May 8, 2006

Chancellor James Moeser
103 South Building, CB #9100
Carolina Campus

Dear Chancellor Moeser:

The Licensing Labor Code Advisory Committee has been carefully considering the Designated Supplier Program (DSP) proposal from the United Students Against Sweatshops (USAS) since you forwarded it for the Committee’s study and advice last fall. Scott Nova and Rut Tufts, Executive Directors of the Worker Rights Consortium (WRC) and the Fair Labor Association (FLA), respectively, have met with the Committee to share their perspectives on the proposal and the current state of the collegiate licensing industry. The Committee has received information derived from conference calls, national meetings, and documents forwarded by interested stakeholders.

All Committee members agree that we should seek to improve the effectiveness of the University’s Licensing Labor Code of Conduct adopted in 1999. Although strides have been made in labor practices, progress has been difficult in the highly competitive apparel industry. The Committee has had vigorous and productive discussions, and has drafted a statement that it recommends you adopt as the University’s position. We felt it important to give you some context for the statement, and thus are providing a summary of the Designated Supplier Program proposal and a summary of the issues and Committee discussions along with the recommended statement.

Summary of the Designated Supplier Program Proposal:

Under the proposed Designated Supplier Program (Attachment 1), licensees of The University of North Carolina at Chapel Hill (UNC) would be required to source most of their university logo apparel goods from a set of factories that have been designated by the WRC. In order to qualify as a designated university supplier, a factory would be required to meet all of the following criteria:

1. The factory must demonstrate full compliance with internationally recognized labor standards, as embodied in university codes of conduct.
2. The factory’s employees must be represented by a legitimate, representative labor union or other representative employee body.
3. The factory must demonstrate that its employees are paid a living wage as defined by the WRC, once it is receiving prices for its products sufficient to make this feasible.
4. The factory must produce primarily or exclusively for the university logo goods market, or for other buyers committed to equivalent standards, including payment of a living wage.

Summary of the Issues and Committee Discussion:

(1) Defined Set of Factories: Collegiate apparel is currently produced in thousands of factories around the world. Often, collegiate logo apparel represents a very small fraction of the items being produced in any given factory. Some believe that the large number of factories and the small proportion of collegiate production within these factories make the implementation, enforcement, and remediation of our current codes extremely difficult; only by consolidating collegiate production in a designated group of suppliers can universities ensure better conditions for those workers responsible for producing collegiate logo merchandise. Others are concerned that concentrating on a set of designated suppliers limits the influence of universities. Under UNC’s current code, both the FLA and the WRC monitor and investigate conditions in factories where only a small portion of the production is collegiate merchandise, and remediation efforts affect all workers in the factory.

(2) Freedom of Association: UNC’s current Labor Code of Conduct requires licensee factories to recognize and respect the right of employees to freedom of association and collective bargaining, but does not require the presence of a labor union or other representative employee body. Some believe that it is impossible to achieve lasting improvements without a legitimate labor union or employee body to collectively bargain. Ultimately, these representative bodies might become their own monitors. Others are concerned that this requirement eliminates any factory where the employees have chosen not to organize. One of Carolina’s top 20 licensees is a non-unionized company whose goods are produced primarily by North Carolina textile workers. The adoption of the DSP by Carolina would require dropping this vendor as a licensee unless the employees unionized or formed some other acceptable representative body, resulting in the possible loss of jobs for North Carolina citizens. Additionally, North Carolina has a law that prohibits requiring or denying an individual to belong to a labor union or labor organization as a condition of employment.

(3) Licensee/Supplier Relationship: The DSP would cause fundamental changes in licensee/supplier relationships. The potential impact on revenues that could flow from these changes is a key concern. All net revenue from the Trademark Licensing Program is directed toward need-based and merit-based student scholarships. Early in our discussions, the Committee agreed that it could not support any program that may lead to reduced revenue. USAS developed the DSP without licensee involvement and, as a result many questions and concerns regarding unintended consequences have not been answered. Little information on how the DSP would affect current sourcing practices has been brought forward, although some licensees have raised concerns regarding the availability of factories to handle product volume and differentiation. At this point, the true impact of the DSP proposal on our trademark revenue is not known.
(4) **Anti-Trust:** The potential for anti-trust claims and other possible legal risks for the University and its licensees has not been ruled out conclusively. The WRC obtained a legal opinion that states that universities are unlikely to be targeted for anti-trust claims. Some Committee members question the assumptions underlying this opinion and would prefer that the WRC request a Business Review Letter from the U.S. Department of Justice. Such a letter was sought and received by the FLA when the original labor codes of conduct were adopted in 1999.

(5) **Definition of Living Wage:** The concept of a “living wage” has long been a topic of discussion, even within this Committee. Our current Code requires licensees to pay employees, as a floor, at least the minimum wage required by local law or the local prevailing industry wage, whichever is higher. Although living wage has been debated on our campus in the past, it has never been defined to the satisfaction of the Committee. A report offered by the WRC regarding two separate countries stated that the living wage, calculated under the requirements of the DSP, could be two, possibly three, times higher than the current wage. Some members believe that the living wage requirement as defined by the DSP is vital. Others have concerns over how this requirement would impact supply chains and local economies, and would like to have a better understanding before adopting a definition.

(6) **Program Administration:** The ability of the Worker Rights Consortium to oversee the administration, implementation, verification, and enforcement of the DSP system has not been fully assessed, and the magnitude of any related costs is not known. The WRC today is a complaint driven, investigative organization that assists in the remediation of code violations. Under the DSP proposal, the WRC’s role would change. New responsibilities for the WRC would include factory certifications, assessment of union representation, evaluation of fair prices for products, and the determination of a living wage. There are questions about whether the WRC could balance the responsibilities of its new role with its current culture of investigator. Membership in the WRC is not open to licensees, thus its relationships with licensees have evolved primarily through the complaint process. There also are questions about the sources of funding to cover the increase in costs associated with the expansion of the WRC’s role. The WRC presently is a small organization, and would need additional staff and resources. Some Committee members question the advisability of having one organization manage the entire process. And, many Committee members have concerns regarding how the WRC’s new role would impact the University’s future relationship with the FLA.

After substantial discussion of these complex issues, the Committee reached near consensus. Widely varying perspectives are represented on the Committee, but all members were committed to working together to provide you with a single recommendation. We want to thank all the Committee members for the collegial manner in which differences were negotiated to achieve this final product, and we especially want to thank Professor Don Hornstein for his invaluable service in crafting the final draft. One member of the Committee, a student and representative of UNC’s Student Action With Workers (SAW), could not offer his full support to the statement. He chose to abstain to allow the recommendation to go forward. We have attached his e-mail to the Committee explaining his position (Attachment 2). The members of the Licensing Labor Code Advisory Committee are Dick Baddour, David Cook, Altha Cranev, Nick Didow, Jack Evans, Mike Hachey, Don Hornstein, Derek Lochbaum, James Peacock, John Pickles, Dwayne
Pinkney, Dan Thornton, and Elizabeth Wiley. Nick Didow was able to attend only one meeting and did not participate in crafting the recommendation.

Recommended Statement

The Committee offers the following statement which we recommend to you for adoption as the University’s position:

As a member of both the Fair Labor Association (FLA) and the Workers’ Rights Consortium (WRC), the University of North Carolina at Chapel Hill (UNC) is committed to ensuring that university logo apparel is produced under fair working conditions.

UNC was one of the first universities in the nation to adopt a code of conduct requiring licensees to pay workers fairly, ensure freedom of association and collective bargaining, comply with health and safety standards, and publicly disclose the names and location of all factories.

UNC is committed to continuing our leadership in these efforts through achieving better compliance with the code of conduct already in place. UNC also wishes to signal its interest in working towards a “fair trade” system, whether administered by WRC through its Designated Suppliers Program (DSP) or otherwise, which could promote the marketing of those licensed goods that are produced by factories that go beyond our current code. The University is especially interested in exploring how our licensees can source UNC logo apparel from factories that pay workers a living wage. The University also remains committed to ensuring respect for the associational rights of workers.

UNC, like many universities, has investigated the specific Designated Suppliers Program championed by United Students Against Sweatshops (USAS) and the WRC. We have done so in consultation with licensees, other universities, USAS, the WRC, the FLA, and others. Because the goals of the DSP are consistent with those of the University, we do not reject it. Because of the potential economic, legal, and logistical challenges within some of the DSP’s specific provisions, UNC continues to be willing to discuss with USAS, WRC, and other interested parties the specific details and consequences of its possible implementation for UNC licensed apparel.

As the University continues to investigate these issues, however, we also have learned enough to take the following concrete actions:

- We shall be contacting all of our licensees in writing to solicit their capability and willingness, in the immediate or near-term, to begin sourcing UNC logo apparel from factories that go beyond our current code.
• We shall be asking the FLA to show cause in terms of broadly achieved and sustainable measurements of its ability to monitor and verify implementation of our labor code in the current market.

• We shall be asking the WRC to show cause of its administrative ability to implement the DSP as well as to continue simultaneously its work of complaint investigation at non-designated factories.

As always, UNC continues to be willing to work actively with all other interested persons, organizations, and entities that share with us a commitment to ensuring that university logo apparel is produced under conditions that reflect the values of this institution.

The Committee also recommends that the University add its name to the list of signatories to the attached Women’s Rights Rider (Attachment 3) to our current Labor Code of Conduct.

We will be happy to meet with you to further discuss the Committee’s work this year. Thank you for the opportunity to explore options for improving the University’s Labor Code of Conduct.

Sincerely,

[Signature]
Derek Lochbaum
Director of Trademarks and Licensing
Co-Chair, Licensing Labor Code Advisory Committee

[Signature]
James Peacock
Kenan Professor of Anthropology
Co-Chair, Licensing Labor Code Advisory Committee

cc: Licensing Labor Code Advisory Committee Members
Attachments

1. Designated Supplier Program proposed by United Students Against Sweatshops
2. Mike Hachey email to the Committee
3. Women’s Rights Rider
Designated Suppliers Program

Overview

University logo apparel goods will be sourced from a set of designated supplier factories that have been determined by universities to have affirmatively demonstrated full and consistent respect for the rights of their employees. In addition to respect for the standards currently embodied in university codes of conduct, these factories will also be required to meet two additional standards: demonstrable respect for rights of association — as evidenced by the presence of a legitimate, representative union or other representative employee body — and the payment of a livable wage. University licensees will pay these factories prices for their products sufficient to allow factories to achieve these standards, prices which will represent modest increases over industry norms, and will be expected to maintain the kind of long-term relationships with these factories necessary to allow for a reasonable degree of financial stability and job security. These factories will produce primarily or exclusively for the university logo goods market.

Sourcing Requirement and Workplace Standards

The purpose of this proposal is to ensure to an extent not possible through current codes of conduct and code of conduct enforcement strategies that university logo apparel products are not made under sweatshop conditions. Upon implementation of the Designated Suppliers Program, licensees will be required to source most of their university apparel logo goods from factories that have been designated by the Worker Rights Consortium (WRC). In order to qualify as a designated university supplier, a factory will be required to meet the following criteria:

- The factory must demonstrate full compliance with internationally recognized labor standards, as embodied in university codes of conduct
- The factory’s employees must be represented by a legitimate, representative labor union or other representative employee body
- The factory must demonstrate that its employees are paid a living wage, once it is receiving prices for its products sufficient to make this feasible
- The factory must produce primarily or exclusively for the university logo goods market, or for other buyers committed to equivalent standards (including payment of a living wage)

Implementation of the Program will be phased-in over time, with the percentage of goods that licensees are required to source from designated supplier factories increasing each year. After the first year of implementation, licensees will be required to source 25% of their logo goods in this manner. After two years, the requirement will be 50%. After three years, the requirement will be 75%. Once the 75% level is reached, the university community will review the effectiveness of the Program and evaluate the desirability of applying the system to 100% of university production, bearing in mind that there may be value in some university production occurring outside of the sphere of the Designated Supplier Program in order to maintain a broader influence on the apparel industry at large.
Licensees are responsible for ensuring that the required amount of goods is manufactured in designated factories. Subcontracting by designated suppliers will not count towards a licensee’s obligation unless those subcontractor factories are also qualified as designated suppliers.

These standards apply only to university licensed apparel and textile products and only to production facilities in which products are sewn and assembled. Upon full implementation of the Program, the university community will assess whether the Program can be applied to facilities beyond those engaged in sewing and assembly operations and to products beyond apparel and textile goods.

**Explanation of Key Standards**

**Freedom of Association**

To qualify as a designated supplier, a factory must be found to fully respect employees’ associational rights, as evidenced by the existence of a legitimate labor union or other representative employee body. The union or employee body must have a leadership freely elected by the workforce, without interference from management, and have standing to bargain over wages and working conditions on behalf of the majority of workers. The factory must negotiate in good faith a collective bargaining agreement with the union or employee body. The factory must not curtail associational rights of employees by engaging in terms of employment, such as temporary contract labor arrangements, that have the effect of hindering the exercise of these rights.

**Living Wage**

Factories will be obligated to pay employees, as a floor, a living wage. A living wage is a “take home” or “net” wage, earned during a country’s legal maximum work week, but not more than 48 hours, that provides for the basic needs (housing, energy, nutrition, clothing, health care, education, potable water, childcare, transportation and savings) of workers and their families.

**Producing primarily for the university logo goods market**

In order for compliance with the above standards to be achievable, university licensees will need to account for a substantial majority of production at each participating supplier factory. The burden will therefore be on licensees to ensure that those factories they intend to use toward fulfillment of their obligation have sufficient orders to ensure that two thirds of annual sales are for the university logo goods market. At the end of its first twelve months as a designated supplier, each factory will be assessed to verify that this standard was met during those twelve months. If it is determined that the standard was not met, the factory will lose its status as a designated supplier and licensees will not be able to count goods sourced from that factory over that twelve month period toward fulfillment of their sourcing obligations under the Program. The purpose of this requirement is twofold: to ensure that designated suppliers receive sufficient orders at prices adequate to allow for compliance with Program standards, and to ensure that these orders are sufficient in volume, and in consistency over time, to enable suppliers to provide stable employment to their workers.
Monitoring

Ongoing compliance with the standards by designated suppliers will be assessed by the WRC through a combination of complaint-based investigations and spot investigations (see Appendix for further explanation of the implementation and monitoring processes).

Fair Pricing Requirement

Licensees and/or their agents will be required to order goods from the designated factories at prices that are sufficient for the factory to pay a living wage and to comply with all other code of conduct standards. The failure of a licensee to purchase goods at prices that meet this standard will represent a violation of its obligations under the Program. It is the responsibility of each licensee, in negotiation with each supplier factory on each order, to determine the appropriate price. The WRC will provide technical assistance, as needed. If the WRC determines that the price being paid for a particular order is insufficient to allow a factory to meet the living wage standard, the licensee will be deemed to be in violation of its obligations under the Program.

Licensees are encouraged to assist factories in enhancing productivity and to improve their own ordering practices in ways that lower suppliers’ costs. To the extent that a supplier derives cost savings from such efforts, it is expected that the price premium required to allow that supplier to achieve the workplace standards will be reduced. However, it is the responsibility of the licensees to ensure, in the case of each order, that the price paid to the supplier is sufficient, in view of actual production costs, to allow all of the standards to be met.

Transparency and Disclosure

Licensees and designated suppliers must be fully committed to transparency in order for the WRC to effectively verify their compliance with this program. Factories must allow the WRC and its representatives unobstructed access to the factory when requested.

In order to demonstrate compliance with the sourcing requirement, licensees must publicly disclose, on a quarterly basis, the raw number of goods procured from each supplier factory for each product type during the preceding quarter. The WRC will review this disclosure on an ongoing basis and annually assess each licensee’s compliance with the Program.

In order to demonstrate compliance with the fair pricing requirement, in the case of a dispute over appropriate price levels the licensee and the factory must provide the WRC, on a confidential basis, access to relevant financial records and production data.
Appendix
Implementation Process, Schedule and Monitoring

Program Phase-in and Sourcing Requirements

Because of the nature of apparel industry sourcing practices, it is not presently feasible for any factory to fully meet the standards necessary to qualify as a designated supplier. Only when, as a result of the Program, stable orders are available to factories at appropriate price levels will full compliance be possible. Therefore, the Program will involve a start-up phase in which the WRC will work with licensees and factories in order to identify potential designated suppliers, direct orders to these suppliers, and bring them into full compliance with the standards of the Program.

This process will work as follows:

Upon adoption of the Program by licensor universities, the WRC will provide licensees with a list of factories that possess the capacity to achieve designated supplier status, but have not yet done so. This determination will be based on the level of overall code compliance demonstrated by particular factories, including manifested respect for rights of association. Licensees may choose factories from this list and/or or factories from their existing supply chains that they believe can be brought into full compliance under the standards of the Program. The WRC will advise licensees on which of their existing suppliers may be likely to achieve compliance and will work with licensees to map out plans for remediating deficiencies and achieving full compliance at a sufficient number of facilities.

The first six months after the inception of the program will be a grace period; licensees will not be required to demonstrate that they are sourcing from designated suppliers until this period has ended. During the grace period, the WRC will advise licensees on an ongoing basis as to whether sufficient progress is being made at a given factory such that it will be feasible for compliance to be achieved in a timely fashion. Assessment of factories to identify designated suppliers will occur at the end of the grace period, and will be initiated in response to requests from workers and their representatives at each factory.

After the grace period concludes, licensees will incur the obligation to demonstrate that they are sourcing the appropriate percentage of their university logo goods from designated suppliers. Compliance will be measured annually, starting from the end of the grace period – meaning that the first compliance assessment will occur 18 months after the inception of the program and will cover the period from the 7th through the 18th month.

Enforcement of Living Wage Standard

Compliance with the living wage standard will be assessed through a combination of complaint-based investigations and spot investigations.

Since in most or all cases, suppliers will need to receive increased prices from buyers before a living wage can be paid, compliance with this standard will be measured only after a factory has
been in receipt of steady orders from licensees under the Program for at least six months, including a commitment from the licensees to pay prices sufficient to enable a living wage.

Because wages at each factory will be set through contract negotiation between worker representatives and management, a factory’s compliance with the living wage standard will not be assessed until there has been sufficient opportunity for these negotiations to occur.

A living wage will be established on a worksite-by-worksite basis. The process for establishing a living wage will work as follows. For each facility or facility cluster, the WRC will assemble a committee of experts from the region in question. The committee shall be comprised of individuals from non-governmental organizations, academia, and other civil society institutions with expertise in the local cost of living and workers’ issues in the region. The committee will, with assistance from WRC staff, develop a living wage minimum threshold based on a review of data on the cost of living (including both data gathered for the committee and any credible, pre-existing data). The living wage standard will reflect the minimum necessary income in the region in question to provide for the basic needs of housing, energy, nutrition, clothing, health care, education, potable water, childcare, transportation, and savings for a family of average size.

If, as a result of an assessment of wage levels carried out in response to a complaint from workers or their representatives, the WRC determines that the wage offered by factory management falls below this living wage threshold, and the factory refuses to remedy this non-compliance, the factory will lose its designated supplier status.

**Enforcement of Fair Pricing Requirement**

The fair pricing requirement will be assessed through complaint-based investigations and spot-investigations.

Licensees and supplier factories will freely negotiate prices for licensed apparel orders that enable full compliance with each of the Program’s standards. If, at any time, the WRC receives a complaint regarding the alleged failure of a licensee to pay prices sufficient for the factory to comply with Program’s standards and the complaint is deemed credible, or if other evidence indicates violations of the fair pricing requirement, the WRC will initiate a review of the prices paid by the licensee to the facility in question. This review will be carried out by a team of trained specialists with expertise on production costs in the apparel industry. The team of specialists will assess the factory’s production costs for the product in question and make a determination as to whether the prices paid by the licensee for purchase of licensed goods is sufficient to enable full compliance with the Program’s standards. If the licensee is found to be in non-compliance with the fair pricing requirement, and the licensee fails to remedy the non-compliance, the WRC will report this failure to adhere to the Program’s requirements to affiliate universities.
Thank you very much Dr Cravey for your statement of support. After consulting with SAW and USAS, we will remain "abstaining" from this statement, but we have this commitment, which I hope will show the commitment and compromise that Professor Hornstein is asking for:

Student Action with Workers recognizes the significant compromises which have been made by all sides during the past year of work on the licensing committee. While we wish to abstain from supporting the current proposed statement to the chancellor, we would like to affirm that we believe the committee process is moving in a positive direction.

We recognize that the committee has expressed interest in making significant changes to UNC's current monitoring practices. We applaud the committee's interest in implementing a living wage and opening up dialogue with licensees to encourage them to source from factories which surpass UNC's current labor standards.

Student Action with Workers still calls for the chancellor to fully commit to all principles of the DSP and to move towards implementation as a part of the WRC working group. We reserve the right to express this view directly to the chancellor.

However, we commit to remaining productively engaged with the licensing committee so long as the action steps outlined in the draft statement are carried out in good faith, and forward progress continues to be made towards respecting associational rights and implementing a living wage for all garment workers producing UNC apparel.

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Labor Code Standards
Rider 2 to Schedule I

Women’s Rights:

1. Women workers will receive equal remuneration, including benefits, equal treatment, equal evaluation of the quality of their work, and equal opportunity to fill all positions as male workers.

2. Pregnancy tests will not be a condition of employment, nor will they be demanded of employees.

3. Workers who take maternity leave will not face dismissal nor threat of dismissal, loss of seniority or deduction of wages, and will be able to return to their former employment at the same rate of pay and benefits.

4. Workers will not be forced or pressured to use contraception.

5. Workers will not be exposed to hazards, including glues and solvents that may endanger their safety, including their reproductive health.

6. Licensees shall provide appropriate services and accommodations to women workers in connection with pregnancy.

COLLEGIATE INSTITUTIONS

The following Collegiate Institutions have adopted Rider 2 to Schedule I

1. The University of Alabama
2. University of Arkansas-Fayetteville
3. University of Arizona
4. University of Cincinnati
5. University of Connecticut
6. Cornell University
7. Drexel University
8. Duke University
9. University of Florida
10. The George Washington University
11. Georgetown University
12. University of Illinois
13. James Madison University
14. Northwestern University
15. Marquette University
16. University of Massachusetts
17. University of Miami
18. The University of Missouri
19. University of Montana
20. University of Nebraska
21. The University of New Mexico
22. Northwestern University
23. Purdue University
24. San Diego State University
25. Syracuse University
26. The University of Tennessee
27. The University of Tennessee at Chattanooga
28. The University of Tennessee at Martin
29. Tulane University
30. University of Virginia
31. University of Wisconsin-Madison