerly a separate building producing only for the PC but had recently merged with two other businesses all under one roof. The factory was now in one building housing three separate businesses. The monitors said the PC had run samples in the new location but no actual production had occurred. Production would occur in the next 2 months. While officially on payroll for only one of the businesses, it was quite common for workers to be moved from one line to another to fill in for absentee workers, to work overtime, or to switch from regular to piecework pay upon request from one of the other businesses. In the end, the monitors assessed the primary business and lines producing for the PC. Additionally they reviewed a sampling of documentation, and conducted a sample of worker interviews from the other two businesses. Such are the complexities of outsourcing and global supply chains.

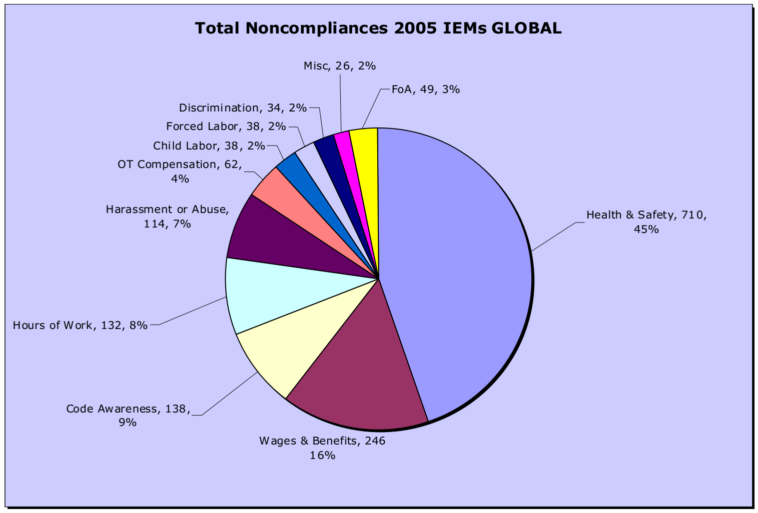
South Asia

Upon reaching the factory and initiating the assessment, the auditors were told in the opening meeting that Factory A was part of a group consisting of 3 divisions: Factory A--the garment division, Factory B- the fabric division, and Factory C, the knitting division. All three divisions were in separate physical locations yet adjacent to one another, divided by a wall. The Terms of Reference indicated the PC produced at the knitting location. However, management conveyed to the auditors the factory was not producing for the PC at that particular division. Rather the PC product was in the garment division. Hence it was the garment division the monitors decided to audit.

IEM Findings

Overall, 1,587 noncompliances were observed by accredited monitors and reported to the FLA during the 99 factory audits conducted in 2005. The distribution of noncompliances by Code element is shown in Chart 5. By far the largest number of reported noncompliances referred to the Health and Safety code element (710 noncompliances or 45%), followed by Wages and Benefits, Hours of Work, and Overtime Compensation combined (440 noncompliances or 28%), Code Awareness (138 noncompliances or 9%), and Harassment or Abuse (114 noncompliances or 7%), and Freedom of Association (49 or 3%). Other code provisions—Forced Labor, Child Labor, and Discrimination—were subject to lower rates of reported noncompliance.

Chart 5: Total Noncompliances in 2005 IEMs



The 1,587 noncompliances translate into about 16.0 instances of noncompliance per factory subject to an IEM, and compares with 18.2 instances of noncompliances per IEM in 2004 and 15.1 instances of noncompliance in 2003. The reader is cautioned not to interpret increases or declines in the average number of noncompliances per IEM over time as indicating a deterioration or an improvement in working conditions in the supply chain subject to IEMs because they can be affected by an number of factors, among them changes in the quality of monitors used by the FLA, the degree of familiarity of monitors with the audit instrument, and the level of experience of monitors with FLA monitoring requirements.

The current FLA benchmarks are a combination of:

- Substantive benchmarks, which define the rights and duties contained in the FLA code, and describe issues that, if found in the factory, would constitute a direct violation of a code provision; and

- Procedural or administrative benchmarks, which include instances that define a course of action to be taken in order to increase the probability that the rights and duties contained in the FLA code are respected and fulfilled. Noncompliances with these benchmarks flag a lack of systems or administrative processes that could lead to violation of a code provision.

Other benchmarks refer to issues that do not fall squarely under existing FLA benchmarks. There are very few noncompliances falling into this category. An example of a noncompliance which is not covered by an FLA benchmark is a law in Indonesia which states that the minimum wages only applies to workers with less than one year of service at a workplace; therefore, if a factory pays minimum wage to all workers, regardless of how many years they have worked at a factory, they are in violation of the law.

In previous editions of the FLA Annual Public Report, substantive and procedural or administrative categories of benchmarks have been reported together, giving rise to some confusion among readers. For example, in each of our previous reports, we have cited violations of the Forced Labor code provision. This does not mean, however, that there were instances of forced labor identified at factories contracted by FLA companies. The most common violation identified by our accredited monitors under Forced Labor relates to a lack of employment records maintained by the factory. This benchmark is cited under Forced Labor because the lack of a labor contract could indicate working conditions that may be coercive to employees; in addition, lack of employment records makes it difficult for FLA Monitors to confirm if working conditions are ones that workers agreed to voluntarily. However, this violation *does not* mean instances of Forced Labor were identified at a factory. Rather, it is a procedural or administrative violation that may suggest that forced labor might exist at a factory.

Table 3 shows the distribution of noncompliances between those relating to substantive and to procedural or administrative benchmarks. The third column categorizes other noncompliances noted during the IEM visits.

Table 3: Distribution of Noncompliances by Substantive and Procedural Benchmarks

Code Element	Substantive Non-compliances (%)	Procedural Non-compliances (%)	Other Non-compliances (%)
Forced Labor	10%	87%	3%
Child Labor	3%	97%	0%
Harassment or Abuse	51%	46%	3%
Discrimination	68%	18%	14%
Health and Safety	73%	23%	4%
FOA	78%	10%	12%
Wages and Benefits	46%	50%	4%
Hours of Work	82%	12%	6%
OT	95%	3%	2%

Table 4 shows the number of noncompliances by region. The highest number of noncompliances per IEM visit was found in South East Asia, with 23.2 noncompliances identified by accredited monitors on average during each factory visit, followed by 21.2 noncompliances per IEM in South Asia. The average number of noncompliances in East Asia was 10.6 per IEM, with the average number of noncompliances by region for EMEA and the Americas at 13.5 and 12.6, respectively. These regional differences should be interpreted with care, as many factors, among them differences in the quality of monitors used by the FLA, the degree of familiarity of monitors with the audit instrument, and the level of experience of monitors with FLA monitoring requirements, can all affect these results.

Table 4: Average Number of Noncompliances by Region

Region	No. of Non-compliances	No. of Factory Visits	Avg. No. of Non-compliances per Factory
Americas	264	21	12.6
East Asia	329	31	10.6
South East Asia	511	22	23.2
South Asia	402	19	21.2
EMEA	81	6	13.5

Finally, Table 5 shows the percentage distribution of noncompliances reported by accredited monitors in 2005 by element of the FLA Workplace Code of Conduct and by region. This table highlights the distribution of noncompliances by code elements for all IEMs done in a particular region. This table is drawn on throughout the chapter.

Table 5: Noncompliances by Code Element and by Region (%)

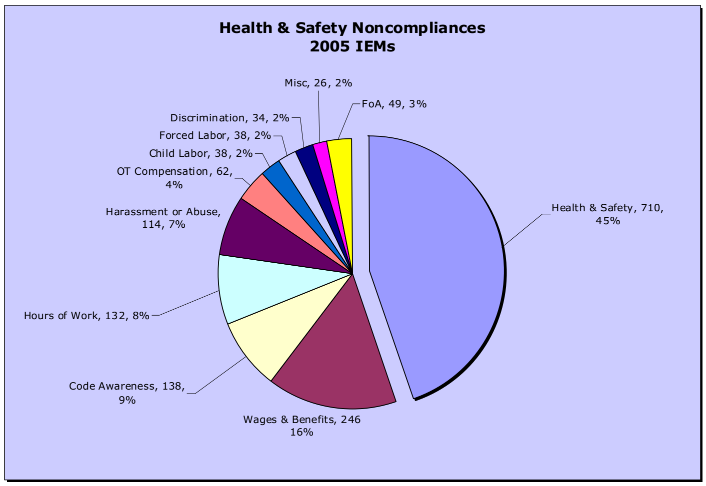
Code Element	**Americas**	**East Asia**	**EMEA**	**SE Asia**	**South Asia**
Code Awareness	10	10	12	6	9
Forced Labor	0	4	4	2	3
Child Labor	1	5	1	1	3
Harassment or Abuse	4	6	12	6	10
Nondiscrimination	3	2	1	4	0
Health and Safety	58	34	36	52	38
Freedom of Assn.	2	9	2	2	1
Wages and Benefits	15	15	12	13	20
Hours of Work	5	6	12	10	9
OT Compensation	2	6	1	3	5
Miscellaneous	0	1	5	2	2

REVIEW OF NONCOMPLIANCES BY CODE ELEMENT

HEALTH AND SAFETY

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

Chart 6: FLA 2005 IEM Findings – Health and Safety



The most commonly reported noncompliance issues reported and remediated in 2005 related to Health and Safety, making up a total of 45.0% of all reported noncompliances (Chart 6). Health and Safety issues reached as high as 58% of the total number of instances of noncompliance reported from IEMs in the Americas and 52% in South East Asia. EMEA and South Asia were comparable with 36% and 38% respectively, while East Asia recorded 34%. As compared to other Code provisions, e.g., Freedom of Association, Harassment or Abuse, or Nondiscrimination, many Health and Safety issues are readily detectable through physical inspection and subsequently sometimes more easily resolved. Nonetheless, the findings clearly indicate that Health and Safety issues continue to be pervasive around the globe.

In 2005, 14% of the instances of Health and Safety noncompliance corresponded to violations of the evacuation procedures benchmark. Another 14% related to fire safety, while 13% were attributed to safety equipment issues. As mentioned above, 73% of all heath and safety noncompliances related to substantive benchmarks, while 23% were noncompliances related to procedural benchmarks. Of the most commonly reported benchmarks, evacuation procedures, safety equipment and personal protective equipment were identified as procedural while safety equipment was identified as substantive. For more information on Health and Safety violations by benchmarks, see Table 6.

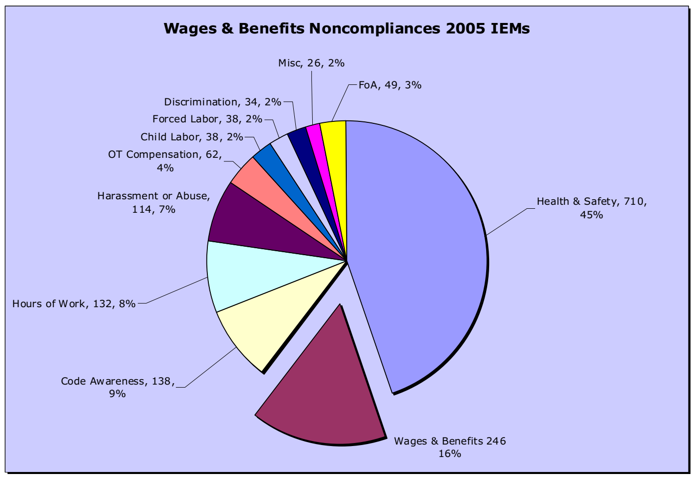
Table 6: Health and Safety Noncompliances by Benchmark

Substantive Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Evacuation Procedure	99	14%
Safety Equipment	90	13%
Personal Protection Equipment	80	11%
Chemical Management	71	10%
Ventilation/Electrical/facility maintenance	63	9%
Sanitation in Facilities	41	6%
Machinery Maintenance	40	6%
Sanitation in Dining Area	21	3%
Sanitation in Dormitories	6	1%
Chemical Management for Pregnant Women and Juvenile Workers	4	1%
Subtotal	515	73%
Procedural Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Fire Safety Health and Safety Legal Compliance	96	14%
Document Maintenance/Accessibility	30	4%
Record Maintenance	17	2%
Worker Participation	13	2%
Machinery Maintenance	7	1%
Personal Protection Equipment	3	0%
Subtotal	166	23%
Other Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Legal Compliance	28	4%
Other	1	0%
Subtotal	29	4%
TOTAL	**710**	**100%**

WAGES AND BENEFITS

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

Chart 7: FLA 2005 IEM Findings – Wages and Benefits



The Wages and Benefits provision had the highest rate of reported noncompliances in 2005 after Health and Safety, with 15% of all noncompliances (Chart 7). Wages and benefits noncompliances represented as high as 20% of all noncompliances identified in South Asia, 12% in South East Asia, 15% in East Asia, 15% in the Americas, and 12% in EMEA. Among the most commonly reported issues were noncompliances for improper time recording systems to track the work hours of employees and to make sure they receive proper pay for the time worked, and failure to pay legal benefits (each accounting for 11% of the noncompliances with this code provision), followed by noncompliances related to not allowing workers to take annual leave during holidays (9%) and a lack of awareness about wages and benefits (8%). Six percent of the noncompliances were related to the timely payment of wages benchmarks. The following examples from IEMs in Turkey and South Asia illustrate the complexity of the timely payment of wages.

Europe, Middle East, and Africa

During an IEM in Turkey, an accredited monitor found that Wages were not paid in a timely manner in January and September 2005 because of payment delays by some of the factory's customers. The factory was having financial problems and undergoing some restructuring in its finances in order to address the issues. According to interviews, workers were aware of the problem. As part of the remediation, the PC asked the factory to pay the salaries of the employees on time as required by the local law and outlined a plan for the factory to pay the owed wages to the employees. The factory paid the owed wages to the employees but continues to face delays. The supplier is working with the factory to identify a more sustainable solution.

South Asia

In a factory in India where three PCs manufacture their products, the Monitor found, through document review and payroll analysis, that the factory was applying the wrong calculation formula to compute the monthly wage for workers. Wages of monthly wage-workers were being calculated using the formula of wage calculation for daily wage workers. One of the PCs visited the factory and verified by reviewing payroll records that the formula used for monthly wages was wrong. The PC reviewed with factory management how to calculate wages using the appropriate formula. The PCs developed a remediation plan whereby (1) the factory began to utilize the correct formula immediately for calculation of wages; and (2) the factory calculated the underpayment to workers based on improper calculation and completed restitution. The PCs reviewed payroll documentation verifying payment of back wages had been completed by December 20, 2005.

Fifty percent of all noncompliances related to Wages and Benefits were identified as violations of procedural benchmarks related to proper record keeping, worker awareness of wages and benefits, and so forth. Of the most commonly identified noncompliances, those related to legal benefits and legal compliance for holidays and annual leave were violations of substantive benchmarks. The issue of improper or non-payment of benefits, particularly related to social security, was a common problem for many factories. Table 7 below outlines the regional distribution of all substantive and procedural benchmarks relating to the wages and benefits code element.

Table 7: Wages and Benefits Noncompliances by Benchmark

Other Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Legal Benefits	26	11
Legal Compliance for Holiday/Leave	21	9
Timely Payment	14	6
Payment of Legal Benefits	13	5
Accurate Benefit Compensation	10	4
Minimum Wage	8	3
Timely Payment of Benefits	4	2
Payment of Wages	3	1
Illegal Holding of Funds	3	1
Training Wage	1	0
Minimum Wage/Quotas	0	0
Minimum Wage/Incentives	0	0
Subtotal	112	46

Voluntary Use of Benefits	5	2%
Deduction for Services	4	2%
Wage and Benefits Information Access	3	1%
Legal Compliance for Holiday/Leave	0	0%
Subtotal	124	50%
Other Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Legal Compliance	9	4%
Other	1	0%
Subtotal	10	4%
TOTAL	**246**	**100%**

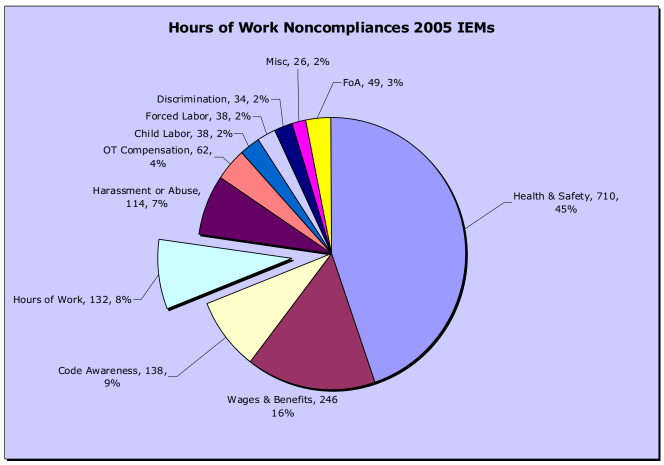
As is the case with regard to Health and Safety findings, the high rate of noncompliance with this code provision may in part reflect monitors' relative strength in monitoring for noncompliance in this area. It is common for the monitoring teams to have someone on staff with a background in accounting or with an expertise in payroll who can identify discrepancies and corroborate noncompliances with worker testimony.

Despite the high rate of noncompliance with Wages and Benefits identified by the monitors, there remains strong concern that the noncompliances remain underreported for this benchmark. Factory personnel have become accustomed to concealing real wage documentation and providing falsified records at the time of compliance audits, making any noncompliances difficult to detect. In 2005, 11% of the incidents of noncompliance regarding the Wages and Benefits code element related to false payroll records and record maintenance. This is an increase from 4% reported for the same benchmarks in 2004. The increase may reflect the monitors' increased ability to identify falsified records during the IEM process. It is important to keep in mind that the findings may reflect a confirmed finding of noncompliance or evidence of noncompliance that is not backed by verifiable evidence; nonetheless, it is likely that the rate of incidence of falsified records relating to hours and wages (i.e., Wages and Benefits, Hours of Work and Overtime Compensation) is even higher than actually reported.

HOURS OF WORK

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

Chart 8: FLA 2005 IEM Findings – Hours of Work



In 2005, 132 individual incidents related to noncompliance with the Hours of Work Code provision were identified by monitors. These incidents represented 9% of all noncompliance issues identified (Chart 8). Hours of Work noncompliances accounted for 10% and 9% of all noncompliances for SE Asia and South Asia respectively. The highest incidence of Hours of Work noncompliances came from EMEA, where 12% of noncompliances corresponded to Hours of Work benchmarks. Sixty-one percent of all noncompliances with this Code provision related to excessive overtime hours being worked at the factories; 11% dealt with voluntary overtime stipulations, and 9% were related to respecting local laws with regard to work hours for protected workers (e.g., pregnant women or young workers).

Eighty-two percent of the noncompliances for this code element related to substantive benchmarks; 12% were with procedural benchmarks, and 6% were categorized as noncompliances with "other" benchmarks (see Table 8). The most common noncompliances noted above related to substantive benchmarks.

Table 8: Hours of Work Noncompliances by Benchmark

Substantive Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Freedom of Movement	3	8%
Freedom of Movement--Financial	1	3%
Prison Labor	0	0%
Indebtedness	0	0%
Confiscated Original Documentation	0	0%
Subtotal	16	12%
Procedural Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Reduce Mandated Overtime	6	5%
Overtime Explanation	5	4%
Reasonable Maintaining of Staff	2	2%
Explanation of Continued Required Overtime	2	2%
Negative Incentives	1	1%
Forced Overtime	0	0%
Positive Incentives	0	0%
Subtotal	16	12%
Other Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Legal Compliance	8	6%
Other	0	0%
Subtotal	8	6%
TOTAL	**132**	**100%**

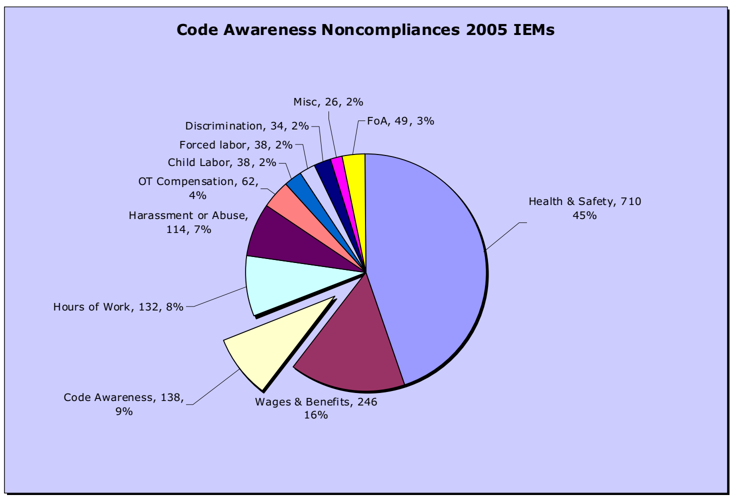
As with wages and benefits, many industry experts believe that Hours of Work noncompliances are vastly underreported, with the falsification of work-time records being prevalent to the industry. The FLA, through its project work, has found Hours of Work to be one of the most challenging issues for both brands and suppliers to manage and one around which there is very little transparency. Discussions with diverse stakeholders, including local brand compliance officers, suppliers, and local civil society organizations in Hong Kong and China confirmed that working hours (excessive overtime and overtime payment) is among the critical issues in China.

For this reason, Hours of Work has been identified as a priority issue in the Soccer Project, conducted in China and Thailand in 2005 (see the Special Projects update in this report). Building upon the FLA Hours of Work in China pilot project which took place in 2004, the Soccer Project is based on the premise that excessive hours of work persist in Chinese factories because the underlying causes have not been clearly defined and addressed in compliance audits and corrective action programs. The project conducts assessment visits to the Chinese supply chain of FLA PCs in order to determine the underlying causes of excessive hours of work and addresses those through the design of a capacity building program capable of improving compliance with hours of work rules. The assessments identifying the causes of excessive hours in the factories participating in the Soccer Project took place at the end of 2005, with capacity building services offered in 2006.

In working with companies to remediate Hours of Work noncompliance and, in particular through the Soccer Project and Hours of Work Project, the FLA has observed that the underlying causes of excessive overtime include pressures on workers to achieve high production quotas set by management, inflexible and very tight production deadlines, late delivery of materials, and strict and sometimes outdated domestic labor laws. Capacity building needs identified included guidelines for factories to create hours of work policies and procedures, to have better communication with buyers and between departments (such as the personnel and production departments), and training on productivity efficiencies among others. The results of the pilot project will be shared in future FLA reports.

CODE AWARENESS

Chart 9: FLA 2005 IEM Findings – Code Awareness



In 2005, FLA-accredited monitors uncovered 138 instances of noncompliance with Code Awareness, roughly 9% of all reported noncompliance issues (Chart 9). Overall, worker and management awareness of the code represented 38% of all noncompliance under this code element. Thirty-seven percent of the noncompliances dealt with the lack of a mechanism through which workers could report noncompliances directly to the FLA companies and grievance channels between workers and management. Failure to post the code and establish clear standards accounted for 20% of the total number of noncompliances for this benchmark.

Out of the total noncompliances identified in South Asia, Code Awareness noncompliances accounted for 9%. For Southeast Asia, Code Awareness noncompliances represented 6% of all noncompliances found in the regional IEMs for this year. Twelve percent of the noncompliances identified in EMEA fell under this code element; 10% of all noncompliances in East Asia and 10% of all noncompliances in the Americas were Code Awareness-related.

Code Awareness is unique in that it is not a Code provision itself, but rather is one of the Charter Obligations that all companies must strive to achieve. Workers' awareness of Code provisions is essential for their effective implementation on a daily basis, and FLA companies are obligated to ensure workers' and managers' awareness of the Code. Factories' fulfillment of this obligation is measured by three benchmarks: the posting of a Code of Conduct that makes the standards clear; worker and management awareness of the Code; and a mechanism in the factory for reporting noncompliance with the Code. Table 9 illustrates how compliance with these three benchmarks fared in the 2005 IEMs.

There has been increased awareness on the part of the FLA, member companies and other stakeholders that effective communication channels between workers and managers is a key to sustainable compliance. Currently, the majority of grievance channel mechanisms are suggestion boxes designed for discreet submission of grievances. Companies have worked with factories to develop other means through which to build internal grievance procedures as well as establish more effective channels through which workers can contact companies directly.

The FLA Soccer Project has focused on two priority issues in 2005 and 2006. The first is hours of work, as mentioned above. The second is grievance procedures. Assessments conducted in late 2005 in China and later in Thailand revealed that the majority of factories lacked effective formal grievance channels with clear policies and procedures or even clear avenues through which to raise concerns at the workplace. The factories participating in the Soccer Project have attended training programs based on the successful trainings launched through the FLA Central America Project (see the Special Projects update in this report) and are starting to build internal policies and procedures. The FLA will report on the progress and impact of these internal systems in future reports.

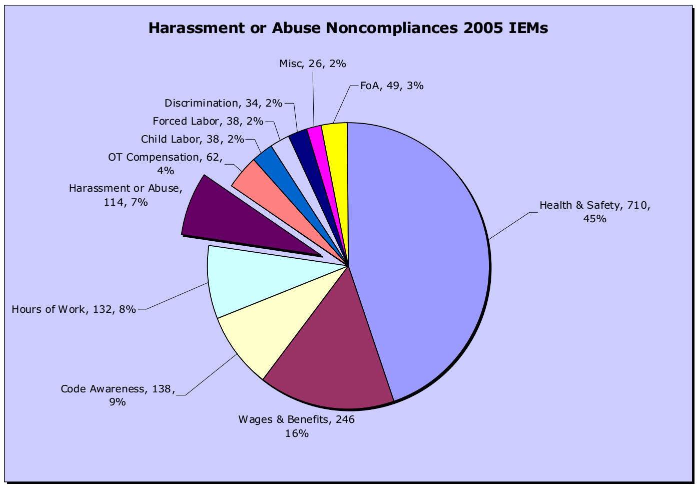
Table 9: Code Awareness Noncompliances by Benchmark

Benchmarks	**No. of Non-compliance Issues**	**% of Total**
Worker / Management Code Awareness	53	38%
Non-Compliance Reporting Mechanism	51	37%
Code Posting	27	20%
Code Awareness Other	5	4%
Legal Compliance	2	1%
TOTAL	**138**	**100%**

HARASSMENT OR ABUSE

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

Chart 10: FLA 2005 IEM Findings – Harassment or Abuse



Noncompliance with the Code provision on Harassment or Abuse constituted 114 cases, or 7%, of all reported noncompliance in 2005 (Chart 10). Harassment or Abuse accounted for 10% of the total noncompliances in South Asia; 6% in South East Asia, 12% in EMEA, 6% in East Asia, and 4% in the Americas.

Overall, 18% of the Harassment or Abuse noncompliances related to the procedural benchmark of inadequate training of management in disciplinary practices; 17% involved verbal abuse of workers by supervisors; and 13 % were related to the use of fines and penalties as disciplinary actions towards workers. The latter two are both substantive benchmarks. Fifty-one percent of the total noncompliances fell under substantive benchmarks, while 46% fell under procedural benchmarks and 4% related to other noncompliances. For more details about the noncompliances by substantive and procedural benchmarks, see Table 10.

Harassment or abuse is one of the most elusive code elements and it is widely believed that harassment or abuse findings are generally underreported given the workers' fears to speak about incidences during the worker interview process. Given the lack of functional grievance procedures, there are few channels through which workers can raise such critical issues. The following vignette illustrates an example of a harassment or abuse noncompliance found during an IEM in Bangladesh and the remediation response by the participating companies.

South Asia

A case in Bangladesh involved mainly verbal abuse by supervisors who tended to shout at workers when they did not meet their production goals, made mistakes or had been absent from work. Based on interviews and discussions with supervisors and workers, FLA accredited monitors found that verbal abuse occurred when workers failed to meet production targets or produced product with several defects. Moreover, workers who took unauthorized leave were made to stand at the front of the sewing line for 30 minutes as punishment for not asking permission before taking off of work. In response to these issues, the FLA Companies required the supervisors and management of the factory to attend a training program on the proper treatment of employees and progressive disciplinary actions and required the factory to revise its policies and procedures relating to discipline. With the help of a consultant, the factory established and posted its revised disciplinary policy and procedures, and training was provided to both management and workers. During a subsequent visit, worker interviews were conducted and no evidence of verbal abuse was identified.

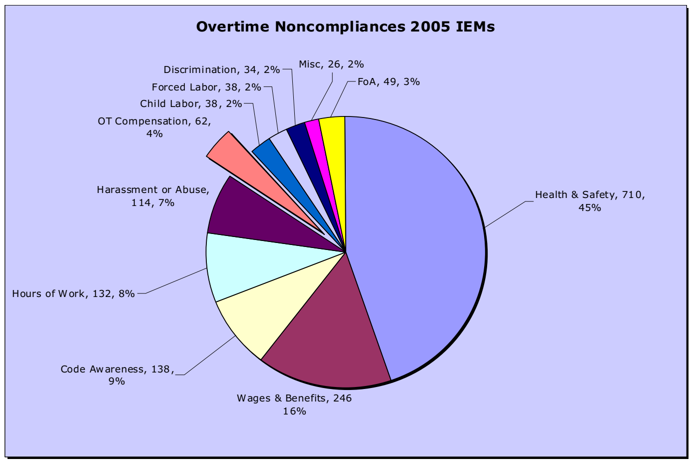
Table 10: Harassment or Abuse Noncompliances by Benchmark

Substantive Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Verbal Abuse	19	17%
Monetary Fines and Penalties	15	13%
Freedom of Movement	9	8%
Disciplinary Practices	7	6%
Access to Facilities	4	4%
Gender Sensitive Security	3	3%
Physical Abuse	1	1%
Subtotal	58	51%
Procedural Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Training of Management in Disciplinary Practices	21	18%
Disciplinary Practices	11	10%
Record Maintenance	10	9%
Progressive Discipline	9	8%
Disciplinary Action Punishment of Abusive Supervisors/Managers	1	1%
Subtotal	52	46%
Other Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Legal Compliance	3	3%
Other	1	1%
Subtotal	**4**	**4%**
TOTAL	**114**	**100%**

OVERTIME COMPENSATION

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

Chart 11: FLA 2005 IEM Findings – Overtime Compensation



In 2005, monitors reported 62 instances of noncompliance related to the Overtime Compensation Code provision, or 4% of total reported noncompliances (Chart 11). Regionally, noncompliances with Overtime Compensation were highest in East Asia (6%), followed by South Asia (5%), South East Asia (3%), the Americas (2%), and EMEA (1%).

Noncompliance with this Code provision related primarily to unfair compensation for overtime hours (55%); lack of accurate recording of overtime hours (26%); incorrect use of meal and rest breaks (11%); inadequate awareness among workers of overtime compensation and inadequate overtime compensation for piecework (3% each). Of the aforementioned noncompliances, all were related to substantive benchmarks (95%) with the exception of inadequate awareness of overtime compensation which was procedural (3 %). Two percent of the noncompliances were categorized as "other."

Table 11: Overtime Noncompliances by Benchmark

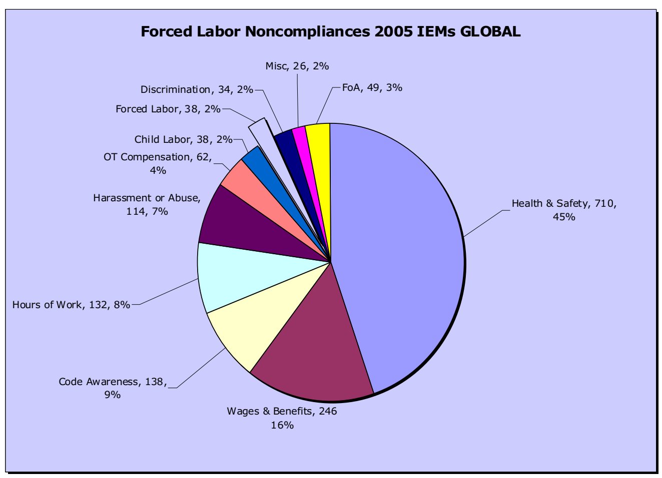
Substantive Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Overtime Compensation	34	55%
Accurate Recording of Overtime Hours Worked	16	26%
Overtime Breaks	7	11%
Overtime Compensation for Piece Work	2	3%
Subtotal	59	95%

Procedural Benchmarks	No. of Noncompliance Issues	% of Total
Overtime Compensation Awareness	2	3%
Subtotal	2	3%
Overtime Compensation Other	**No. of Noncompliance Issues**	**% of Total**
Legal Compliance	1	2%
Other	0	0%
Subtotal	1	2%
TOTAL	**62**	**100%**

FORCED LABOR

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

Chart 12: FLA 2005 IEM Findings – Forced Labor



Forced Labor made up 2% of all reported noncompliance issues in 2005 (Chart 12). Regionally, 4% of all noncompliances in East Asia and EMEA were Forced Labor issues; 3% of all noncompliances in South Asia and 2% fell under Forced Labor.

As is clear from Table 12, the vast majority of noncompliances related to Forced Labor occurred with regard to procedural benchmarks (87%) while 10% were substantive. The most common issues involved recordkeeping practices that did not meet FLA standards (66%) and irregularities in recruitment contracts (11%). With regard to substantive benchmarks, there were no reported instances of forced labor or bonded labor, but there were some instances of noncompliances with the freedom of movement benchmark (8%). FLA Monitors found that employees had to get permission from management to leave the facility, in some cases even during their unpaid lunch break. FLA Companies remediated this noncompliance by requiring the factory to allow workers to leave the facility without securing permission, especially during their unpaid breaks and after regular working hours when they do not choose to work overtime. For more information on the noncompliances under Forced Labor by substantive and procedural benchmarks, please see Table 12.

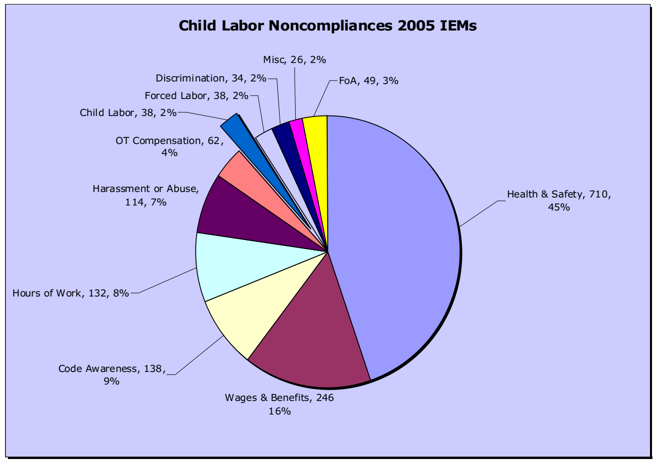
Table 12: Forced Labor Noncompliances by Benchmark

Procedural Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Employment Records	25	66%
Recruitment Contracts	4	11%
Freedom of Movement—Residences	2	5%
Employment Terms	2	5%
In-kind Compensation	0	0%
Debt/Bonded Labor	0	0%
Freedom of Movement—Facilities	0	0%
Employer Controlled Residence	0	0%
Freedom in Employment	0	0%
Freedom of Movement—Financial	0	0%
Accessible Records/Documents	0	0%
Recruitment Fees	0	0%
Subtotal	33	87%
Other Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Legal Compliance	1	3%
Other	0	0%
Subtotal	1	3%
TOTAL	**38**	**100%**

CHILD LABOR

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

Chart 13: FLA 2005 IEM Findings – Child Labor



Noncompliances with the Child Labor code element represented 2% of overall noncompliances in 2005 (Chart 13). Regionally, 5% of all noncompliances in East Asia fell under Child Labor; 3% of South Asia's noncompliances fell under this code element; 1% of the noncompliances in Southeast Asia, EMEA and the Americas respectively fell in this category. The most commonly-breached benchmark under the Child Labor code element (47% of noncompliances) was a procedural one, legal compliance with laws and regulations for juvenile workers, typically employing juvenile workers who are not registered with the local labor bureau or employing juvenile workers without providing the physical examinations required by law. Also significant was the incidence of failure to maintain age documentation systems that meet FLA standards (Table 13). Overall, 97% of the global noncompliances in 2005 were procedural; 3% of the noncompliances were substantive.

There was one incident of child labor reported in 2005 in East Asia. The following example describes the steps the FLA company undertook to remedy this noncompliance.

East Asia

An FLA Monitor found six workers under the age of 16 (the legal working age in China) working at the factory. The IEM was conducted in November of 2005 and all of the workers were born in 1990; they would therefore only turn 16 in 2006. The FLA Company was immediately informed and it made interim arrangements to remove the young workers from their jobs, particularly the dangerous jobs, and transitioned them to light work while ensuring that they continued to receive a salary. The FLA Company informed the factory that once these workers turn 16, if they wish to continue working, they should be guaranteed employment at the factory. In cases where under-aged workers are found, light work in a factory is sometimes preferable to termination; if they are in need of money and do not have the factory work, they may be forced to except far worse work alternatives. At present, the factory is providing some schooling for the young workers. However, three of the six workers left the factory since the salary they earned in their light work duty was lower once *they were prohibited from working overtime. Another worker works only half-day and submits documentation with her mother's signature granting her permission to do only light work. The factory has also worked with the company to develop an age verification policy, particularly for workers who do not possess proper birth or school-leaving certificates.*

In another incident in 2005, an accredited monitor discovered a thirteen year-old eating in a canteen in a factory in Turkey. This minor actually worked in a factory adjacent to the one being audited. This noncompliance was captured under Unauthorized Subcontracting on the Tracking Chart but it is worth mentioning in this section.

Europe, Middle East, and Africa

Juveniles working in areas deemed dangerous for minors has been found during audits. For example, working with chemicals or operating heavy or dangerous machinery are among the kinds of work that minors are restricted from performing in many countries. An examples of how such violations were remediated in 2005 include maintaining a log of juvenile workers in order to more easily monitor them, ensuring the registration of juvenile workers is a regular part of the hiring procedure, and providing annual medical check ups for juvenile workers.

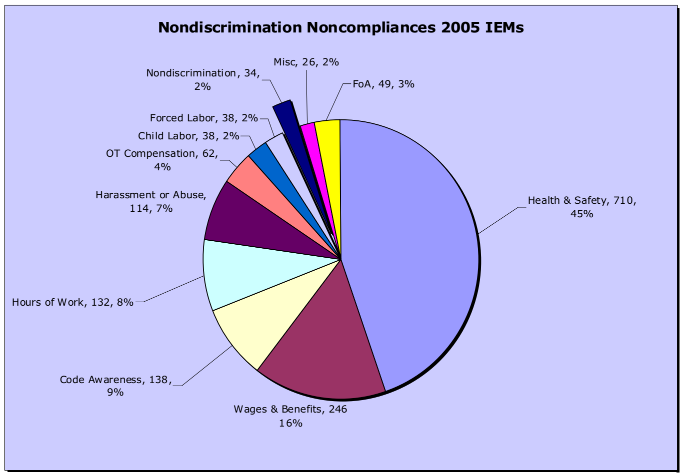
Table 13: Child Labor Noncompliances by Benchmark

Child Labor Substantive Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Legal working age (Vocational)	0	0%
Lack of protection of under-age workers	0	0%
Children on premises	1	3%
Subtotal	1	3%
Child Labor Procedural Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Legal compliance for juvenile workers	18	47%
Age Documentation	14	37%
Childcare facilities	2	5%
Parent Consent Documentation	1	3%
Age Verification	1	3%
Juvenile worker Identification System	1	3%
Legal Compliance (Apprenticeships)	0	0%
Subtotal	37	97%
Child Labor: Other	**No. of Noncompliance Issues**	**% of Total**
Legal Compliance	0	0%
Other	0	0%
Subtotal		0%
TOTAL	**38**	**100%**

NONDISCRIMINATION

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

Chart 14: FLA 2005 IEM Findings – Nondiscrimination



In 2005, 2% of the total noncompliance issues reported related to the Nondiscrimination Code element (Chart 14). Regionally, noncompliances in the nondiscrimination code element accounted for 4% of the findings in Southeast Asia, 3% in the Americas, followed by East Asia with 2% and EMEA with 1%. No noncompliances in nondiscrimination were noted for South Asia. Sixty-eight percent of all Nondiscrimination noncompliances were categorized under substantive benchmarks, while 18% fell under procedural benchmarks, and 25% under other benchmarks. The most common noncompliance regarding nondiscrimination in 2005 related to hiring practices at 47%.

Southeast Asia

Southeast Asia was the source of many noncompliances relating to hiring practices. In particular, job advertisements and application forms regularly requested information unrelated to the appropriate skills required to perform a particular job, such as marital status, age, sex of applicant, race, religion and military status. In one factory, the advertising application form for a sewing supervisor indicated that applications would be accepted only from "females, aged over 25." Remediation in such instances included a revision of the factory's policy and guidelines on nondiscrimination, a training to all employees about the amended policy, and a revision of all job advertisements to focus on work-related skills only.

Central America

Accredited monitors found several noncompliances with national laws on discrimination in Central America. One example is a law in El Salvador, created with the objective of assisting persons injured in the Civil War to secure employment, that obligates employers of with more than a certain number of employees to hire a prescribed number of disabled persons. Accredited monitors reported that in two factories the requisite number of disabled persons had not been hired. Factory owners informed the monitor that they had had difficulties in finding disabled persons who were capable of carrying out the job responsibilities for positions in the factory. Remediation in these situations included requiring the factory to develop a system for posting announcements and recruiting disabled workers and improving communications between the factory and the local government agency that trains disabled workers.

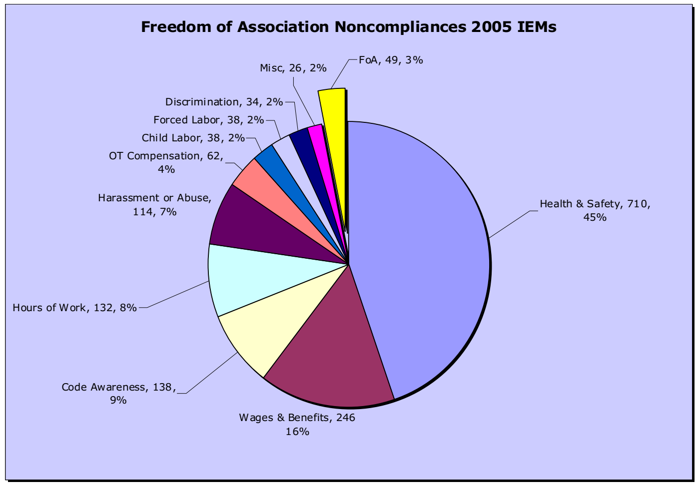
Table 14: Nondiscrimination Compliances by Benchmark

Substantive Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Hiring Discrimination Practices	16	47%
Pregnancy Testing	2	6%
Sex Discrimination	1	3%
Marital Discrimination	1	3%
Pregnancy Discrimination	1	3%
Pregnancy Accommodation	1	3%
Pregnancy Dismissal	1	3%
Reproductive Health	0	0%
Subtotal	23	68%
Procedural Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Pregnancy Risk	5	15%
Hiring Discrimination Practices	1	3%
Subtotal	6	18%
Other Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Legal Compliance	5	15%
Other	0	0%
Subtotal	5	15%
TOTAL	**34**	**100%**

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

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

Chart 15: FLA 2005 IEM Findings – Freedom of Association and Collective Bargaining



In 2005, 49 violations or 3.0% of the total IEM noncompliance findings related to Freedom of Association and Collective Bargaining (Chart 15). East Asia was the region with the largest percentage of noncompliances regarding this Code provision, with 9% of the noncompliances in East Asia under the Freedom of Association standard. Two percent of all noncompliances in Southeast Asia, EMEA and the Americas respectively were FOA related. Only 1% of the total noncompliances in South Asia fell under this benchmark. Seventy-three percent of all Freedom of Association noncompliances corresponded to substantive benchmarks, 23% were procedural, and 4% related to other benchmarks (Table 15).

As we have discussed in previous FLA Annual Public Reports, Freedom of Association is an essential, yet challenging, Code provision to enforce, due in part to the complex nature of this international standard, which accords workers the right to form or join organizations of their own choosing. Because workers are given this choice, it is often difficult to identify and document the reasons for workers nor forming or joining an organization and whether the absence of a union may constitute an occurrence of noncompliance. These complexities also make remediation challenging.

Of the 49 noncompliances with the Freedom of Association and Collective Bargaining code element identified by FLA accredited monitors in 2005, 31 (63%) were classified as restrictions on the rights of workers to form and join organizations of their own choosing without previous authorization. In many cases, local laws prevent workers from exercising this right. For example, all factories that were subject to IEMs in China were found to be in noncompliance with this standard.

Independent External Monitoring in China

All of the IEMs in China have the following language included on the tracking charts reflecting the systemic noncompliance with the FLA benchmark on FOA.

The Chinese constitution guarantees Freedom of Association; 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 freedom of association, 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. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms.

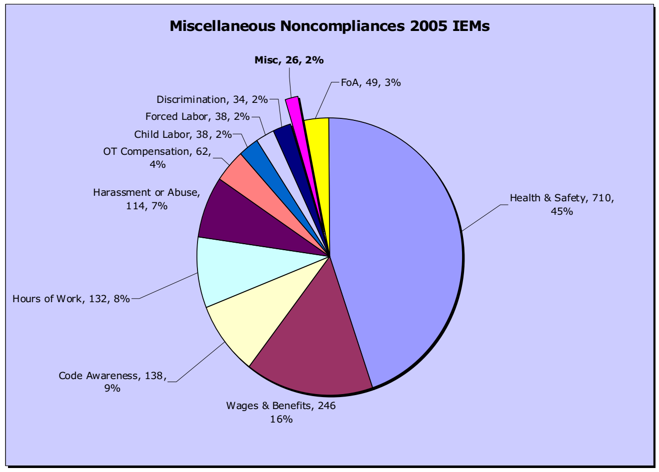
The Amended Trade Union Act of October 2001 does stipulate that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.

Table 15: Freedom of Association and Collective Bargaining Noncompliances by Benchmark

FOA Substantive Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Right to Freely Associate	31	63%
Employer Interference/Elections	3	6%
Unfair Dismissal	1	2%
Employer Interference /Intimidation	1	2%
Employer Interference/Formation of Alternative Organizations	1	2%
Victimization	1	2%
Employer Interference/Registration	0	0%
Employer Interference/External Forces	0	0%
Employer Control/Favoritism	0	0%
Discrimination	0	0%
Retaliation against Union Formation	0	0%
Union Negotiation	0	0%
Access to Unions	0	0%
Blacklisting	0	0%
Severance	0	0%
Subtotal	38	78%

MISCELLANEOUS

Chart 16: FLA 2005 IEM Findings—Miscellaneous



The Miscellaneous category captures issues such as legal or contractual noncompliances that were observed by FLA-accredited monitors that are not currently included in the FLA Code or Benchmarks but nevertheless are inconsistent with applicable national and local laws or with FLA participating company requirements. Miscellaneous issues accounted for 2% of the total number of noncompliances (Chart 16); close to 5% of the noncompliances in this category were recorded in EMEA, followed by 2% in South Asia and Southeast Asia respectively and 1 percent in East Asia. No miscellaneous findings were cited in the Americas.

The majority of the instances of noncompliance in the Miscellaneous category (42%) fell under the rubric of Miscellaneous Other and typically referred to inconsistencies with national labor law or practice identified by the monitors. They included improper documentation of Human Resources processes in the factory, lack of welfare officers in countries where it is required by law, unsafe transportation for workers, failure to provide worship space for workers, improper documentation for security guards, maintenance and canteen workers, and exceeding the number of workers that are licensed to be employed through contractors.

Twenty-seven percent of noncompliances in this category referred to unauthorized subcontracting, that is, subcontracting to contractors involved in production processes (e.g., embroidery, washing, dyeing) that had not been approved by the FLA company operating in the factory. In these cases, factories were instructed by the participating company to stop subcontracting to unapproved facilities immediately. In most cases, the subcontractors were subsequently approved by the company after labor conditions at the subcontracted factory had been investigated. Another 27% of the noncompliances were associated with violations of labor laws not addressed specifically by an existing benchmark. Finally, 4% of noncompliances referred to possible situations of home-based work where the working conditions could not be investigated by the monitors.

Table 16: Miscellaneous Noncompliances

Miscellaneous	**No. of Noncompliance Issues**	**% of Total**
Other	11	42%
Unauthorized subcontracting	7	27%
Legal Compliance	7	27%
Possible homework	1	4%
TOTAL	**26**	**100%**

VERIFICATION AUDITS

Independent External Verification audits (IEVs) were scheduled at 21 factories that were originally audited in 2003 and 2004. Monitors were asked to focus on the original noncompliances and to evaluate the success of the brands in remediating them. Table 17 shows the results of 10 of the 21 IEV audits.

The original 10 IEMs identified 188 noncompliances. Of these, the monitors found that 93 (50%) were fully remediated, 31 (17%) were partly but not fully remediated, and 59 (31%) showed no significant change from the original report. The monitor was not able to corroborate the original finding with respect to 5 noncompliances (2.7%). During the course of the IEV, monitors found 54 noncompliances that were not identified during the initial audit. The bulk of these, 35 or 65%, referred to Safety and Health and 8 (15%) to Wages and Benefits.

While there is much room for improvement, the results of the IEV audits were encouraging. Two-thirds of the original noncompliances were fully or partly remediated. Policies have been put in place in many instances to address the noncompliances and trainings have been held frequently in the factories by the PC. However, the IEVs revealed what appears to be a communication gap between management and workers. Trainings have been conducted for management on Code Awareness and Secure Channels of Communication, but worker testimony indicates a general unawareness of these code elements, as well as policies on discrimination, harassment or abuse, and overtime. Per monitors' findings during the IEVs, handbooks were quite often updated to include such policies, yet it was unclear whether management communicated these changes to the workforce. Although there were significant improvements with respect to hours of work and health and safety, and in many such cases full remediation occurred, remediation in the case of complex issues such as unfair dismissals, secure channels of communication, and code awareness remained elusive (see example below). Nevertheless, the IEVs showed that significant improvement with regard to implementation of the Workplace Code of Conduct has occurred in environments commonly resistant to change.

Procedural Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Compliance with Local Collective Bargaining Laws	5	10%
Retaliation against Union Formation	0	0%
Union Harassment	0	0%
Union as the Bargaining Agent	0	0%
Subtotal	5	10%
Other Benchmarks	**No. of Noncompliance Issues**	**% of Total**
Legal Compliance	6	12%
Other	0	0%
Subtotal	6	12%
TOTAL	**49**	**100%**

Independent External Verification (IEV) Report of a Factory in South Asia:

Original findings during the initial audit*: (1) A Workers Forum created by the management consists of workers chosen by and rotated periodically by the management. The function of this group is to address workers grievances and issues. However, worker interviews suggested that the forum was neither functional nor representative of worker interests. Workers interviewed were not aware of the responsibilities or activities of the committee and committee members stated that they were to pursue only management's instructions; (2) Suggestion boxes installed in toilet blocks are ineffective as workers rarely use them; (3) Many workers feel insecure in voicing their grievances with the management for fear of losing their job; (4) Factory needs to constitute a separate Grievance Committee which works effectively.*

Factory Corrective Action based on FLA Company Remediation Plan: *(1) Workers Forum was created in July 2002 and still continues; (2) Workers are elected and their names are displayed in work area; (3) Workers were instructed to raise any complaint/grievance directly to the representatives; (4) Minutes of each grievance meeting are recorded, signed by all representatives, and displayed on the notice board; (5) Use of suggestion/complaint box is being included in Workers Handbook and orientation training schedule; (6) Non-retaliation policy is being included in new Handbook and orientation training; (6).Grievance committee has been constituted; workers have been briefed about raising their grievances without fear.*

IEV Finding: *Pending - Committee exists only on paper and as per records, all committees meet every month. Some workers interviewed felt that the committee members are not proactive, hence they choose to approach specific management staff directly should they have any grievances; others were not even aware of the existence of the committees as they had not participated in any election process. Workers interviewed were aware of the suggestion boxes, however displayed a lack of interest in utilizing this option. Though management claim that Minutes of committee meetings are posted, none of the workers interviewed stated having seen them.*

Monitor's Summary of Verification Audit: *Not much change in status since the previous audit. While a workers committee has been set up by workers it appears that many [workers] did not participate in the election process. Workers in the committee are not aware of their responsibilities hence are not really empowered. Occasionally if an issue is brought to their notice, they simply convey it to the management. There is no follow-up procedure. Hence workers tend to take their grievances directly to the management. Female workers prefer to approach the female Human Resources manager, while male workers have a preference for the production manager.*

Table 17: Highlights of 10 Independent External Verification Audits Conducted in 2005

	Fully Remediated/ Verified	Partially Remediated/ not completed	No Change	Unable to verify	New Issue	Subtotals
Code Awareness	2	1	5	1		9
Code Posting	1					1
Secure Form of	3	1	3			7
Forced Labor	1		1			2
Child & Juvenile	2	1			1	4
Non Discrimination	2	1	1		2	6
Disciplinary	3		2			5
Records Review-	2				1	3
Harassment-Abuse	14	2	9		2	27
Health & Safety	35	10	16		35	96
FOA	4	6	3			13
Wages & Benefits	6	1	10	1	8	26
Overtime	2	4	2	1		9
HOW	16	4	7	1	4	32
Forced OT					1	1
Unauthorized Sub-				1		1
Subtotal	93	31	59	5	54	242
TOTAL				**188**	**54**	**242**

COMPANIES UP CLOSE

This Chapter provides detailed reports on the efforts of 35 companies during the reporting period for this report (January – December 2005) to improve the working conditions in the factories where they produce around the world. Company reports have been arranged in two categories, Participating Companies and Category B Licensees. The report structure for each category differs slightly from the other, reflecting the differences in the FLA requirements for each category (see below).

Each report provides:

- An overview of each company -- its size, applicable brands, the number and location of facilities and monitoring visits;
- A description of the staff and program responsible for promoting FLA Standards;
- Developments in the program focusing on the company's particular approach to labor compliance and, in some cases, developments in the program since the most recent FLA Annual Public Report.

PARTICIPATING COMPANIES

Participating Companies commit to implement FLA Standards in factories *throughout their supply chains*. In 2005, all companies in this category were apparel and footwear companies or retailers with their own-label apparel. They ranged in size from major publicly traded multinational companies to small, private companies. Approximately half of the participating companies included in this report are FLA university licensees, which are sometimes referred to as Category A Licensees.

The Participating Companies included in this report are:

adidas AG

Asics Corporation

Eddie Bauer

Gear for Sports, Inc.

Gildan Activewear. Inc.

Liz Claiborne, Inc.

Mountain Equipment Co-Op

New Era Cap Company, Inc.

NIKE, Inc.

Nordstrom, Inc.

Outdoor Cap Company, Inc.

Patagonia

Phillips-Van Heusen Corporation

PUMA AG

Reebok International Ltd.

Top of the World

Zephyr Graph-X

CATEGORY B LICENSEES

Category B Licensees commit to implement FLA Standards *in the factories where they produce licensed goods for FLA College or University affiliates*. The companies included in this category produced a range of collegiate products ranging from collegiate apparel to paper products to commemorative jewelry. More information on the licensee program can be found at www.fairlabor.org/all/licensees.

The Category B Licensees included in this report are:

- Ampad Pad and Paper, LLC
- A.T. CROSS Company
- Columbia Sportswear Company
- Commemorative Brands, Inc.
- Cutter & Buck, Inc.
- Deluxe Corporation
- Drew Pearson Marketing, Inc.
- John H. Harland Company
- Herff Jones, Inc.
- Jostens, Inc.
- MBI, Inc.
- MeadWestvaco Consumer & Office Products
- MJ Soffe Company
- Oxford Industries
- Ping, Inc.
- Russell Corporation
- Twins Enterprise, Inc.
- VF Corporation

The following Category B Licensees did not meet the requirement of submitting an annual report to the FLA:

- Ashworth, Inc.
- Global Accessories, Inc.
- Riddell

Company name: **adidas AG**

adidas' compliance program was accredited in 2005

Annual consolidated revenue in FY 2005: **$8,263,800,000**

Annual revenue from collegiate licensed goods FY 2005: **<1% of annual consolidated revenue**

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

FLA applicable brands/percentage of total annual revenue: **adidas / 88%**

Total applicable facilities in FY 2005: **251 (China-61, Turkey-21, Thailand-20, Indonesia-18, Portugal-17, Vietnam-14, Mexico-10, USA-9, El Salvador-8, Tunisia-8, Singapore-7, Phillipines-6, Germany-5, Italy-5, Taiwan-5, Cambodia-4, Malaysia-4, Bulgaria-3, Honduras-3, Hong Kong-3, Pakistan-3, Greece-2, Japan-2, Laos-2, Ukraine-2, Albania-1, Bosnia Herzegovina-1, Canada-1, Colombia-1, Korea-1, Morocco-1, Poland-1, Spain-1, United Kingdom-1)**

Factories subject to internal monitoring visits in 2005: **120 (China-29, Indonesia-16, Thailand-12, Turkey-9, Mexico-8, Vietnam-10, El Salvador-6, Phillipines-5, Tunisia-5, Cambodia-4, Singapore-4, Honduras-3, Taiwan-3, Ukraine-2, Bosnia Herzegovina-1, Colombia-1, Morocco-1, Spain-1**

Total FLA independent external monitoring visits in 2005: **7 (China-3, El Salvador-1, Indonesia-1, Turkey-1, Vietnam-1)**

adidas' Labor Compliance Program in 2005

The Social and Environmental Affairs Department (SEA) administers the corporate compliance program, according to the Standards of Engagement (SOE), adidas' code of conduct, which meets the requirements of the FLA Workplace Code of Conduct. The SEA Department reports to the General Counsel. It is led by a Global Director, three Regional Heads, and the respective regional field staff. The SEA Department comprises 35 full-time staff members, working in three geographic regions: Asia, the Americas, and Europe. It works closely with corporate Sourcing, Quality Control, and Product Development for international production, and with the management of group brands, subsidiaries, and licensees for local market production. In 2005, adidas engaged third-party organizations to conduct labor compliance monitoring and training in factories. The adidas Group sold the Salomon, Mavic, Arc'teryx, and Bonfire brands in the fourth quarter of 2005.

Developments in adidas' Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

- Launched the Guidelines for Sustainable Compliance for key footwear and apparel suppliers. The guidelines provide systems and methodologies to evaluate, measure and assess key performance indicators (KPI) and business costs, for example turnover, re-recruitment and training, days lost to accidents, injuries, and absenteeism. adidas used a revised KPI (measuring the delivery of compliance by the factory and the effectiveness of that compliance delivery) in desktop exercises for all 2005 rated factories and the results were used to develop 2006 risk analysis and monitoring plans.

- Strengthened Strategic Monitoring practices in the Americas, Asia, and Europe. Strategic Monitoring is intended to improve processes for risk identification, root cause analysis of noncompliance, and sustainable remediation. Trained in-house staff in skills to support drive toward more sustainable compliance practices.
- Intensified stakeholder dialogue as well as collaboration with multi-stakeholder initiatives. adidas participated in the JO-IN project in Turkey and in the football industry partnership in Pakistan.
- Contracted with local NGOs for stakeholder engagements in Turkey, Honduras, and Vietnam; workers contacted NGOs with grievances, which were then forwarded to adidas for action.
- Strengthened complaints and redress mechanisms, including improvements to website and key projects such as a compliance review in Sialkot, Pakistan, and a worker-management communication project in Turkey.
- Issued additional guidance notes for the Standards of Engagement on the following topics: (1) migrant workers—employment and contractual requirements; (2) swapping work days—defining conditions when it is acceptable and not acceptable; (3) unusual circumstances—defining parameters; (4) use of employment agents and contract workers; and (5) the process for assignment and registration of safety officers.

B. Selected Elements in Implementing the FLA Requirements

- The SEA team conducted 916 auditing visits of 326 factories in 2005. This included 128 in the Americas, 636 in Asia, and 152 in Europe. Less than 5% of the monitoring visits were unannounced.
- Conducted 120 strategic monitoring visits in 21 factories in Asia, 54 in the Americas, and 45 in Europe.
- Continued attention was given to pre-production audits of potential suppliers; 166 pre-production audits were conducted, resulting in 133 factories accepted and 33 rejected.
- adidas licensees also completed 45 audits of their suppliers.
- Participated in the FLA's Central America Project; regional SEA staff and nine adidas suppliers participated in sessions dealing with the Guidelines of Good Practice.

Company name: **ASICS Corporation**

Year of FLA implementation period: **1st year**

Annual consolidated revenue in FY 2005: **$1,539,000,000**

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

FLA applicable brands/percentage of total annual revenue: **Asics / 51%, Onitsuka / 4%, Wallage, Pedala, Giro, Salutis / 5%**

Total applicable facilities in FY 2005: **35 (China-26, Japan-5, Cambodia-2, Vietnam-2)**

Factories subject to internal monitoring visits in 2005: **23 (China-18, Cambodia-2, Vietnam-2, Japan-1)**

Total FLA independent external monitoring visits in 2005: **2 (China-1, Cambodia-1)**

ASICS' Labor Compliance Program in 2005

ASICS Corporation has adopted the FLA Workplace Code of Conduct. ASICS' Corporate Responsibility program is headed by a Managing Director located at headquarters in Kobe, Japan, supported by eight full-time staff members at headquarters and three full-time associates in its office in Europe, a CSR Manager and two associates in the Americas, and one associate covering Oceania. In addition, ASICS maintains four part-time factory auditors in China.

Developments in ASICS' Labor Compliance Program in 2005

- The ASICS Corporate Policy of Engagement, written in the local languages, was posted in prominent locations throughout all factories supplying ASICS.
- A system of pre-audits of apparel factories to determine whether such factories were able to manage implementation of the ASICS Code of Conduct.
- All contract factories were required to set up a suggestion box that was freely available to workers to report any complaints anonymously.
- A Factory Management Database has been created to collect compliance information such as internal auditing reports, management policies, and applicable labor laws and regulations.

Company name: **Eddie Bauer**

Eddie Bauer's compliance program was accredited in 2005

Annual consolidated revenue in FY 2005: **$1,000,000,000**

Company status: **Publicly traded [OTC: EBCH]**

FLA applicable brands/percentage of total annual revenue: **Eddie Bauer Apparel / 85%**

Total applicable facilities in FY 2005: **153 (China-44, Turkey-15, Hong Kong-12, Thailand-9, Cambodia-8, India-8, Macau-7, Sri Lanka-7, Vietnam-6, Indonesia-5, Malaysia-4, Australia-3, Dominican Republic-3, Mexico-3, Brunei-2, Colombia-2, Guatemala-2, Japan-2, Madagascar-2, Pakistan-2, Singapore-2, USA-2, Bangladesh-1, Mauritius-1, Peru-1, Phillipines-1, Taiwan-1, Zimbabwe-1)**

Factories subject to internal monitoring visits in 2005: **130 (China-41, Hong Kong-12, Thailand-9, India-8, Macau-7, Sri Lanka-7, Turkey-7, Vietnam-6, Cambodia-4, Malaysia-4, Dominican Republic-3, Indonesia-3, Mexico-3, Brunei-2, Guatemala-2, Japan-2, Pakistan-2, Singapore-2, Bangladesh-1, Madagascar-1, Peru-1, Taiwan-1, USA-1, Zimbabwe-1)**

Total FLA independent external monitoring visits in 2005: **8 (China-3, Hong Kong-1, India-1, Sri Lanka-1, Thailand-1, Vietnam-1)**

Eddie Bauer's Labor Compliance Program in 2005

The Eddie Bauer Global Labor Practice (GLP) program is responsible for overseeing the company's compliance activities and performance with respect to its Factory Workplace of Conduct. Eddie Bauer first adopted a code of conduct for its suppliers in 1995. When Eddie Bauer joined FLA, the company adopted the FLA Workplace Code of Conduct.

The GLP program is led by the Director of Public Affairs and Corporate Social Responsibility, who reported to the VP of Global Sourcing and Supply Chain Operations. The activities of the GLP program are carried out at corporate headquarters and through Eddie Bauer's sourcing agent offices, Eddie Bauer International (EBI), in Hong Kong and Miami. Two full time compliance auditors employed by EBI in Hong Kong are responsible for monitoring factories in Asia, Africa, and Europe. Six part-time compliance staff employed by EBI Miami are responsible for factories in the Americas. EBI account managers based in the countries of manufacture provide support to the monitoring process by translating documents and assisting in worker interviews. In addition to its partnership with the Global Sourcing and Supply Chain Operations department, the GLP program also interfaces with the company's Licensing and International departments. Through these connections, the GLP program works to ensure that compliance with the Factory Workplace Code of Conduct is a condition of doing business with factories producing apparel for Eddie Bauer licensees and its joint ventures in Japan and Germany.

To support its monitoring efforts, Eddie Bauer used two third-party monitors, Global Social Compliance and Intertek Testing Solutions, to conduct pre-sourcing audits of prospective apparel factories for its core business, its licensees, and joint ventures. A total of 50 pre-sourcing audits were conducted in 2005.

Developments in Eddie Bauer's Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

Eddie Bauer reported that in 2005 it continued to mainstream the Licensing Department and joint ventures with Germany and Japan into the core activities of the Global Labor Practice (GLP) program. Factories supplying apparel licensees and joint ventures were reported to the FLA and were candidates for independent external monitoring visits. The GLP program also continued to integrate non-apparel suppliers into the core compliance program. Following the FLA's accreditation review, Eddie Bauer took steps to further align the GLP program with FLA requirements, particularly with regard to code awareness, freedom of association, grievance procedures, and methods to prevent noncompliances.

B. Selected Elements in Implementing the FLA Requirements

- A critical focus for the GLP program in 2005 was employee education/training. At Corporate Headquarters, trainings were held for merchandisers and product teams responsible for establishing and managing the vendor relationship; GLP staff also delivered presentations on the program in Asia and the Americas.

- Reinforced Code Awareness requirement of suppliers, and tested it through worker and management interviews as well as through documentation reviews.

- Encouraged suppliers to participate in the FLA's Central America Project in Guatemala. The project provided a framework for suppliers to improve human resources management and practices in the areas of hiring, firing, discipline, and grievance procedures.

- Held meetings and discussions with local civil society organizations in countries where Eddie Bauer sources, including Guatemala, China, India, Indonesia, and Sri Lanka, as well as with international labor rights organizations.

Company name: **Gear for Sports, Inc. (GFSI)**

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

Annual consolidated revenue in FY 2005: **$150,000,000-200,000,000***

Annual revenue from collegiate licensed goods FY 2005: **$72,700,000**

Company status: **Privately held**

FLA applicable brands/percentage of total annual revenue: **GEAR for Sports / 33%, Champion Custom Products / 67%**

Total applicable facilities in FY 2005: **39 (Vietnam-10, Peru-6, China-5, Colombia-3, Taiwan-3, Cambodia-2, Guatemala-2, India-2, Egypt-1, Honduras-1, Macau-1, Malaysia-1, Mexico-1, Thailand-1)**

Factories subject to internal monitoring visits in 2005: **14 (China-3, Colombia-3, Vietnam-2, Guatemala-2, Honduras-1, India-1, Macau-1, Malaysia-1,**

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

*A revenue range is provided for privately held companies.

GFSI's Labor Compliance Program in 2005

GFSI's Corporate Social Responsibility Program is managed by the Director of Corporate Social Responsibility, who reports to the senior Vice President of Supply Chain, who in turn reports to the President/Chief Operating Officer. The compliance program is based on the FLA Workplace Code of Conduct. GFSI's labor compliance staff consisted of 11 part-time staff persons, two at headquarter and nine in Asia, Latin America, and Mexico. GFSI uses a third-party monitor to conduct internal auditing of its contract factories.

Developments in GFSI's Labor Compliance Program in 2005

- Partnered with CSCC, a third party monitor, to executive GFSI's Global Human Rights Program. In addition to providing internal monitoring of facilities, CSCC also offered expertise and management guidance for GFSI's Corporate Social Responsibility Program.
- All factories were provided with the Code of Conduct to be posted in a prominent place.
- Conducted training for all country managers in all aspects of the Code of Conduct during the annual Agent/Vendor/Country Managers meeting at headquarters.
- Used the CSCC COSMOS web-based system to manage and assess compliance information, including country profiles, factory profiles, audit results, and corrective action plans.

Company name: **Gildan Activewear Inc.**

Year of FLA implementation period: **2nd year**

Annual consolidated revenue in FY 2005: **$653,851,000**

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

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

Total applicable facilities in FY 2005: **40 (Haiti-10, Honduras-9, Canada-8, Nicaragua-4, Dominican Republic-3, USA-3, Mexico-2, El Salvador-1)**

Factories subject to internal monitoring visits in 2005: **13 (Honduras-5, Dominican Republic-3, Nicaragua-2, Mexico-2, El Salvador-1)**

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

Gildan Activewear Inc.'s Labor Compliance Program in 2005

Gildan Activewear Inc.'s Social Compliance Program is responsible for ensuring compliance with the Gildan Code of Conduct, which meets the requirements of the FLA Workplace Code of Conduct. The Social Compliance Program is managed by the Director of Social Responsibility and Employee Relations, a new position created in 2005 at the Corporate Office. The Director of Social Responsibility and Employee Relations, who reports to the Human Resources Executive Vice President, is supported by two full-time staff members in the field and nine part-time compliance staff members in the field. Gildan Activewear Inc. contracts with a third-party monitoring firm to conduct internal auditing of its facilities.

Developments in Gildan Activewear Inc.'s Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

- Conducted training for top management on Corporate Social Responsibility and its importance in managing day-to-day operations.
- Freedom of Association, Collective Bargaining and 'building a positive working environment' training sessions were given to 507 employees in Honduras.
- Top level Managers attended a workshop to discuss a Social Responsibility Vision and set strategic objectives.
- Reviewed current Code of Conduct.
- Developed a new tool, the Management Action Plan (MAP), to track audit findings and remediation plans. An integral part of MAP is a tracking mechanism that includes remediation target completion date and status.
- Communicated obligations and expectations of FLA participation to regional staff and factory management and seeking their acceptance of such obligations and expectations; building awareness among workers about FLA code requirements; providing employees with confidential

reporting channels.

- Strengthened relationships with local NGOs with knowledge of local issues and concerns of workers and with international NGOs involved in labor compliance issues.

B. Selected Elements in Implementing the FLA Requirements

- Conducted 13 internal audits in 2005, six on company-owned facilities and seven in contract factories.
- Four Human Resource Managers of sewing facilities in Honduras participated in the FLA Central America Project.
- Worked closely with the Maquila Solidariy Network (MSN) and the Worker Rights Consortium (WRC) to assess commitments to reintegrate into other Gildan plants workers displaced as a result of the closure of the El Progreso facility. The commitments have been independently monitored by EMIH, a local NGO.

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

LCI's compliance program was accredited in 2005

Annual consolidated revenue in FY 2005: **$4,847,753,000**

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

FLA applicable brands/percentage of total annual revenue: **The following brands made up 55% of LCI's total annual revenue in 2005: Liz, Liz Claiborne, Axcess, Clairborne, Crazy Horse, Dana Buchman, Elisabeth, Emma James, First Issue, J.H. Collectibles, Villager, Sigrid Olsen, Laundry by Shelli Segal, Lucky Brand Jeans, Juicy Couture, Belongings, Tapemeasure, Tint**

Total applicable facilities in FY 2005: **483 (China-122, USA-80, India-59, Hong Kong-42, Korea-27, Mexico-18, Sri Lanka-17, Indonesia-16, Macau-14, Taiwan-13, Turkey-11, Vietnam-10, Dominican Republic-9, Philippines-9, Thailand-8, Saipan-7, Macedonia-5, Colombia-4, Peru-4, Guatemala-3, Bangladesh-1, El Salvador-1, Honduras-1, Madagascar-1, Mongolia-1)**

Factories subject to internal monitoring visits in 2005: **216 (USA-80, China-42, India-38, Indonesia-10, Korea-8, Mexico-16, Dominican Republic-8, Colombia-4, Guatemala-4, Peru-4, El Salvador-2)**

Total FLA independent external monitoring visits in 2005: **13 (China-6, Thailand-2, Bangladesh-1, India-1, Mexico-1, Sri Lanka-1, USA-1)**

Liz Claiborne, Inc.'s Labor Compliance Program in 2005

Liz Claiborne, Inc.'s Standards of Engagement are based on the FLA Workplace Code of Conduct. The Vice President of Human Rights Compliance, who reports to the Senior Vice President/General Counsel, is responsible for implementation of the labor compliance program. The Vice President of Human Rights Compliance is a member of the Allocation Committee responsible for production and factory allocations for future seasons, and participates in periodic meeting with corporate and divisional manufacturing executives to discuss sourcing and compliance issues concerning Liz Claiborne, Inc.'s factories around the world.

In 2005, Liz Claiborne, Inc.'s labor compliance staff consisted of seven full-time staff members and nine part-time staff members, the latter all located in Asia. In addition to using its own staff or its agents, Liz Claiborne, Inc. engaged third-party organizations to conduct compliance support in 2005, among them T-Group Solutions (India), WIRE (Jordan), Global Social Compliance, CSCC, and Labor Law (USA).

Developments in Liz Claiborne, Inc.'s Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

- Continued efforts to address issues related to hours of work and overtime payments in China.
- Increased attention to compliance with mandatory social benefits in anticipation of potential retrenchment associated with shifts in apparel sourcing after the expiry of the Multi-Fiber

Arrangement.

- Increased attention to factory grievance procedures, among others by notifying internal auditors of priority, revising the internal audit instrument, and communicating the importance to suppliers.

B. Selected Elements in Implementing the FLA Requirements

- Added a new label, Juicy Couture, to the monitoring program.
- Internal audits were targeted at facilities based on risk (previous compliance records and country risks), supplier ranking in terms of production volume, and date of last audit. Approximately 270 return visits to follow up visits were conducted in 2005, a far greater number than in previous years because of the inclusion of new labels. All new factories added to the roster were audited.
- Processed four complaints from workers received through its confidential reporting channel regarding plants in China and El Salvador.
- Met and consulted with civil society organizations in Hong Kong, China, and Guatemala on local labor issues; also maintained contact with international labor rights organizations.

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

Year of FLA implementation period: **0 (joined in May 2005)**

Annual consolidated revenue in FY 2005: **$194,000,000**

Company status: **Co-operative**

FLA applicable brands/percentage of total annual revenue: **MEC labeled goods / 49%**

Total applicable facilities in FY 2005: **32 (Canada-12, China-9, Thailand-3, Taiwan-3, Vietnam-2, India-1, Korea-1, Portugal-1)**

Factories subject to internal monitoring visits in 2005: **27 (China-11, Canada-4, Thailand-4, New Zealand-3, Vietnam-3, India-1)**

Total FLA independent external monitoring visits in 2005: **3 (China-1, Vietnam-1, Thailand-1)**

Mountain Equipment Co-op's Labor Compliance Program in 2005

Mountain Equipment Co-op (MEC) has adopted the FLA Workplace Code of Conduct. The company's labor compliance program is named the MEC Ethical Sourcing Program. It is directed by a senior manager, who reports directly to the CEO, responsible for both daily operational matters and overall strategy and policies. Major program changes and developments are reviewed quarterly by a committee consisting of representatives of the Sourcing, Production, and Sustainability departments.

Developments in Mountain Equipment Co-op's Labor Compliance Program in 2005

- Recruited a manager to head the MEC Ethical Sourcing Program.
- Supplier factory in China put in place a confidential and secure grievance box for workers to use.
- Assessed potential supplier factories in 2005 to determine if they could implement MEC's Code of Conduct; two potential supplier factories in China were rejected because of their unwillingness to meet labor compliance requirements.
- Developed a secure network library to track supplier lists, audit status, and other compliance information.

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

Year of FLA implementation period: **2nd year**

Annual consolidated revenue in FY 2005: **$250,000,000 - $500,000,000***

Annual revenue from collegiate licensed goods FY 2005: **1% of total annual revenue**

Company status: **Privately held**

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

Total applicable facilities in FY 2005: **13 (China-7, USA-4, Hong Kong-1, South Korea-1)**

Factories subject to internal monitoring visits in 2005: **13 (China-7, USA-4, Hong Kong-1, South Korea-1)**

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

*A revenue range is provided for privately held companies.

New Era Cap Company's Labor Compliance Program in 2005

In 2005, New Era Cap Company was in the second year of a three-year implementation period as a Participating Company. Earlier, New Era Cap Company's activities were reported as a Category B Licensee. New Era Cap Company's Social Compliance Program is based on the FLA Workplace Code of Conduct. The program is structured in a cross-cutting fashion. The Vice President for Global Human Resources has overall responsibility for the program, assisted by the Health and Safety Manager and an Executive Administrative Assistant. Management and administrative staff from several departments also participate in its implementation.

Developments in New Era Cap Company's Labor Compliance Program in 2005

- Supplied all factories in China with a poster-size FLA Code of Conduct in simplified Chinese.
- Produced and disseminated an informational brochure to build awareness about the FLA Code of Conduct.
- Continued training for staff and factory management on the FLA Workplace Code of Conduct and Monitoring Principles.
- Conducted internal monitoring of 100% of company-owned and contract facilities. All audits were unannounced.
- Required a social compliance assessment of potential suppliers as a sourcing decision point.
- Consulted on workplace issues with representatives of local unions in factories in the United States that have such worker organizations.

Company name: **NIKE, Inc.**

NIKE's compliance program was accredited in 2005

Annual consolidated revenue in FY 2005: **$13,739,669,731**

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

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

Total applicable facilities in FY 2005: **856 (China-153, Thailand-74, USA-62, Korea-45, Indonesia-43, Vietnam-42, Malaysia-39, Sri Lanka-36, Japan-34, Turkey-30, Brazil-27, India-26, Mexico-26, Portugal-24, Taiwan-19, Italy-14, Canada-13, Hong Kong-12, Honduras-11, Argentina-9, Tunisia-9, Australia-8, Bulgaria-8, Bangladesh-7, South Africa-7, El Salvador-6, Israel-6, Morocco-6, Spain-6, Philippines-5, United Kingdom-5, Egypt-4, Jordan-4, Macau-4, Pakistan-4, Dominican Republic-3, Moldova-3, Cambodia-2, Chile-2, Colombia-2, Lithuania-2, Singapore-2, Albania-1, Belgium-1, Bosnia-1, Ecuador-1, France-1, Greece-1, Guatemala-1, Macedonia-1, Peru-1, Romania-1, Switzerland-1, Fiji-1)**

Factories subject to internal monitoring visits in 2005: **607 (China-129, Thailand-59, USA-47, Indonesia-42, Malaysia-39, Vietnam-36, Sri Lanka-31, Korea-24, Turkey-19, India-18, Brazil-15, Japan-15, Hong Kong-11, Taiwan-11, Canada-9, Portugal-9, Australia-7, Bangladesh-7, Mexico-7, Argentina-6, South Africa-6, Bulgaria-5, Honduras-5, Phillipines-5, Tunisia-5, Macau-4, Morocco-4, Spain-4, Egypt-3, Israel-3, Pakistan-3, Cambodia-2, Italy-2, Lithuania-2, Moldova-2, Singapore-2, Belgium-1, Bosnia-1, Colombia-1, Ecuador-1, El Salvador-1, Greece-1, Jordan-1, United Kingdom-1, Fiji-1)**

Total FLA independent external monitoring visits in 2005: **22 (China-7, El Salvador-1, Guatemala-1, Honduras-1, India-3, Indonesia-3, Sri Lanka-2, Thailand-2, Turkey-2)**

NIKE's Labor Compliance Program in 2005

NIKE's compliance program centers on implementation of the company's Code of Conduct, which meets the requirements of the FLA Workplace Code of Conduct. The Vice President of Compliance, who reports to the Vice President of Apparel Sourcing, oversees the compliance staff, which is based at NIKE headquarters and in NIKE liaison and production offices overseas. Compliance field staff is organized into four regional teams: Americas, Europe/Middle East/Africa, North Asia, and South Asia. In 2005, NIKE's labor compliance program had 76 full-time employees (10 at headquarters and the rest in the field). NIKE compliance staff conducts most management audits, which are comprehensive internal monitoring visits. In addition, in 2005, NIKE contracted several third-party monitoring organizations to conduct pre-sourcing audits, follow-up audits, management audits, and environmental, safety, and health assessments where no internal auditing staff was available.

Developments in NIKE's Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

- Built a new set of oversight tools and capacity building programs to implement a new generation of compliance called "Generation III." The tools were built by a global team drawn from different compliance region and discipline. The new generation management verification audit (MAV) focuses on four key areas of compliance—wages, hours of work, freedom of association, and worker/management relations—and looks closely at impacts generated by noncompliance and root causes. The new generation environmental, safety, and health (Self SHAPE) tool will be used by factories as they build their internal ESH committees and capacities.

- Regional teams built up the capacity of factory-level environment, safety, and health (ESH) committees, comprised of workers and management, in order to transfer ownership of safety, health, attitude, people, and environment (SHAPE) audits to the ESH committees. This is consistent with NIKE's strategic objective to build the capacity of contract factories to sustain compliance activities on their own.

- Worked with local NGOs to develop reporting systems for employee grievances. About 5,600 workers have been trained on the Xiaochen hotline program in China, which began in 2004, which created a communication platform for employees and management to resolve grievances internally. The objective of the program is to empower workers to communicate issues of concern to factory management through grievance channels.

- Developed a balanced score card management tool that allows management to rate contract factories on the basis of metrics regarding quality, pricing, on-time delivery, and corporate responsibility. This balanced score card allows management to tier factories when business decisions related to volumes need to be made.

- Boosted transparency by releasing the names and addresses of all NIKE brand contract factories (with a few exceptions given confidentiality clauses in manufacturing agreements). NIKE has also asked its suppliers to develop and make available to all buyers an Open Log Book of compliance-related materials, including certifications, inspections, action plans, and monitoring visits. The rationale behind both steps is that greater transparency will bring greater opportunities to share oversight information and free up resources to invest in sustainable compliance program on the factory floor.

B. Selected Elements in Implementing the FLA Requirements

In 2005, NIKE staff conducted 509 SHAPE (safety, health, attitude, people, and environment) assessments, 84 management audits (M-audits), and 65 environmental, safety, and health (ESH) audits.

- Conducted 99 pre-sourcing evaluations of prospective factories. Of these, 80 factories were approved to be added as suppliers, with the rest remaining in the pre-sourcing remediation process or rejected altogether.

- Collected base-level environmental, safety, and health data on over 650 factories in 52 countries and conducted 15 ESH in-depth root cause assessments. The in-depth root cause assessments were conducted by outside ESH experts along with NIKE personnel. The in-depth assessments identified four key drivers of ESH noncompliance—chemicals, worker protection, fire safety, and maintenance-related work. NIKE will use this information to measure and build factory capacity to manage these issues.

Company name: **Nordstrom, Inc.**

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

Annual consolidated revenue in FY 2005: **$7,300,000,000**

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

FLA applicable brands/percentage of total annual revenue: **Nordstrom Product Group Apparel brands / 13%**

Total applicable facilities in FY 2005: **334 (China-105, Hong Kong-67, USA-22, Italy-21, Macau-17, India-12, Korea-11, Sri Lanka-11, Canada-8, Turkey-8, Hungary-5, Malaysia-5, Mexico-5, Romania-5, Israel-4, Lithuania-3, Taiwan-3, Dominican Republic-2, Mauritius-2, Phillipines-2, Poland-2, Portugal-2, Tunisia-2, United Kingdom-2, Australia-1, Brazil-1, Costa Rica-1, Morocco-1, Peru-1, Singapore-1, South Africa-1, Thailand-1)**

Factories subject to internal monitoring visits in 2005: **323 (China-105, Hong Kong-67, USA-22, Italy-19, Macau-17, India-12, Korea-11, Sri Lanka-11, Turkey-8, Canada-7, Hungary-5, Malaysia-5, Mexico-5, Romania-5, Israel-4, Taiwan-3, Dominican Republic-2, Lithuania-2, Phillipines-2, Portugal-2, Tunisia-2, United Kingdom-2, Australia-1, Brazil-1, Costa Rica-1, Mauritius-1, Morocco-1, Peru-1, Poland-1, Singapore-1, South Africa-1, Thailand-1**

Total FLA independent external monitoring visits in 2005: **14 (China-7, India-2, Malaysia-1, Sri Lanka-1, Tunisia-1, Turkey-1, USA-1)**

Nordstrom Social Responsibility Program in 2005

The Nordstrom compliance program is called the Nordstrom Social Responsibility Program; it is housed within the Nordstrom Product Group (NPG) division. NPG designs, contracts to manufacture, and imports private label products for Nordstrom retail distribution. Nordstrom Social Responsibility Program interacts with entities within the corporation such as Sourcing, Production, Quality Assurance, Logistics, Customs Compliance, and International Payments. Nordstrom only issues purchase orders to factories that have agreed to the "Nordstrom Partnership Guidelines," which include a Code of Conduct identical to the FLA Workplace Code of Conduct, have remediated all outstanding issues identified in a corrective action plan, and have been verified to have a systematic means for minimizing future code of conduct issues. Nordstrom relied on Key Agents to conduct internal monitoring; third-party monitors to conduct monitoring visits to factories not under the scope of a Key agent, as well as all pre-sourcing visits to new facilities.

In 2005, the Nordstrom Social Responsibility Program reorganized along regional lines. The reorganization created five Regional Specialists on five regions of the world where Nordstrom contracts to manufacture. The five regions and the production lines involved in each are: (1) North and South America, Spain and Portugal—apparel, footwear, home, accessories; (2) Europe/Eastern Europe—apparel, footwear, home, accessories; (3) Africa, Middle East, Sub-Continent Asia, South East Asia-apparel, footwear, home, accessories; (4) China, Hong Kong, Macau-apparel only; and (5) China, Hong Kong, Macau-footwear, home accessories. The reorganization has allowed Regional Specialists to develop relationships with agents, suppliers, factories, peer companies, and organizations in order to better understand and serve the needs of each region. Nordstrom's labor compliance staff consisted of ten full-time staff members.

Developments in Nordstrom Social Responsibility Program in 2005

A. Compliance Systems Developed in 2005

- Began to use the Risk Assessment Tool, developed by a consultant, to identify areas of the compliance program, including monitoring, that represent a greater risk than others.

- Began implementation of the Environmental Strategy project. Over a five-year period, Nordstrom will roll out the initiatives: (1) Harmful Substance Reduction; (2) Water Quality; (3) Alternative Care and Packaging Reduction; (4) Organic Cotton; and (5) Consumer Education regarding care for garments.

B. Selected Elements in Implementing the FLA Requirements

- Distributed Partnership Guidelines poster to all factories within six weeks of being approved as a new supplier. Poster is available in all local languages. Factory management is requested to review all guidelines with workers upon posting.

- Provided a remote training packet to suppliers who had not received previous training. The packet included the Nordstrom Guidelines and supporting materials as well as a CD-ROM with general information about Nordstrom, in-depth Guidelines training, and a factory self-assessment worksheet.

- Partnered with a Key Agent in South China to create a secure communication channel for workers to voice concerns. The system covers about 200 factories in that region.

- Worked with an NGO in India (ASK) to develop Human Resource Systems and address specific issues found during an audit conducted by Verite.

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

Year of FLA implementation period: **2nd year**

Annual consolidated revenue in FY 2005: **$50,000,000-100,000,000***

Annual revenue from collegiate licensed goods FY 2005: **$11,000,000-$15,000,000**

Company status: **Privately held**

FLA applicable brands/percentage of total annual revenue: **Outdoor Cap / 2%, Signature / 84%, Starter / 14%**

Total applicable facilities in FY 2005: **12 (Bangladesh-5, China-4, Sri Lanka-2, USA-1)**

Factories subject to internal monitoring visits in 2005: **3 (Bangladesh-1, China-1, Sri Lanka-1)**

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

*A revenue range is provided for privately held companies.

Outdoor Cap Company's Labor Compliance Program in 2005

Outdoor Cap Company has adopted the FLA Code of Conduct as the basis for its compliance program. Implementation of Outdoor Cap Company's Social Compliance Program is the responsibility of the Compliance Manager, who reports to the Executive Vice President for Operations. The Vice President of Merchandising and the Purchasing Manager work very closely with the Compliance Manager when making new sourcing decisions and maintain production levels stable. Outdoor Cap Company has one full time person devoted to labor compliance at headquarters and one part-time internal monitor. The company engages a third-party monitor to conduct some compliance audits.

Developments in Outdoor Cap Company's Labor Compliance Program in 2005

- Implemented a secure confidential reporting channel for all supplier factories by posting an independent contact name, address, phone, and email address locally for workers to contact to report grievances. The representative of the forwarding company that Outdoor Cap Company uses in each country serves as the local contact.
- Conducted internal monitoring in three factories (in Bangladesh, China, and Sri Lanka); two of the audits were announced, and one was unannounced.
- Hosted a 2-day social compliance training session at its headquarters conducted by Verite.
- Continued work in the development of an Access database that will allow the Compliance Manager to analyze and track noncompliance issues found by internal monitoring and to verify remediation actions.

Company name: **Patagonia**

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

Annual consolidated revenue in FY 2005: **$243,000,000**

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

FLA applicable brands/percentage of total annual revenue: **Patagonia / 99%, Water Girl and Lotus / <1%**

Total applicable facilities in FY 2005: **63 (USA-16, China-15, Thaliand-7, Mexico-5, Vietnam-5, Colombia-2, Morocco-2, Tunisia-2, Turkey-2, Candada-1, El Salvador-1, Israel-1, Honduras-1, Hong Kong-1, Peru-1, Phillipines-1)**

Factories subject to internal monitoring visits in 2005: **32 (China-10, Thailand-5, USA-4, Vietnam-4, Colombia-2, Mexico-2, Canada-1, El Salvador-1, Honduras-1, Hong Kong-1, Peru-1)**

Total FLA independent external monitoring visits in 2005: **3 (China-1, Thailand-1, Turkey-1)**

Patagonia's Labor Compliance Program in 2005

In 2005, Patagonia completed the third year of its three-year initial implementation period of the FLA program. Patagonia's Social Compliance Program is responsible for implementing the company's Code of Conduct, which is identical to the FLA Workplace Code of Practice. Compliance is managed by the Social Compliance Manager, who reports to the Vice President of Production. The Social Compliance Program is imbedded in the sourcing structure of the company and thereby it is fully integrated into the strategic decision making process of the sourcing team. Patagonia relies primarily on third-party monitors for compliance support services, including internal monitoring.

Developments in Patagonia's Labor Compliance Program in 20051

- Patagonia formally asked all suppliers to post its Code of Conduct in locations easily accessible to workers; the Code of Conduct poster includes confidential contact information.
- Set up an email account for compliance complaints and encouraged suppliers to establish additional means for confidential reporting within their factories.
- Conducted audits at 50% of its active factory base; all audits were announced.
- Established a factory scoring system that ranks facilities in terms of labor compliance.
- Participated in the Jo-In Project with the expectation of learning about strategies to address persistent compliance problems and developing proactive remediation strategies.
- Engaged the Guangzhou Occupational Health Center to institute a new training program for factories in China.

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

PVH's compliance program was accredited in 2005.

Annual consolidated revenue for applicable brands in FY 2005: **$1,402,000,000**

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

FLA applicable brands/percentage of total annual revenue: **Van Heusen / 30%; Izod / 30%; G.H. Bass / 10%; Arrow, Geoffrey Beene, Calvin Klein / 30%**

Total applicable facilities in FY 2005: **239 (China-65, India-29, Bangladesh-13, Korea-13, Brazil-10, Phillipines-10, Italy-9, USA-9, Dominican Republic-8, Inonesia-6, Taiwan-6, Mexico-5, Egypt-5, Hong Kong-5, Vietnam-5, Malaysia-4, Thailand-4, Honduras-3, Macau-3, Mongolia-3, Sir Lanka-3, Costa Rica-2, Israel-2, Jordan-2, Peru-2, Romania-2, Pakistan-2, Cambodia-2, Argentina-1, Australia-1, Colombia-1, El Salvador-1, Hungary-1, Japan-1, Turkey-1)**

Factories subject to internal monitoring visits in 2005: **239 (China-65, India-29, Bangladesh-13, Korea-13, Brazil-10, Phillipines-10, Italy-9, USA-9, Dominican Republic-8, Inonesia-6, Taiwan-6, Mexico-5, Egypt-5, Hong Kong-5, Vietnam-5, Malaysia-4, Thailand-4, Honduras-3, Macau-3, Mongolia-3, Sir Lanka-3, Costa Rica-2, Israel-2, Jordan-2, Peru-2, Romania-2, Pakistan-2, Cambodia-2, Argentina-1, Australia-1, Colombia-1, El Salvador-1, Hungary-1, Japan-1, Turkey-1)**

Total FLA independent external monitoring visits in 2005: **7 (Bangladesh-2, China-2, India-1, Sri Lanka-1, Vietnam-1)**

Developments in Phillips-Van Heusen's Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

Expanded the Critical Engagement and Impact Program (CEIP) to five factories in India. CEIP reflects the company's evolution in thinking about traditional monitoring. PVH has concluded that traditional monitoring does not lead to sustainable change throughout the supply chain, and instead results in an endless cycle of factories moving into and out of compliance. PVH sees compliance as a process of addressing endemic problems at their roots that requires time, commitment, and transparency from both PVH and from factory partners. Under CEIP, analysis is conducted of causes underlying noncompliance as a necessary step for tackling complex remediations and factories are urged to take ownership of the remediation process by developing their own Corrective Action Plans (CAPs) and implementation timelines. For factories under the CEIP, PVH staff generate a monthly report tracking compliance through initial, progress, and final factory audits, as well as through the CAP status.

Expanded innovative pilot programs to address specific compliance issues, among them: (1) an air quality assessment program that includes air quality testing and training; (2) the establishment and training of worker's committee at a factory in China; (3) mitigation of ethno-religious conflict in Mindanao through the creation of jobs and training of the population; and (4) commissioned a study of the implications of monsoon-related flooding in Bangladesh on working hours. PVH worked collaboratively with other brands in the air quality assessment program.

B. Selected Elements in Implementing the FLA Requirements

- Audited all 239 factories reported to the FLA that were used for production in 2005.
- Conducted 92 initial audits of new factories prior to any production; all new factories were subject to some remediation. PVH opted not to pursue business relationships with several factories that had severe cases of noncompliance with the company's Code of Conduct and management that PVH officials deemed lacked the integrity, commitment, and transparency to undertake an effective and timely remediation process.
- Initial audits were always announced; other monitoring visits are announced or unannounced at the discretion of the Regional Compliance Staff. In 2005, unannounced visits were conducted in two factories in South Asia, 13 in China, and about 10% of factories in Central America.
- Maintained an updated, online database system that tracks compliance through initial, progress, and final factory audits, as well as through corrective action plan (CAP) status reports. PVH staff generates a quarterly compliance analysis report for all factories; for factories under CEIP, the report is generated monthly.
- In addition, maintained an up-to-date Human Rights Database and a Country Key for each production country to ensure company awareness of the most recent laws in each region.
- Facilitated compliance training conferences in selected factories aimed at addressing systemic challenges and identifying remediation approaches.
- Continued to maintain, and expanded, relationships with a broad range of civil society organizations in the countries where production is based.

Company name: **PUMA AG**

Year of FLA implementation period: **2nd year**

Annual consolidated revenue in FY 2005: **$2,300,000,000**

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

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

Total applicable facilities in FY 2005: **376 (China-97, Italy-31, Turkey-30, Vietnam-19, South Korea-17, Thailand-17, Portugal-16, Malaysia-14, Indonesia-10, Argentina-9, Taiwan-8, Romania-7, South Africa-7, Bangladesh-6, Cambodia-6, Egypt-6, Phillipines-6, India-5, Brazil-4, Bulgaria-4, France-4, Pakistan-4, Spain-4, Tunisia-4, Australia-3, El Salvador-3, Mexico-3, Morocco-3, Poland-3, Slovakia-3, Chile-2, Greece-2, Israel-2, Laos-2, Ukraine-2, Belgium-1, Colombia-1, Czech Republic-1, Ecuador-1, Germany-1, Ireland-1, Lesotho-1, New Zealand-1, Paraguay-1, Singapore-1, Sri Lanka-1, United Kingdom-1, Venezuela-1)**

Factories subject to internal monitoring visits in 2005: **245 (China-95, Vietnam-19, South Korea-17, Thailand-17, Malaysia-11, Indonesia-10, Turkey-10, Argentina-7, Cambodia-6, Egypt-6, Bulgaria-4, India-4, Pakistan-4, Australia-3, El Salvador-3, Italy-3, Romania-3, Phillipines-3, Taiwan-3, Bangladesh-2, Laos-2, Greece-2, Israel-2, Tunisia-2, Brazil-1, Colombia-1, Czech Republic-1, Mexico-1, New Zealand-1, Poland-1, Sri Lanka-1)**

Total FLA independent external monitoring visits in 2005: **17 (China-6, Thailand-4, Vietnam-2, Bangladesh-1, India-1, Indonesia-1, Tunisia-1, Turkey-1)**

PUMA AG's Labor Compliance Program in 2005

PUMA's labor and environmental compliance department is named S.A.F.E. (Social Accountability and Fundamental Environmental Standards). It is responsible for the strategic development as well as implementation of PUMA's Supplier Code of Conduct, which corresponds with the standards in the FLA's Workplace Code of Conduct. The Global Head of S.A.F.E. reports directly to the Board of Management. PUMA has S.A.F.E. Teams for Europe, the Middle East, and Africa; Asia and the Americas; and China. Overall, S.A.F.E. has ten full time staff members located at headquarters and in the Far East, supported by S.A.F.E. representatives at the factory level as well as technicians. PUMA audits all suppliers for their social and environmental performance, including licensee suppliers, on a regular basis. These audits are conducted by PUMA staff, supplemented by a third-party auditor in China. PUMA has made its list of worldwide suppliers available to the public through the FLA.

Developments in PUMA's Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

- PUMA put in place a four-grade rating system for factories that places heavy penalties for noncompliances in the areas of child labor, minimum wage noncompliance, and prison labor.
- Designed and began to implement the PUMA S.A.F.E. Complaint Procedure, a system to allow

workers to raise complaints anonymously that seeks to resolve matters within two months.

- Refined a database that contains information on all its authorized suppliers.

B. Selected Elements in Implementing the FLA Requirements

- Adopted the PUMA Code of Ethics, which complements the PUMA Supplier Code of Conduct, and sets out the corporation's commitment to ethical and responsible individual and corporate behavior.
- Conducted a Code of Conduct workshop in a supplier in Bulgaria with a third-party NGO management and workers.
- Hosted the third annual "Talk at Banz" Stakeholder Dialogue, attended by representatives of business organizations, suppliers, NGOs, unions, and prominent corporate social responsibility organizations.

Company name: **Reebok International Ltd.**

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

Annual consolidated revenue in FY 2005: **$3,772,856,000**

Annual revenue from collegiate licensed goods FY 2005: **$1,131,497**

Company status: **Publicly traded in 2005 [NYSE: RBK]. In January 2006, Reebok was acquired by adidas AG [FRA: ADS].**

FLA applicable brands/percentage of total annual revenue: **Reebok Footwear / 51%, Reebok Apparel / 32%**

Total applicable facilities in FY 2005: **654 (China-161, USA-66, Vietnam-45, Taiwan-39, Korea-38, Indonesia-34, India-30, Sri Lanka-25, Portugal-21, Bangladesh-20, Mexico-18, Thailand-18, Phillipines-17, Spain-16, Honduras-13, Turkey-13, Malaysia-11, Pakistan-9, El Salvador-7, Guatemala-7, Brazil-6, Greece-6, Australia-5, Cambodia-4, Hong Kong-4, Madagascar-3, Albania-2, Bulgaria-2, Dominican Republic-2, Italy-2, Lesotho-2, Peru-2, Swaziland-2, Costa Rica-1, Egypt-1, Venezuela-1, Zimbabwe-1)**

Factories subject to internal monitoring visits in 2005: **457 (China-151, Indonesia-34, Taiwan-31, India-30, Vietnam-25, Portugal-18, Thailand-18, Phillipines-17, Sri Lanka-15, Turkey-13, Mexico-12, Korea-11, Malaysia-11, Honduras-9, Bangladesh-8, Pakistan-8, El Salvador-5, Cambodia-4, Guatemala-4, Hong Kong-4, USA-4, Madagscar-3, Spain-3, Brazil-2, Bulgaria-2, Dominican Republic-2, Italy-2, Swaziland-2, Albania-1, Australia-1, Costa Rica-1, Egypt-1, Greece-1, Lesotho-1, Peru-1, Venezuela-1, Zimbabwe-1)**

Total FLA independent external monitoring visits in 2005: **15 (China-4, Vietnam-4, Thailand-2, Honduras-1, India-1, Indonesia-1, Mexico-1, USA-1)**

Reebok's Labor Compliance Program in 2005

Reebok's compliance program is managed by the Human Rights and Business Practices program. It is guided by the Reebok Human Rights Production Standards, which meet the requirements of the FLA Workplace Code of Conduct. The compliance program is headed by the Vice President of Human Rights Programs, who is based at company headquarters, and reports to the General Counsel of Reebok International and has a "dotted line" reporting structure to the CEO and Chairman of the Board of Reebok International, Ltd. The Human Rights and Business Practices team—which covers both apparel and footwear—consisted of 2 full-time and three part-time staff members at headquarters and 23 staff members in the field. The Human Rights and Business Practices program works closely with the production and sourcing departments to implement the Reebok Standards. The vast majority of internal monitoring visits to Reebok's apparel and footwear facilities in 2005 were conducted by the company's Human Rights and Business Practices staff. However, Reebok also contracted with third-party monitors for audits in apparel factories.

Developments in Reebok's Labor Compliance Program in 2005

A. Compliance Systems Developed in 2005

- Pilot tested the S-Process or Sustainability Audits (S-audits), a program designed to uncover the root causes of persistent noncompliance. While traditional audits typically concentrate on identifying specific instances of code noncompliance, S-audits look at factories' underlying policies and procedures, as well as factories communication tools and their consistency in implementing their policies.

- Under the S-audit process, factories are evaluated for the existence, quality, and adherence to policies and procedures in the following areas: (1) recruitment; (2) employment terms and conditions; (3) performance management; (4) education and training; (5) communication and representation; and (6) termination and exits. S-audits take three to ten days to complete, depending on the factory and the complexity of its operations. Twenty-eight S-audits in nine countries were conducted in 2005.

- Training on S-Audits was held in Vietnam. The focus of this training was to educate field staff on proper execution of the S-audit and the major differences between S-audits and traditional compliance audits. Field staff were urged to go beyond simply identifying and reporting noncompliances and instead to seek explanations as to why noncompliances occurred and how they could be prevented in the future.

B. Selected Elements in Implementing the FLA Requirements

- Reebok staff and third-party monitors conducted 1,250 audits at 475 factories in 2005. The audits covered 77% of active companies in high-risk countries. About 42% of the audits were unannounced.

- Carried out pre-sourcing or initial audits of new factories being considered for brand production in high risk regions. These audits were conducted by Reebok field staff in directly sourced factories, and by agents when an agency relationship existed. The audits were then spot checked by company monitors based on risk; additional external monitoring visits are required prior to selection of a plant as a supplier.

- Conducted exposure assessment surveys at partner footwear factories. Information was collected on 200 worker exposures generally regarded as high risk. In factories where worker exposure problems were identified, Reebok requests a corrective action plan from the factories and monitors its application.

- The Reebok Operating Guidelines were revised for both the apparel and footwear programs. These documents are designed to ensure that sourcing managers and agents understand and implement the Reebok Human Rights Production Standards.

- The Guide to the Reebok Human Rights Production Standards was also revised to incorporate new standards and guidance on sustainable compliance.

Company name: **Top of the World**

Year of FLA implementation period: **2nd year**

Annual consolidated revenue in FY 2005: **$10,000,000-$50,000,000***

Annual revenue from collegiate licensed goods FY 2005: **$25,000,000**

Company status: **Privately held**

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

Total applicable facilities in FY 2005: **3 (Bangladesh-1, China-1, Vietnam-1)**

Factories subject to internal monitoring visits in 2005: **1 (China)**

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

*A revenue range is provided for privately held companies.

Top of the World's Labor Compliance Program in 2005

In 2005, Top of the World completed the second year of its three-year initial implementation period of the FLA program as a Category A University Licensee. Top of the World adopted the FLA Code of Conduct as the basis for implementing its compliance program. The key person responsible for carrying out the company's labor compliance program at headquarters is the Vice President for Operations. Top of the World has two part-time employees devoted to labor compliance at headquarters.

Developments in Top of the World's Labor Compliance Program in 2005

- Provided factories in Bangladesh, China, and Vietnam with materials informing them of affiliation with the FLA and highlighting the importance of compliance.
- Compliance staff attended a compliance seminar held by Verite at Outdoor Cap.
- Developed a database, housed at headquarters, to maintain, track, and report all compliance information.
- Fine-tuned an OSHA/Safety training program that encompasses FLA standards.

Company name: **Zephyr Graph-X**

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

Annual consolidated revenue in FY 2005: **$10,000,000-50,000,000***

Annual revenue from collegiate licensed goods FY 2005: $**10,000,000-20,000,000**

Company status: **Privately held**

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

Total applicable facilities in FY 2005: **8 (China-3, Korea-2, United States-2, Vietnam-1)**

Factories subject to internal monitoring visits in 2005: **2 (China-1, United States-1)**

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

*A revenue range is provided for privately held companies.

Zephyr Graf-X's Labor Compliance Program in 2005

In 2005, Zephyr completed the third year of its three-year initial implementation period of the FLA program. Zephyr has adopted the FLA Workplace Code of Conduct as the basis for implementing its compliance program. Zephyr's compliance program is directed by the company's VP of Operations, assisted by the Global Compliance Manager. The VP of Operations works directly with factories through daily communications and regular visits. The compliance program focused its efforts on Zephyr's main supplier in 2005, conducting two audits of the factory, and devoting significant resources to improving the factory's compliance with overtime and occupational safety and health benchmarks. Through remediation, Zephyr was able to secure back wages owed to workers as the result of miscalculations related to a change in minimum wage laws and enhance the cleanliness of the dormitory and toilet facilities used by workers. Additionally, Zephyr conducted its first pre-sourcing audits in 2005 to evaluate potential partners for their capacity for compliance, and the compliance staff met with sourcing staff to discuss sourcing practices and their effect on factories' ability to comply with overtime benchmarks.

Developments in Zephyr Graf-X's Labor Compliance Program in 2005

- Posted the Code of Conduct in all factories in prominent locations.
- Instituted pre-sourcing audits of factories.
- Contracted with a third-party monitor to conduct an internal audit of a factory.
- Conducted two internal verification audits of factories audited in 2004 and 2005.
- Developed a compliance database to track auditing and remediation in factories.
- Provided the email address and telephone number of a staff member to receive anonymous complaints from workers in factories.
- Increased efforts in main sourcing factory in China to remediate excessive overtime and occupational safety and health issues.

Company name: **Ampad Pad and Paper, LLC**

Years in FLA program: **3**

Annual consolidated revenue in FY 2005: **$250,000,000-$500,000,000***

Annual revenue from collegiate licensed goods FY 2005: **$2,316,357**

Company status: **Privately held**

FLA applicable brands: **Ampad**

Total applicable facilities in FY 2005: **1 (USA)**

Factories subject to internal monitoring visits in 2005: **1 (USA)**

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

*A revenue range is provided for privately held companies.

American Pad and Paper's Compliance Program in FLA Applicable Facilities

The American Pad and Paper (Ampad) Compliance Program utilizes the FLA Workplace Code of Conduct. Ampad's Human Resource (HR) team manages the compliance program for all manufacturing sites within the company producing university-licensed products. Each manufacturing facility has a Human Resource Manager and HR Assistant. All Human Resource Managers report into the corporate office to the Director of Human Resource.

American Pad and Paper's Approach to Compliance in 2005

- Ampad utilizes internal staff resources to communicate the FLA Code of Conduct and explains the code elements during new hire orientation as well as in group meetings. The code is posted on employee bulletin boards throughout the facilities.
- New employee handbooks were distributed in 2005 that address core issues related to the Code of Conduct.
- No formal training on compliance is provided; training is provided on human resources principles and applicable labor regulations.
- To provide access to policy and procedures information that is posted on the company intranet, a networked system of computers has been installed in the plant for employees who do not have computers for use in their daily work. This system can also be used by employees as an anonymous communications channel to management. Ampad uses a third-party organization to handle allegations of harassment.

Company name: **A.T. CROSS Company**

Years in FLA program: **1**

Annual consolidated revenue in FY 2005: **$129,000,000**

Annual revenue from collegiate licensed goods FY 2005: **$562,000**

Company status: **Publicly traded (AMEX: ATX)**

FLA applicable brands (collegiate licensed products): **Century, Lexington, Century II, ATX, Townsend, Solo, ION, Refills, Madison**

Total applicable facilities in FY 2005: **4 (USA-1, China-2, Japan-1)**

Factories subject to internal monitoring visits in 2005: **2 (USA, China)**

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

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

A.T. CROSS' Compliance Program is based on the CROSS Supplier Quality/Facilities and Fair Labor Procedure. A.T. CROSS has adopted a Code of Conduct that meets FLA requirements. A.T. CROSS does not have a separate labor compliance program; two staff members, the Director of Quality Assurance/Materials/Consumer Services and the Manager, Manufacturing Planning, New Business Development, audit facilities producing collegiate products.

A.T. CROSS' Approach to Compliance in 2005

- A.T. CROSS informs all suppliers annually about the Code of Conduct; all suppliers producing collegiate products are required to post the Code of Conduct in a prominent place in their facilities in the local language of workers and manager.
- The company provides a means for all employees to express their opinions through a confidential hotline; the telephone number of the hotline is posted throughout supplier facilities.
- A corporate database is maintained that collects audit information.

Company name: **Columbia Sportswear Company**

Years in FLA program: **1**

Annual consolidated revenue in FY 2005: **$1,160,000,000**

Annual revenue from collegiate licensed goods FY 2005: **$4,000,000**

Company status: **Publicly traded (NASDAQ: COLM)**

FLA applicable brands: **Columbia Sportswear**

Total applicable facilities in FY 2005: **6 (China-2, Thailand-2, Vietnam-2)**

Factories subject to internal monitoring visits in 2005: **6 (China-2, Thailand-2, Vietnam-2)**

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

Columbia Sportswear Company's Compliance Program in FLA Applicable Facilities

Columbia Sportswear's Compliance program, administered by the International Manufacturing Compliance Department, meets FLA requirements. The Department oversees the development and implementation of the Standards of Manufacturing Practices (SMP). The Department consists of 12 members, including nine full-time auditors. In implementing the SMP, the Manager of International Manufacturing Compliance interacts with other key management, including the Director of Manufacturing Support, overseas Liaison Sourcing Office Directors, Directors of Sourcing, and the General Counsel.

Columbia Sportswear Company's Approach to Compliance in 2005

- Provided SMP code as well as FLA Monitoring Guidelines and Charter information to suppliers. Conducted vendor seminars in three countries – Taiwan, Vietnam, and China – where the codes were discussed and materials were made available in English and in the local language.
- Developed and implemented a database that can track facility information, audit schedule, and auditing findings in order to facilitate analysis of results.
- Increased presence and enforcement vis-à-vis business partners that lagged in compliance activities.
- Shared compliance information and experiences across staff working in different regions, in an effort to expand learning on alternative approaches and best practices.

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

Years in FLA program: **4**

Annual consolidated revenue in FY 2005: **$313,800,000**

Annual revenue from collegiate licensed goods FY 2005: **$31,500,000**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **Balfour, ArtCarved, C-B Graduation Announcements**

Total applicable facilities in FY 2005: **4 (USA-3, Mexico-1)**

Factories subject to internal monitoring visits in 2005: **4 (USA-3, Mexico-1)**

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

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

The Commemorative Brands, Inc. (CBI) Compliance Program is based on the CBI Standards for Production Business Conduct, which meets all FLA requirements. The compliance team is made up of the Vice President of Legal Affairs, the Director of Human Resources, the Environmental and Health Manager, and the Director of Internal Audit and Process Control.

Commemorative Brands, Inc.'s Approach to Compliance in 2005

- The CBI Standards for Production Business Conduct are introduced to new employees during orientation and reiterated to current employees through ongoing training.
- CBI contracted with a third party to operate a secure hotline service for employees and publicized the 800 number to workers in English and Spanish.
- CBI maintains working relationships with the following non-governmental organizations: United Brotherhood of Carpenters & Joiners of America (AFL-CIO) and Society of Human Resources Management.

Company name: **Cutter & Buck, Inc.**

Years in FLA program: **3**

Annual consolidated revenue in FY 2005: **$131,300,000**

Annual revenue from collegiate licensed goods FY 2005: **$7,100,000**

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

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

Total applicable facilities in FY 2005: **19 (Thailand-7, India-4, China-3, Peru-1, Hong Kong-1, Macau-1, Phillipines-1, Turkey-1)**

Factories subject to internal monitoring visits in 2005: **2 (India, China)**

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

Cutter & Buck's Compliance Program in FLA Applicable Facilities

Cutter& Buck adopted the SA8000 Code as the company code of conduct in 1999. Subsequently, Cutter & Buck also adopted the FLA Workplace Code of Conduct. The Labor Compliance program is an integral part of the Vendor Social Compliance Program. The Program operated within the Production Department and was managed by a Buyer on a part-time basis. The Buyer reported to the Vice President of Production. The Buyer scheduled all audits and managed the company's corrective action plans. All internal audit visits were conducted by Verité.

Cutter & Buck's Approach to Compliance in 2005

- Cutter & Buck requires posting of its Code of Conduct in all its applicable facilities.
- Internal monitors use a single audit instrument consistent with FLA and SA8000 Code requirements.
- Prior to engaging in any business with a new factory, the factory management must read and sign the "Social Responsibility and Partnership Guidelines." In most cases, either the VP of Production or one of the field Quality Control auditors visits the new factory before production orders are placed and assesses the factory's production capabilities as well as the social compliance status.
- Definition of tasks and securing of resources in order to be able to staff a new position of Compliance Coordinator in 2006.

Company name: **Deluxe Corporation**

Years in FLA program: **1**

Annual consolidated revenue in FY 2005: **$1,716,000,000**

Annual revenue from collegiate licensed goods FY 2005: **$139,600**

Company status: **Publicly traded (NYSE: DLX)**

FLA applicable brands: **Deluxe Collegiate Checks**

Total applicable facilities in FY 2005: **2 (USA)**

Factories subject to internal monitoring visits in 2005: **2 (USA)**

Total FLA independent external monitoring visits in 2005: **0**

Deluxe Corporation Compliance Program in FLA Applicable Facilities

Deluxe Financial Services, Inc.'s compliance program is referred to as "Deluxe Way Shared Values." It was amended in 2005 to incorporate the FLA Workplace Code of Conduct. Primary responsibility for implementation of the program rests with the Human Resources Manager at the Chicago facility working together with the Facility Manager. They report, respectively, to senior management in the manufacturing and human resources areas.

Deluxe Financial Services Inc.'s Approach to Compliance in 2005

- As 2005 was the first year of participation of Deluxe Financial Services Inc. in the FLA as a Category B licensee, the primary focus was on establishing the code, communicating it to staff, and conducting training on it.
- The FLA Workplace Code of Conduct was posted in the notice area for all workers to view. Workers were also informed of the Code in facility meetings.

Company name: **Drew Pearson Marketing, Inc.**

Years in FLA program: **5**

Annual consolidated revenue in FY 2005: **$10,000,000-$50,000,000***

Percentage of total annual revenue from collegiate licensed goods FY 2005: **20%**

Company status: **Wholly-owned subsidiary of Mainland Sewing Headwear**

FLA applicable brands (collegiate licensed products): **Drew Pearson, ESPN Game Day/Game Night, Starter**

Total applicable facilities in FY 2005: **4 (China-2, USA-2)**

Factories subject to internal monitoring visits in 2005: **0**

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

*A revenue range is provided for privately held companies.

Drew Pearson Marketing Inc.'s Compliance Program in FLA Applicable Facilities

Drew Pearson Marketing Inc.’s compliance program is called the Drew Pearson Marketing (DPM) Parallel Auditing Guarantee and the company's code is the Drew Pearson Marketing Workplace Code of Conduct, which is the same as the FLA Workplace Code of Conduct. The Company Executive, reporting directly to the CEO, leads the factory compliance efforts. Product Development and Sales Team members conduct internal audits during factory visits and complete the Internal Audit Form while on factory visits for other business reasons. In addition, DPM partners do regular monitoring and provide DPM with reports from those monitoring visits.

Drew Pearson Marketing Inc.'s Approach to Compliance in 2005

- Drew Pearson Marketing Inc. established more structured data collection and tracking mechanisms for compliance.
- Developed a “Notice to Factory Workers” poster and distributed it to suppliers to inform workers about the Code of Conduct.
- The “Notice” was posted in locations where employees have easy access, such as bulletin boards, canteens, etc. It provides workers with contact information (name, phone number, email) of multi-lingual staff that could serve as a conduit for grievances.
- Drew Pearson Marketing Inc. applied for affiliation to the FLA as a Category A Licensee; the FLA Board of Directors accepted Drew Pearson Marketing Inc’s application in October 2005.

Company name: **John H. Harland Company**

Years in FLA program: **2**

Annual consolidated revenue in FY 2005: **$982,910,000**

Annual revenue from collegiate licensed goods FY 2005: **$1,739,060**

Company status: **Publicly traded (NYSE: JH)**

FLA applicable brands (collegiate licensed products): **Harland Personal Checks**

Total applicable facilities in FY 2005: **7 (USA)**

Factories subject to internal monitoring visits in 2005: **7 (USA)**

Total FLA independent external monitoring visits in 2005: **0**

John H. Harland Co.'s Compliance Program in FLA Applicable Facilities

John J. Harland Co.'s (Harland's) compliance program is managed by the Human Resources Team. Harland has adopted the FLA Workplace Code of Conduct.

John H. Harland Co.'s Approach to Compliance in 2005

- Revised formal training to be delivered to internal compliance staff to incorporate FLA Workplace Code of Conduct.
- Harland maintains a Whistleblower Hotline that is able to receive anonymous complaints.
- Several safety issues addressed: placement of fire extinguishers and proper storage of chemical products.
- Implemented a policy to create a more fair and equitable process for offering overtime.

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

Years in FLA program: **3**

Annual consolidated revenue in FY 2005: **$250,000,000-$500,000,000***

Annual revenue from collegiate licensed goods FY 2005: **$45,000,000**

Company status: **Privately held**

FLA applicable brands: **Herff Jones Collegiate Apparel**

Total applicable facilities in FY 2005: **5 (USA)**

Factories subject to internal monitoring visits in 2005: **5 (USA)**

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

*A revenue range is provided for privately held companies.

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

The Herff Jones Compliance Program uses the FLA Workplace Code of Conduct. The program is managed by the FLA Compliance Coordinator, as well as an internal compliance team which consists of the plant manager, human resource manager, and administrative staff of each applicable facility. The FLA Compliance Coordinator reports to the Vice President-General Manager (VP/GM) of the College Division. The VP/GM reports directly to the CEO of Herff Jones. The FLA Compliance Coordinator's office is located at the company's headquarters.

Herff Jones, Inc.'s Approach to Compliance in 2005

- The FLA Workplace Code of Conduct in applicable languages was posted throughout all manufacturing facilities in highly visible areas for employees to view.
- The focus of the compliance program in 2005 continued to be employee safety and security system.
- The employee handbook, which contains safety requirements and regulations, work rules, employee benefits, etc., has been translated into Spanish. Herff Jones staff worked with local community colleges to educate employees who speak other languages to gain English proficiency.
- All plants conducted exit interviews with departing employees; issues identified in these interviews were followed up by Corporate Human Resources staff. All employees were also encouraged to voice their concerns through suggestion boxes and the Human Resource Open Door Policy.

Company name: **Jostens, Inc.**

Years in FLA program: **5**

Annual consolidated revenue in FY 2005: **$840,400,000**

Annual revenue from collegiate licensed goods FY 2005: **$30,000,000**

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

FLA applicable brands: **Jostens**

Total applicable facilities in FY 2005: **9 (USA)**

Factories subject to internal monitoring visits in 2005: **6 (USA)**

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

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

Jostens, Inc.'s Compliance Program, called the Jostens FLA Compliance Program (Jostens FLACP) uses the Jostens Code of Conduct (JCOC), which meets all FLA Workplace Code of Conduct requirements. In addition, the Jostens Code has provisions relating to women's rights, ethical principles, and environmental safety. The Jostens FLACP management team consists of 14 employees from the licensing/college, human resources, communications, procurement, and legal departments, who devote a portion of their time to compliance work. In 2005, Jostens continued to use the services to A & L Group, Inc., to conduct internal monitoring for the company.

Jostens, Inc.'s Approach to Compliance in 2005

- The Jostens Code of Conduct is posted in English, Spanish, and is available in Mandarin Chinese at all of Jostens' applicable facilities producing collegiate products bearing licensed marks; all the applicable facilities are in the United States.
- Jostens employees may report violations of the code of conduct or any other issue to a hotline called MY INPUT. The hotline is managed by an outside vendor to ensure anonymity, should the caller so choose. In 2005, calls raised issues related to four main categories: organization and morale; policies and procedures; benefits; and service/cost savings/ideas. Senior Management reviews each call, investigates where necessary, and develops a response.
- Jostens conducted company-wide sexual harassment training and plant and facility training in safety and health.
- Jostens has a union presence in two of its facilities, in Owatonna, Minnesota, and Topeka, Kansas. About 10% of Jostens' Owatonna workforce are union members, organized by the International Association of Machinists and Aerospace Workers (IAM). The Topeka facility has a contract with the Graphics Communications Conference/International Brotherhood of Teamsters Local 49C; the collective agreement applies to the majority of the employees in the facility.

Company name: **MBI, Inc.**

Years in FLA program: **4**

Annual consolidated revenue in FY 2005: **$300,000,000 - $600,000,000***

Annual revenue from collegiate licensed goods FY 2005: **$10,000,000 - $12,000,000**

Company status: **Privately held**

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

Total applicable facilities in FY 2005: **26 (China-18, Thailand-3, USA-2, Germany-1, Czech Republic-1, Slovakia-1)**

Factories subject to internal monitoring visits in 2005: **0**

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

*A revenue range is provided for privately held companies.

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

MBI, Inc.'s Compliance Program has adopted the FLA Workplace Code of Conduct. The program is coordinated and implemented by the Vice President, based in the company's Connecticut office, who reports to the CEO.

MBI, Inc.'s Approach to Compliance in 2005

- All suppliers have been informed in writing about the Code of Conduct; suppliers must post the Code, in the local language of workers and managers, in a place accessible to workers.
- MBI, Inc., uses a third-party to conduct internal monitoring of collegiate facilities.
- MBI, Inc., worked closely with the FLA to remediate certain issues that arose in the context of a Third Party Complaint regarding a factory in China.

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

Years in FLA program: **1**

Annual consolidated revenue in FY 2005: **$1,100,000,000**

Annual revenue from collegiate licensed goods FY 2005: **$146,876**

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

FLA applicable brands (collegiate licensed products): **AT-A-GLANCE® and DayMinder®**

Total applicable facilities in FY 2005: **1 (USA)**

Factories subject to internal monitoring visits in 2005: **1 (USA)**

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

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

MeadWestaco Consumer & Office Products' Compliance Program, based on the MeadWestvaco Code of Conduct and related Compliance Policies, meets the requirements of the FLA. The program is managed by the Director of Compliance Programs and Communication, who reports to the Vice President for Human Resources and to the Division President. Production of all collegiate licensed products is conducted at company-owned and –operated facilities.

MeadWestvaco Consumer & Office Products' Approach to Compliance in 2005

- New employees received individual copies of the MeadWestvaco Corporation Code of Conduct.
- New internal compliance staff received training on program requirements and social compliance issues, including through shadowing and working with experienced employees.
- The MeadWestvaco Ethics Line was available to all employees to confidentially report concerns or violations.
- All MeadWestvaco Consumer & Office Products factories were monitored in 2005.

Company name: **MJ Soffe Company**

Years in FLA program: **0 (joined September 2005)**

Annual consolidated revenue in FY 2005: **$86,952,775**

Annual revenue from collegiate licensed goods FY 2005: **$4,899,757**

Company status: **Publicly traded as part of Delta Apparel, Inc. (AMEX: DLA)**

FLA applicable brands: **SOFFE**

Total applicable facilities in FY 2005: **10 (USA-2, El Salvador-2, Pakistan-1, Mexico-1, Honduras-1, Jordan-1, United Arab Emirates-1, Costa Rica-1)**

Factories subject to internal monitoring visits in 2005: **6 (USA-2, El Salvador-2, Pakistan-1, Costa Rica-1)**

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

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

M.J. Soffe's Human Resources Department is responsible for overall implementation of the company's Compliance program. Staff for internal compliance is made up of the Vice President for Sourcing and the Sourcing Manager. The Soffe Code of Conduct is consistent with the FLA Workplace Code of Conduct.

M.J Soffe Co.'s Approach to Compliance in 2005

- Factories have been informed about the Soffe Code of Conduct; it has been posted in factories and translated into local languages.
- There is a confidential reporting channel for workers in domestic factories, and one is under development for factories abroad.

Company name: **Oxford Industries, Inc.**

Years in FLA program: **3**

Annual consolidated revenue in FY 2005: **$1,313,609,000**

Annual revenue from collegiate licensed goods FY 2005: **$761,775**

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

FLA applicable brands (collegiate licensed products): **Tommy Hilfiger Golf**

Total applicable facilities in FY 2005: **68 (China-28, Sri Lanka-7, Hong Kong-7, Macau-6, Malaysia-6, Taiwan-3, India-2, Indonesia-2, Phillipines-2, Thailand-2, Mauritius-1, Mexico-1, Peru-1)**

Factories subject to internal monitoring visits in 2005: **66 (China-28, Hong Kong-7, Sri Lanka-7, Macau-6, Malaysia-6, Taiwan-3, India-2, Indonesia-2, Phillipines-2, Thailand-2, Mauritius-1)**

Total FLA independent external monitoring visits in 2005: **2 (Sri Lanka, Malaysia)**

Oxford Industries, Inc.'s Compliance Program in FLA Applicable Facilities

The Oxford Code of Ethics Program is responsible for enforcing the Oxford Code of Conduct, which meets all standards set by the FLA Workplace Code of Conduct. The program is carried out by several quality controllers, who report to the Head Quality Controller of Oxford Products International, and coordinate efforts and combine information with the Head of Merchandising. The Head Quality Controller and the Head of Merchandising report to the Director of the Shirt Group. Oxford Industries engages a third-party social audit firm to monitor a plant in Asia.

Oxford Industries, Inc.'s Approach to Compliance in 2005

- Oxford Industries requires that all suppliers post the Code of Conduct and this is checked on independent audit visits; Oxford Industries auditors interview workers randomly and walk around the floor to test familiarity with the code.
- All factories have "grievance boxes" located on main floors and in restrooms, and employees are encouraged to submit their grievances, with or without their names attached. The names of Managers or Welfare Officers are also posted in the facility for direct contact.
- New factories receive compliance audits before orders are placed.
- 100% of internal monitoring visits to applicable facilities were unannounced.

Company name: **Ping, Inc.**

Years in FLA program: **1**

Annual consolidated revenue in FY 2005: **$11,000,000**

Annual revenue from collegiate licensed goods FY 2005: **$ 1,091,386**

Company status: **Privately held**

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

Total applicable facilities in FY 2005: **9 (USA-7, Mexico-2)**

Factories subject to internal monitoring visits in 2005: **9 (USA-7, Mexico-2)**

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

Ping Inc.'s Compliance Program in FLA Applicable Facilities

Ping, Inc. had adopted the FLA Workplace Code of Conduct as the centerpiece of its compliance program. The program is coordinated by the Director of Quality Management Systems, who reports to the President of the corporation. The Director of Quality Management works closely with the Director of Human Resources. Labor compliance is one of the requirements of the Total Supplier Management Process.

Ping Inc.'s Approach to Compliance in 2005

- Completed audits of nine facilities to ensure compliance with the FLA Workplace of Conduct and developed corrective action plans.
- Lead auditor received ISO 9001 and ISO 14001 training and was certified.
- Maintained an Access database to track compliance activities and implementation of corrective action plans.

Company name: **Russell Corporation**

Years in FLA program: **3**

Annual consolidated revenue in FY 2005: **$1,430,000,000**

Annual revenue from collegiate licensed goods FY 2005: **$28,000,000**

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

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

Total applicable facilities in FY 2005: **20 (USA-4, Mexico-2, El Salvador-2, Pakistan-2, Guyana-1, Honduras-1, Lesotho-1, Taiwan-1, Hong Kong-1, Brazil-1, Thailand-1, Kingdom of Swaziland-1, Turkmenistan-1, Kenya-1)**

Factories subject to internal monitoring visits in 2005: **19 (USA-4, Mexico-2, El Salvador-2, Pakistan-2, Guyana-1, Honduras-1, Lesotho-1, Hong Kong-1, Brazil-1, Thailand-1, Kingdom of Swaziland-1, Turkmenistan-1, Kenya-1)**

Total FLA independent external monitoring visits in 2005: **1**

Russell Corporation's Compliance Program in FLA Applicable Facilities

Russell Corporation's Social Compliance Program is based on Russell's Code of Conduct, which meets the requirements of the FLA Workplace Code of Conduct. The Vice President of International Human Resources oversees the Social Compliance Program, the Compliance Coordinator, and six field staff based in Europe, Southeast Asia, and South Africa. Russell Corporation conducts internal monitoring using a combination of internal auditors and third-party monitoring firms such as A & L Group, Inc. (domestic only), Cal Safety Compliance Corporation, Intertek Testing Services, and Bureau Veritas.

Russell Corporation's Approach to Compliance in 2005

- Russell's Code of Conduct has been translated into 18 languages and distributed to all contractors for posting. All contractors are required to post the Code.
- All prospective contractors are required to complete a compliance orientation program and certify that they have read and understand Russell's Code of Conduct and standards.
- Employees of Russell's self-owned factories have access to the PRIDEline communication, a 24-hour toll-free confidential reporting system, to communicate any grievances or concerns.
- Following worker interviews, third party auditors leave a toll-free number with employees so that they can report any additional information in a confidential environment.

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

Years in FLA program: **3**

Annual consolidated revenue in FY 2005: **$50,000,000-$100,000,000***

Annual revenue from collegiate licensed goods FY 2005: **$10,500,000**

Company status: **Privately held**

FLA applicable brands (collegiate licensed products): **Twins Enterprise**

Total applicable facilities in FY 2005: **1 (Macau)**

Factories subject to internal monitoring visits in 2005: **1 (Macau)**

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

*A revenue range is provided for privately held companies.

Twins Enterprise, Inc.'s Compliance Program in FLA Applicable Facilities

Twins Enterprise Inc.'s Compliance Program is called the Assuring Factory Compliance (AFC) Program. It is based on Twins Enterprise Inc.'s Code of Conduct, which has been reworked to mirror the FLA Workplace Code of Conduct. The AFC program is managed by a team made of the Vice Presidents of the following departments: Operations, Sourcing, Research and Development, Finance, and Sales and Marketing. The Licensing Director serves as the AFC Coordinator. Twins worked closely with its single factory producing collegiate goods in 2005. Compliance staff speaks with factory management on a once-a-week basis to discuss ongoing remediation of noncompliance found in internal audits.

Twins Enterprise, Inc.'s Approach to Compliance in 2005

- Twins developed a poster in the native language of workers detailing the code of conduct and standards of compliance and had it displayed it its foreign factory. It also trained managers and workers on the code and compliance standards.
- Twins contracted with a third-party monitor to audit its foreign plant.
- Twins uses a suggestion box, located out of the sight of management, as a means for workers to report non-compliance concerns without fear of reprisal.
- Twins applied for affiliation to the FLA as a Category A Licensee; the FLA Board of Directors accepted Twins application in October 2005. As a Category A company, Twins will bring all of its factories into the FLA program.

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

Years in FLA program: **3**

Annual consolidated revenue in FY 2005: **$6,500,000,000**

Annual revenue from collegiate licensed goods FY 2005: **$63,000,000**

Company status: **Publicly traded (NYSE: VFC)**

FLA applicable brands: **Lee Sport, Jansport, Eastpack**

Total applicable facilities in FY 2005: **43 (China-13, USA-8, Honduras-5, Thailand-4, Bangladesh-2, India-2, Pakistan-2, Colombia-1, El Salvador-1, Indonesia-1, Jordan-1, Lesotho-1, Mexico-1, Vietnam-1)**

Factories subject to internal monitoring visits in 2005: **30 (China-13, USA-6, Bangladesh-2, India-2, Pakistan-2, Colombia-1, El Salvador-1, Mexico-1, Thailand-1, Vietnam-1)**

Total FLA independent external monitoring visits in 2005: **2 (Honduras-1, India-1)**

VF Corporation's Compliance Program in FLA Applicable Facilities

VF Corporation's compliance program is formally referred to as the VF Corporation Global Compliance Principles. The program is based on the Corporation's Terms of Engagement, which meet the requirements of the FLA Workplace Code of Conduct. VF Corporation's compliance program is led by the Director of Compliance, who reports directly to the Vice President for Internal Audit, the Senior Vice President for Finance, and the CEO. VF uses third party monitors such as Cal Safety Compliance Corporation (CSCC), Bureau Veritas, and Intertek Testing Services.

VF Corporation's Approach to Compliance in 2005

- Compliance training was conducted for staff of newly-acquired lines and for internal auditors; VF is transitioning from compliance monitoring to providing factory developmental training.
- No products, samples or bulk orders, can be produced in a factory until it has been inspected by a VF Compliance Auditor or by an accredited audit company.
- After undergoing internal audits, facilities receive one of three grades:

  Accepted: The factory has no serious safety, health, or labor noncompliance issues, thus the factory can continue to manufacture VF products for 12 months.

  Accepted to be upgraded: The factory has some minor safety, health, or labor issues, thus the factory can continue to produce. If the issues are addressed within 8-12 weeks, it will be upgraded to "accepted"; if not it will be downgraded to "rejected."

  Rejected: The factory has some major safety, health, or labor noncompliance issues, thus is no longer authorized to manufacture VF products. If at a later date, the factory feels that it hascorrected the problems, a VF auditor may re-inspect the facility.
- The Company has an Open Door Policy for workers to report noncompliance; it also maintains suggestion boxes and encourages Communications Committees.

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