

Minutes of
WRC Governing Board
October 23, 2006

Attending: LaMarr Billups, Marcella David, Jay Marano, Doug Shaw, Jim Wilkerson, Mark Barenberg, Jill Esbenshade, Thea Lee, Joel Feingold, Mark Iozzi, Marlene Ramos, Amy VanHeuverzwyn, and Sara Wallace-Keeshen. Observers attending were Julie Bell-Elkins (University of Connecticut), Paul Tabolt (University of Colorado at Boulder), and Mel Tenen (University of Miami). WRC staff attending were Scott Nova, Anne O'Rourke, Nancy Steffan, Theresa Haas, Bethany Renner, Agatha Schmaedick and Jeremy Blasi. Unable to attend was Katie Quan.

Introductions, Agenda Review, New Board Members: Jill Esbenshade chaired the meeting in the absence of Katie Quan and noted one change to the agenda to add an executive session to discuss the Executive Director evaluation. Later in the day when a quorum was achieved, unanimous votes were taken to approve the minutes of May 22, 2006 and to ratify new Board members. The new representatives of United Students Against Sweatshops (USAS) are Joel Feingold (University of Wisconsin-Madison); Marlene Ramos (Cornell University); and Sara Wallace-Keeshen (Georgetown University). The Board expressed its thanks to the departing USAS members - Liana Dalton (University of Wisconsin-Madison); Saamir Rahman (University of Michigan); and Emil Totonchi (Georgetown University). It was also noted that there is now one vacancy on the Advisory Council due to Alejandra Domenzain's departure from Sweatshop Watch and that a new nominee should be present at the next Board meeting. There was also mention of considering changes to the bylaws to streamline voting on relatively routine issues.

Treasurer's Report, Executive Director's Report: The Treasurer's Report was adopted by a unanimous vote following the recommendation of Treasurer LaMarr Billups. Scott Nova indicated the financial reports presented in the meeting materials including a profit and loss statement, balance sheet, and the FY2007 approved budget. He noted that WRC has booked \$667,000 in revenue in accrual terms and has total expenditures to date of \$287,000. In response to questions, Scott indicated that the collection of affiliation fees has improved and that the WRC's search for affordable new office space has become a lower priority due to the shift toward field staff based out of the office. Scott reported on new affiliates (Wake Forest, Bowling Green, John Carroll University, and the University of Miami) and staffing changes (the addition of Theresa Haas as Outreach Coordinator and several new Field Consultants – Amie Siyaranamual in Indonesia, An Nan in Cambodia, and Tara Mathur in El Salvador – as well as Jeremy Blasi's assumption of the Latin American portfolio). He also thanked Doug Shaw and the entire Board for their work in creating the new staff structure of Assistant Director positions for Policy and Field Operations and reported that this was working well.

In turning to program work, Scott noted that the agenda would include a lengthy field report later in the day and began a discussion of one investigation with broader implications, Hermosa/Chi Fung (El Salvador). The Hermosa factory closed in May 2005 and there has been a lack of meaningful progress on key issues including the non-payment by Hermosa of more than \$800,000 in legally mandated severance and benefits and illegal blacklisting at the nearby facility Chi Fung. Hermosa and Chi Fung were engaged in university production with licensees including adidas, Nike, Russell, and VF; and the WRC has concluded that the licensees' actions have been inadequate. Licensee monitoring programs did not detect Hermosa's failure to make payments to the government to cover worker benefits. The severance issue is less clear-cut because current codes are not interpreted as requiring licensees to assume direct financial responsibility when factories fail to pay required severance. Adidas' mismanagement of the remediation effort at Chi

Fung is particularly objectionable, since correcting the blacklisting violations was within their power and would have made some contribution to redress for the workers. Specifically, adidas rejected the WRC's recommendation for an independent observer even though this mechanism has been effective in similar cases.

The question was posed about what action the WRC should take in such cases where important licensees acknowledge violations but fail to take adequate action to effectively remediate. There was general discussion that universities with close relationships to the relevant licensees should consider initiating one-on-one or group meetings; that CAFTA has not played a major role to date but that the El Salvadoran government has made some improvements that should be understood in the context of longstanding and severe problems with labor rights; that large licensees with relatively strong monitoring programs and close relationships with many universities may assume that they can operate with a large margin of error; that licensees have understandable concerns about establishing a precedent for providing compensation to workers that is owed by defunct factories; and that blacklisting is a clear-cut violation of FOA and nondiscrimination clauses in current codes. There was also general discussion about the root problems related to nonpayment of severance including noting that management may perceive they can get away with such violations in the absence of adequate enforcement, that foreign owners often abscond, that local owners may face criminal prosecution but there is a poor record on civil suits and obtaining monetary compensation, that it is difficult for licensees to assess a factory's capacity to pay severance, and that it is difficult to leverage a defunct entity. Options were discussed including whether to make licensees directly responsible for severance owed and whether the basis should be joint and several liability or a percentage of the customer base. Some participants mentioned hearing about a possible anonymous licensee fund to provide assistance to workers without creating a precedent or political perception of obligation.

In the case of Hermosa and Chi Fung, it was summarized that the WRC has reported the lack of progress to its affiliates and is seeking guidance on how to proceed. In response to questions it was clarified that the original blacklisting affected about 64 workers but most are now probably too discouraged to reapply; that severance issues now affect many more workers than the blacklisting issue; that USAS has contacted adidas and conducted some store actions; that it may be beneficial to pursue action on health care benefits to workers that were originally promised by the government but not delivered; and that the FLA had corroborated the WRC's findings on Hermosa. It was acknowledged that each university needs to consider its own situation regarding this impasse and one example was provided by Georgetown University in citing that their code requirement for verified compliance appears to provide an enforcement basis.

The Board decided that the WRC should send a brief and strongly-worded letter to all colleges and universities summarizing this compliance failure and encouraging the consideration of actions including contacting the relevant licenses on an individual or group basis. Efforts should also be made to avoid similar impasses at other factories in the future. There was some discussion of possibly creating a working group on licensee obligations but this was tabled until the next Board meeting pending developments at Hermosa/Chi Fung and noting concerns about pursuing an additional large restructuring parallel to the DSP process and needing the broad engagement of all stakeholders.

Executive Director Evaluation: The Board met in Executive Session to discuss the evaluation of the Executive Director.

Designated Suppliers Program: This session was devoted to the DSP with topics including: a review of revisions made by the DSP Working Group; a general update and discussion; and the

WRC's role in DSP implementation. Beginning with the review of recent revisions, it was clarified that it is now proposed that the DSP will apply only to licensees whose annual wholesale sales of university logo goods are in excess of a specific dollar amount to be determined by the DSP Working Group in consultation with the Collegiate Licensing Company and the Licensing Resource Group. Considering the concentration of university logo goods sales, it is expected that this small licensee exemption will cover a large number of companies but only a small percentage of apparel sales. This will streamline administration while still covering an estimated 85% of apparel sales through 40 to 50 licensees. Concerning the original requirement that two-thirds of a factory's production must be for the university market or for other buyers willing to honor the DSP standards, it was noted that this had been modified to "50% plus one" of production and that this terminology may be changed to "a majority."

Concerning the length of licensee-supplier relationships, a discussion was held on mechanisms to prevent licensees from leaving DSP factories after the initial 3-year contractual period and the concern that the greatest risk will be borne by unionized factories with higher cost structures. It was noted that the DSP could otherwise become obsolete if a cycle is created whereby every 3 years, the old factories have become unionized and then orders and jobs move to new non-unionized factories. It was further noted that all FOA activities can be chilled if workers see that unionizing leads to lost orders and jobs. Individual members of the Working Group have expressed a range of concerns but continue to seek an effective mechanism to address this critical issue. It was noted that using the threat of plant closings to intimidate workers from union organizing is an unfair labor practice; that higher operating costs characteristic of union factories may also be associated with legitimate business reasons for switching production; that it is often difficult to prove a company's actual motive for moving production and that it would be helpful to explore the methodology for this; and that DSP living wage provisions should reduce cost differences between union and non-union factories while recognizing that small cost differences can still be significant in the apparel industry.

Concerning the living wage provision, it was noted that the composition of the international panel of experts and its level of commitment would be critical to the effectiveness of the DSP. Similar concerns were also expressed about the general appeals process and it was clarified that the Working Group is focused on establishing adequate ground rules and an appropriate selection plan.

There was a general discussion clarifying that all DSP provisions should be understood as an addition to, rather than substitution for, existing code requirements. Specifically, it was recommended that DSP sections on "Workplace Standards and Factory Obligations" and "Licensee Obligations" should be edited to stress that current codes are based on recognized international labor standards as well as local standards and emerging new standards. It was noted that all university licenses are granted conditional on code compliance; that licensees must demonstrate code compliance; and that the DSP adds incentives for compliance considering that factories would otherwise lose their DSP status. It was agreed that the DSP should be understood as model language and that individual colleges and universities would be expected to use their existing code language supplemented by language that reflects their individual decisions regarding DSP provisions.

An update followed on recent DSP activities summarizing that the Working Group now includes representatives from 21 member institutions, including the 10-campus University of California system. To achieve critical mass, the Working Group needs more institutions and especially more institutions with large revenues stressing that the critical question is how much rather than how many. The Working Group now represents about \$100 million in annual sales out of total

current retail sales of \$2.5 billion. It was noted that progress continues with attorney Don Baker in seeking a business review letter from the Department of Justice (DOJ). A business review letter is a statement that the program is considered to be consistent with antitrust law and that the federal government contemplates taking no action. This device can be useful in discouraging private litigation. It was explained that Don was completing a draft based on the Working Group's program modifications and that the Working Group would review this draft at its October 24 meeting in order to make a submission to the DOJ with a final decision tentatively expected in about 4 to 5 months.

Overall, it was noted that the program revisions made to date have made beneficial reductions in the projected WRC role in DSP implementation. Specifically, WRC's administrative and enforcement burden have been reduced in relation to the fair price standard. The small licensee exemption also simplifies program administration by exempting a large number of companies.

Scott gave notice to the Board that no current action appears necessary but that the WRC would expect to present a future authorization request depending on developments that occur in the Working Group and feedback from non-Working Group affiliates. It was estimated that DSP implementation would require the WRC to double its field staff by adding about 5 staff positions and additional field consultants based on the actual location of production sites. The DSP is expected to increase the number of assessments needed but this increase should be gradual especially for the first phase-in year. The WRC remains hopeful that the DSP may result in fewer violations in the future by creating more incentives for compliance. About 80% of WRC's current work is focused on remediation so any reduction in resistance to remediation would have a major impact. Overall, the WRC expects to budget roughly an additional \$300,000 for DSP implementation and believes adequate funding can be obtained from government and private foundations.

Reports from Field Staff and Discussion: The ordering of the agenda was adjusted to ensure sufficient time for field staff reports. Powerpoint presentations were delivered by Agatha Schmaedick (Assistant Director / Field Operations) and Jeremy Blasi (Senior Field Representative). Jeremy focused on issues of unpaid severance and benefits, and illegal termination and blacklisting. Investigations cited included Hermosa, Chi Fung, Quality, and Manufacturas del Rio (El Salvador); Atlantic, Calypso, and Istmo (Nicaragua); and Rising Sun and MRC (Kenya). In response to questions he noted that the rapid response of licensees to violations is critical to success; and that some of the investigations cited did not use a formal team but were conducted primarily through the WRC and Witness for Peace with the assistance of past team members. He clarified that the process varies case-by-case and that most of WRC's work focuses on resolution rather than documentation in cases where violations are clear-cut. Reporting also varies case-by-case where documents may include a preliminary summary and action plan or a public report if needed. It was confirmed that the WRC would provide a new factory assessment update soon.

Agatha's presentation focused on the illegal use of "contract workers" and recent trends in political violence especially in the Philippines where 65 trade union leaders have been killed in the past year. Other countries discussed included Kenya, Swaziland, India, Indonesia, Thailand and Cambodia. In response to questions it was noted that the rise in contract workers reflects both illegal practices and the loosening of legal protections; that competition with China has sometimes been cited as justification; that improvements in code enforcement may inadvertently contribute to the use of contract workers when companies are no longer able to mistreat permanent employees; and that political violence is one example of a non-factory specific factor that can chill FOA rights.

Jill led the Board in expressing appreciation for the excellent field report and everyone agreed that it would be good if travel could be coordinated so that overseas field staff could attend future Board meetings as possible.

Scheduling Next Board Meeting: The next Board meeting was scheduled for February 2, 2007 (Friday). It was suggested that meeting dates may alternate between Mondays and Fridays to accommodate individual preferences. It was also confirmed that the next University Caucus meeting would be scheduled soon.

Update on State and City Government Procurement Codes: Nancy Steffan (Assistant Director / Policy and Communications) summarized that the WRC had started to be approached for assistance about 3 years ago related to state and local sweatfree procurement laws. To date, the WRC Board has approved the WRC playing an advisory role and engaging in a limited number of pilot contracts. The WRC contract with the City of Los Angeles should be finalized by the end of this year with the resolution of issues including that the bilateral structure of this project is different from the usual fee-for-service government contract, that the WRC would not need to indemnify the City, and that the WRC would retain rights to information related to this project. The project will consist of consultation, analysis and 2 investigations and is budgeted at \$50,000. An RFP for a second pilot project with San Francisco is pending and a decision on the final contract is expected in early 2007. The work would be similar to that proposed for Los Angeles.

In addition, the WRC began working in April with a group of Catholic District School Boards in Ontario on the enforcement of their sweatfree policy for student uniforms. Disclosure data is now being collected and the annual budget for this project is about \$80,000 in U.S. dollars.

In the discussion that followed it was confirmed that USAS and the WRC had also advised on the creation of a sweatfree ordinance in Madison, Wisconsin; that it may be advisable for state and local governments to ultimately create their own consortium and pool resources; and that the timing of the government initiatives was fortunate in coinciding with the development of the DSP and benefiting from the increased focus on fair purchasing requirements.

Adjournment: Prior to adjournment, there was a brief discussion of additional business including a question about any geographic trends in factory assessments (production growth is being seen in India as well as China, and the WRC may also conduct new or increased assessments in South Africa, Jordan, and Central America); Coca-Cola (the WRC is currently playing no direct role and, due in part to staffing changes, the investigation proposed by Coke has been delayed and a report may be issued in the spring of 2007); and the joint project in Turkey (progress has been limited due in part to staff turnover but assessments are now starting after 3 years, and there may have been some benefits in surfacing worker complaints in Turkey and in preparatory work on a common code of conduct.)

The meeting was adjourned with thanks to all for their participation.