



WORKER RIGHTS CONSORTIUM

**Second Progress Report
re Implementation of Russell Athletic/Fruit of the Loom
Remediation Agreements for Operations in Honduras**

Findings and Status Report

August 16, 2011

Table of Contents

I. INTRODUCTION3

II. FORMER WORKERS OF JERZEES DE HONDURAS4

 A. Workers’ Welfare Fund.....4

 B. Opening of Factory and Re-employment of Jerzees de Honduras Worker4

III. FREEDOM OF ASSOCIATION.....5

 A. Collective Bargaining at Jerzees Nuevo Dia.....5

 B. Collective Pacts7

 C. Freedom of Association: Training and Access7

 D. Discipline and Training for Managerial Personnel8

IV. OVERSIGHT MECHANISMS8

 A. Oversight Committee and Dispute Resolution.....8

 B. Ombudperson9

IV. CONCLUSION.....9

I. Introduction

On November 14, 2009, Russell Athletic/Fruit of the Loom signed a ground-breaking agreement with the union representing workers at the Honduran factory Jerzees de Honduras (JDH), and its parent federation,¹ to address labor rights violations. Separately, Russell signed an agreement with the Worker Rights Consortium (WRC) reinforcing the company's commitment to resolving these violations. The agreements represented the culmination of WRC investigation and remediation efforts spanning a twenty-six month period and extraordinary work by students and universities.

This update provides new information on Russell's compliance with the key commitments made in these agreements.

The WRC is pleased to be able to report significant progress with regard to the key provisions of the agreement: rehiring and compensating the former JDH workers and freedom of association. As we reported in February 2011, the Jerzees Nuevo Dia (JND) plant has been opened. It currently employs 820 former JDH workers.

On May 19, 2011, Russell signed a collective bargaining agreement with the union representing the JND workers. This contract, the result of more than a year of negotiations, is unprecedented in Honduras' export apparel sector. It brings an immediate pay increase, additional hiring to ensure that all of the former JDH workers who wish to gain employment at the factory are able to do so, new investment in the factory, and other benefits.

These successful negotiations constitute full implementation of two critical components of the accord Russell signed with the union and of the company's remediation agreement with the WRC: 1) the obligation of Russell to bargain in good faith with the JND workforce, and 2) the obligation to rehire, over time, all of the former employees of Jerzees de Honduras. There are roughly 200 workers, out of the initial group of 1200+, who have not yet been hired; under the new contract, all of these workers will be offered jobs at an expanded JND facility.

The following report provides further detail on the newly signed contract and reviews compliance by the company with each major element of the 2009 agreement. The contract is a vital step forward. We will also continue to monitor Russell's compliance with all aspects of the agreement, particularly with regard to freedom of association at other Russell factories in Honduras.

¹ The union representing workers at JDH was known as Sitrajerzeesh; the union was affiliated to the federation Central General de Trabajadores de Honduras (CGT).

II. Former Workers of Jerzees de Honduras

A. Workers' Welfare Fund

Russell Commitment: Russell agreed to contribute \$2.5 million to a social welfare fund to assist the former JDH workers, with the money to be distributed to workers by the WRC, the Solidarity Center, and the CGT. Russell committed to contribute to the fund in three tranches, with a first tranche to be wired within thirty days of the November 14 agreement, a second tranche to be transferred on June 30, 2010, and a third tranche to be transferred on March 31, 2011.

Actions to Date: Russell has transferred all of the agreed upon sums to the fund. The WRC, along with the union and the Solidarity Center, organized and documented payments to workers, which have gone smoothly. The union also created a cooperative savings plan into which the majority of the workers have placed some of their disbursement.

The timeline of these activities was as follows:

As we reported in a previous report, 1,225 workers had received the first payment from the social welfare fund by February 17, 2010.

A second transfer was made from Russell Athletic to the CGT bank account in early July 2010. By the end of July 2010, 1,221 of the workers had come forward to collect the second payment. By January 2011, a total of 1,234 workers had collected the second payment. A small number of these workers had not come forward for the first payment, and received both payments at this time. The second payment was made in the amount of 6,769.13 Honduran lempiras for each worker (a total of US \$351.98 when converted by the Interbank exchange rate on May 4, 2011).

The third and final installment from Russell to the CGT was made in April 2011 and at the time of this report, 1,215 workers had collected their money. These workers were paid 6,769.13 Honduran lempiras (US \$351.98). Also at this time, 223 workers decided to withdraw the 1,000 lempira savings that they had placed in the union's cooperative plan and these workers were paid this amount along with their share of the benefit.

B. Opening of Factory and Re-employment of Jerzees de Honduras Workers

Russell Commitment: Russell agreed to open a unionized apparel factory near the former site of JDH to re-employ former JDH workers at this facility. The company committed to extending offers of employment to all former JDH workers, whether at the new facility or at Russell's other facilities in the San Pedro Sula area.

Actions to Date: The hiring process has progressed significantly since our last report, and the above-mentioned collective bargaining agreement includes an agreement to complete the process. As stated in our last report, the JND plant began production in January 2010. Russell has met its commitment to staff JND with the former JDH workers. The company had stated that

the factory would require 750 workers, all to be drawn from the former JDH workforce; this commitment has been met.

To this point, approximately 200 workers, out of the original 1,225, are still seeking employment at JND. A total of 820 workers have been hired at JND. The remainder have either waived their right to employment under the agreement, generally because they have found work elsewhere or no longer want to work in the garment sector, or have been impossible to contact despite repeated efforts by the union.

As part of the collective bargaining agreement, Russell has pledged to expand JND such that there will be capacity to employ additional workers who have been identified by the union as still interested in exercising their right to employment under the agreement. The company has committed to complete this expansion by the end of 2011. This will complete the rehiring process.

III. Freedom of Association

A. Collective Bargaining at Jerzees Nuevo Dia

Russell Commitment: Russell committed to recognize the union of JDH workers –Sitrajerzeesh, an affiliate of the CGT federation – as the representative of the workers of JND and bargain with the union in good faith.

Actions to Date: As stated in the WRC's most recent update on this case, Russell has recognized Sitrajerzeesh, now known as SitrajerzeesND, as the representative of workers at JND. The union initiated negotiations in September 2010 and the collective bargaining agreement was signed on May 19, 2011.

This contract is the most meaningful collective bargaining agreement ever negotiated in the garment sector in Honduras, and it will set a standard against which future contracts will be judged.

Key provisions of this contract include:

- Workers will immediately receive a 19.5% wage increase, with an additional 7% increase in January.
- Workers will begin receiving free transportation and lunches.
- JND will expand and hire an additional 250 workers, which will create an opportunity for every unemployed worker covered by the original agreement to be employed at JND.
- Russell will make a significant investment in new machinery, which will enable workers to improve productivity and therefore further increase their wages.

It is notable that the union and the company have chosen to bargain regarding investment in the factory. This is not a legally required subject of bargaining, and it indicates a long-term perspective and commitment on the part of the both the union and Russell.

While the salary and other financial increases for workers and the increased investment and expansion of JND are the most striking of the improvements won in this contract, the contract also provides a range of other benefits and rights for workers. Improvements established by this contract that represent improvements on what the law requires and on the pre-contract status quo include:

- Funds for school supplies for workers' children
- Health care for workers' children aged 12-17²
- Health fairs at the factory to provide information and health care to all workers
- Life insurance policies for workers
- Celebrations at the factory for Mother's Day, Father's Day, Children's Day, and Workers' Day
- Funeral expenses for members of workers' families
- Bonus for workers at the time of marriage
- Improved pay for workers who cannot work because their machines are broken.³
- Additional vacation based on seniority
- Christmas basket and free lunch at Christmastime
- One new work apron every year

In addition, the union and the company negotiated a number of clauses that will enable the union and its elected leadership to continue to carry out their responsibilities. These include:

- Paid leave so that union leaders can take time off work to carry out leadership responsibilities in the union
- Use of a bulletin board and the factory sound system for the union to communicate with the workers
- Monthly meetings between the company and the union
- Improvements for the office for the union and for the workers' savings cooperative
- Additional protection from unjustified firing for union leaders
- Printed copies of the collective bargaining agreement for all workers

Last, mechanics and "auditors" (quality control staff) gained the right to be represented by the union.

² Younger children are already provided health care as provided by Honduran law.

³ Given that workers rely on production bonuses, the pre-contract practice of paying the minimum wage while a machine is broken means that their pay is significantly decreased through no fault of their own. The new pay schedule will mean that workers are less penalized for machine failure.

Bargaining this contract has been the union's main focus with regard to implementation of this agreement. As a result, the union has not vigorously tested those elements of the November 2009 agreement that concern freedom of association at Russell's remaining facilities in Honduras. Ultimately, these commitments will be tested and we expect that Russell will fulfill its obligations in these areas as it has with respect to all other elements of the agreement.

B. Collective Pacts

Russell Commitment: Russell agreed to work with the CGT to phase out the collective pacts that the company implemented at all of its remaining facilities in Honduras. As the WRC documented in a June 2009 report, the pacts violated international labor standards protecting workers' freedom of association. Russell also agreed to take steps to ensure that these pacts do not constitute barriers to freedom of association in the interim, including agreeing to continue to provide all benefits to which employees are currently entitled under these pacts and to not deny these benefits should employees withdraw from an existing pact or join a union.

Actions to Date: Reports from the union indicate that to the best of its knowledge the company has not yet taken action to remove the collective pacts at the other factories that are part of the Fruit of the Loom group's holdings in Honduras, a fact Russell acknowledges. In interviewing a limited number of workers, the WRC did find evidence that the company is not requiring newly hired workers to sign the existing collective pacts.

Most importantly, the company has informed workers at all facilities that workers can organize if they choose, regardless of the collective pacts, and that workers will not lose the benefits guaranteed in the collective pacts. Russell has taken significant steps towards full compliance with this provision of the 2009 agreement, and we expect that this progress will continue over time. The WRC will continue to monitor the situation.

C. Freedom of Association: Training and Access

Russell Commitment: Russell agreed to a framework for ensuring respect of workers' freedom of association rights in all company factories, including provisions addressing training of workers through a joint union-company training program, carried out by a third party, and union access to facilities.

Actions to Date: Training in collective bargaining was provided to both union leaders and management personnel at JND prior to the initiation of bargaining.

Neither Russell nor the union has worked to move forward with trainings at any factory besides JND, and the framework for freedom of association at factories other than JND has not yet been tested. Understandably, given the importance of the collective bargaining process at JND, both the union and Russell have focused their attention on that process rather than the remaining factories.

No deadline for these trainings is provided in the agreement, so the fact that trainings have not begun is not a violation of the agreement.

The WRC will continue to monitor developments.

D. Discipline and Training for Managerial Personnel

Russell Commitment: Russell committed to ensure that management of the new facility will be composed of persons who understand and respect freedom of association and will implement practices and policies that are conducive to the exercise thereof. This commitment was born of concern by the WRC and other parties regarding the behavior of specific managers identified as having acted to block workers' exercise of their associational rights.

Actions to Date: Russell has continued to comply with this commitment.

In a prior update, the WRC reported that the managers identified as having interfered with workers' freedom of association have been disciplined and/or transferred away from JND. Russell affirmed that these managers were given a final written warning and were counseled that future incidents that violated freedom of association would result in their termination. The company further confirmed that four of the managers had been transferred to other positions within the company and currently have no involvement with JND.

Additionally, and importantly, the former regional human resources manager, who was a key author of the violations at JDH, was transferred to another country.

No other supervisor or manager that was identified as having violated workers' freedom of association is employed at JND.

IV. Oversight Mechanisms

A. Oversight Committee and Dispute Resolution

Russell Commitment: Russell committed to accept and participate in a robust set of oversight mechanisms to ensure effective enforcement of the terms of the accord and the timely and equitable resolution of disputes. Specifically, the agreement establishes a three-member Oversight Committee, which is to serve as a facilitating and mediating body, and appoint an ombudsperson to monitor day-to-day issues relating to implementation of the agreement. The committee's policies and procedures are determined by a five-member Board of Directors, which is comprised of the committee's three members and two additional directors. The union and company each appoint a committee member and nominate an additional director; the fifth director, who also serves on the Oversight Committee, is appointed by the other four directors.

Actions to Date: The Oversight Committee has been convened. The committee has played a role in resolving disputes as they have arisen.

The current members of the Oversight Committee are as follows: Holly Hammonds (Senior Advisor at Fontheim International, LLC) for the company, Yadira Minero (Director of the Honduran women's rights organization Centro de Derechos de Mujeres) for the CGT, and Shehnaz Rangwala (Program Director of Leadership Africa USA) as the joint appointee. The two directors are Claude Fontheim (CEO of Fontheim International, LLC) for the company and Jeff Hermanson (Senior Adviser to the Writers Guild of America, West, and Adviser to the CGT) for the union.

B. Ombudsperson

Russell Commitment: The agreement states that the Oversight Committee will unanimously select an ombudsperson.

Actions to Date: Lance Compa of Cornell University has been named as ombudsperson. He was nominated by the union and agreed to by all parties. Compa has not yet been called upon to take action in this role to our knowledge.

IV. Conclusion

The WRC congratulates the SitrajerzeesND union; its parent federation, the CGT; and Russell/Fruit of the Loom on establishing a working partnership that sets a new standard for labor-management relations in Honduras' apparel industry. Through its actions since November of 2009, Russell has done more, by far, to promote genuine respect for workers' associational rights in Honduras than any apparel brand has previously done. This is an extraordinary accomplishment for the company, for the union, and for the students and universities in the United States that helped to bring about a fundamental change in Russell's approach to freedom of association. It is an accomplishment that we hope will open the door to greater progress on labor rights not just in Honduras, but throughout Central America.

We will continue to monitor the implementation of this agreement, with particular attention to the company's commitments concerning freedom of association at its other facilities, and we will report on developments as warranted.