

University of Michigan
President's Advisory Committee on Labor Standards and Human Rights
MINUTES
June 4, 2014, 9:30-11:00am Ross School of Business, Room R4020
VF Imagewear Presentation to PACLSHR Committee

Attendees: Kristen Ablauf, Ravi Anupindi (Chair), Kelsea Ballantyne, Khaled Eid, Allen Hicken, Maya Menlo, Susan Waltz

Absences: Arjun Bhalla, Jim Gannon, Nick Rine

Guests: VF Imagewear

Scott Deitz, Vice President, Corporate Relations

Tom Nelson, Vice President, Global Procurement

(by phone) Douglas Parker, Director, VF Licensed Sports Group

Paul Sline, Director, JanSport

I. Chair opened the meeting with a welcome and round of introductions.

II. Meeting focus based on President Coleman's April 1, 2014 acceptance of the PACLSHR recommendations as stated in the committee's March 3, 2014 letter to the President. See Appropriate Recommendations for review in the attached addendum.

III. VF Imagewear presentation

SDeitz thanked the committee for the opportunity to present on VF. They aim to earn the committee's trust, expect to be held accountable and expressed willingness to meet routinely with the committee on matters related to Bangladesh. SDeitz provided an overview of VF and its brand relationships especially the Majestic, JanSport brands and the Licensed Sports Group. JanSport has not sourced out of Bangladesh.

VF is a founding member of the Alliance for Bangladesh Worker Safety. VF has not signed the Accord because their goal is quick remediation of source factories in Bangladesh. Signing the Accord would significantly delay factory remediation because inspections would need to be repeated.

VF sources out of a few factories in Bangladesh: the Bangladesh Optimum factory and one in Dhaka. They hire three inspection companies all vetted by the alliance with follow-up and shadow audits.

VF has collaborated with 3-4 Bangladesh factory owners to build a new factory, Mahona, 60 miles north of Dhaka. It will produce 100% VF products under an 8-year contract to begin production in September 2014. This "Third Way Approach"¹ (sole production for a brand) to factory sourcing in Bangladesh may be the new trend.

¹ First-way being brand-owned factories, second-way is outsourced but with multiple brands in a factory.

VF's source factory, Optimum, was inspected in Fall 2013. VF will pay the full price for remediation at this factory. Some remediation had begun soon after report but with the January 2014 change to the inspection standards, remediation was delayed. VF has already committed \$160,000 towards remediation at Optimum factory. VF mentioned that even though there are Accord members in the Optimum factory, none have yet come forward to finance remediation. Further, VF has received requests from seven (out of 91) other factories. Alliance is working with IFC for remediation costs. Interim, they have established a 3-phase approach to financing remediation, whereby in phase one to issue standby letters of credit (LCs) to provide immediate funds to move forward on remediation; in phase two transfer loans to IFC which would be at a lower interest rate (and VF would underwrite the loans); and in phase three for any factories where VF is a small portion of their business, perhaps transfer to an Alliance arrangement, which is also working with IFC for remediation costs.

Sub-licensees may do work in Bangladesh but they must undergo a compliance audit. Compliance reports submitted to finance team and the CFO/board members. If the source makes a product with a VF name, they are required to reveal their subcontract sources.

Appropriate Recommendations for review:

- VF's involvement of multiple stakeholders (with equal representation from brands and trade unions) consists of its management firm ELEVATE, the Alliance Board of Directors independently chaired by the Honorable Ellen O. Tauscher, a Board of Advisors, a newly added Labor Committee to the Alliance Board of Directors and its committee of experts. Three people on the board of advisors are labor leaders.
- VF publicly reports its factory inspections on its web site. They provided the PACLSHR committee with a copy of the Optimum Engineering Report and are open to sharing detailed reports as requested. This report will be made available to committee members upon request.
- VF's guarantee of a worker's right to refuse dangerous work is outlined in the Company's Global Compliance Principles, including: Principle 3 on Forced Labor. Additionally, \$5million earmarked for a worker welfare fund that provides an economic safety net should their facility be idled for factory improvements.
- VF's binding commitment to ensure factory remediation is outlined in the Alliance. VF highlighted the following facts about this commitment: it's a five-year commitment; factory owners are responsible for making necessary improvements in the corrective action plan; Alliance members face consequences should they continue to source from a factory not properly remediated; the Alliance Board of Directors has the authority to seek binding arbitration against any member who does not satisfy its obligations under the agreement; and several approaches are in place to help factory owners fund remediation.
- VF plans to maintain order volumes in Bangladesh during the next two years to ensure sustained economic benefits. Its commitment to Bangladesh is also signaled by the 8-year contract at the Mahona factory.

This ends the VF presentation summary, which was followed by Q&A between the VF team and members of the committee.

IV. Committee Follow-up

Committee noted that the presentation focused on the benchmarks with an emphasis on VF's moral rather than legal obligation. There were also concerns with no voting power for labor & ability to enforce a worker's right to refuse dangerous work.

Committee Motion 1:

Motion established that VF sign the Accord within 45 days to maintain their license (highlight where they fell short) in order to maintain license. Voted on with 3 in favor, 3 opposed and 1 abstention.

Amendment Discussion:

- They should sign the Accord or demonstrate how they will address bullet points 1 (involvement of multiple stakeholders) & 3 (workers right to refuse dangerous work).
- Re-discussion of an Addendum to the license to include an agreement to institutionalize the role that WRC has the right to inspect. Need for a binding arbitration measure for factories producing U-M apparel in Bangladesh. Chair to draft a motion for members to review and vote.

12:15 Meeting ended due to time constraints. Discussion to continue on email.

Addendum

II. Appropriate Recommendations for review:

- Recommendation #1
The committee recommends that the University reiterate to ALL its licensees the importance of honoring its Code of Conduct including the guarantee of health and safety of workers regardless of which country in the world they produce the goods and initiate and initiate procedures to require licensees to document how they ensure the same.
- Recommendation #2
All University of Michigan licensees who sourced, produced or purchased collegiate apparel in Bangladesh as of January 1, 2013, or do so at any point thereafter, will be required within 45 days to either sign the Accord or demonstrate to the satisfaction of the PACLSHR Committee that the licensees has:
 1. *A plan that is at least as good as commitments reflected in the Accord; and*
 2. *the capacity (and will) to implement and enforce their plan.*

III. In its letter to the President, "the committee felt that there were several elements that made the Accord substantially stronger and more likely to bring about meaningful change than the Alliance." Specifically, strengths of the Accord include:

- The involvement of multiple stakeholders (with equal representation from brands and trade unions)
- Public reporting of factory inspections
- Guarantee of a worker's right to refuse dangerous work
- Requirement to make binding commitments that ensure factory remediation, as deemed necessary
- A commitment to continue to maintain their order volumes with factories in Bangladesh for at least the first two years of the agreement.

The committee, however, also recognized that "there may be alternate ways to achieve the same end goal of a safe factory" with the onus on a licensee to prove its intent and commitment towards that goal. The committee's analysis of VF's plan will be assessed accordingly.