

**Minutes of Designated Suppliers Program Working Group Meeting
February 1, 2007 – 9:00 a.m. to 4:00 p.m.
Georgetown University, Washington DC**

Attendees:

Julie Bell-Elkins (University of Connecticut); LaMarr Billups (University of Wisconsin-Madison); Jim Briggs (Santa Clara University-attending by phone); Rita Dongas (USAS Representative and student at Purdue University); Glen Fichman (University of California system-attending by phone); Joel Feingold (USAS Representative and student at University of Wisconsin-Madison); Julia Filippone (University at Albany-attending by phone); Honey Sue Fishman (Columbia University); Tim Hillman (USAS Representative and student at University of Colorado at Boulder-attending by phone); Graciela Lopez (USAS Representative and student at American University); Jenny McDaniel (Indiana University); Mike Powers (Cornell University); Doug Shaw (Georgetown University); Paul Tabolt (University of Colorado at Boulder); Mel Tenen (University of Miami); Pili Tobar (USAS Representative and student at University of Miami); Sara Wallace-Keeshen (USAS Representative and student at Georgetown University); Jim Wilkerson (Duke University); and William Wei (University of Colorado at Boulder). University observers attending were Chris Bradie (University of Pennsylvania); Walter Hunter (Brown University); Derek Lochbaum (University of North Carolina-Chapel Hill); Larry Mann (University of Illinois); Emma Norland (Ohio State University); Maureen Riedel (Pennsylvania State University); Larry Root (University of Michigan); Doug Sabel (Purdue University); and Ilene Wilder (University of Pennsylvania). Licensees attending were Debbie Carlson (College Concepts); Sandra Cho (Columbia Sportswear); Keith Cottrell (Vesi, Inc.); Bob D'Angelo (Twins Enterprises, Inc.); Tim Freer (New Era Cap Co.); Larry Graveel (Gear for Sports); Donna Hansen (Jones & Mitchell); Steve Hare (Top of the World); Kelsey Keene (Zephyr Graf-X); Gary Lipski (Cotton Exchange); Mark Millar (Columbia Sportswear); Caitlin Morris (Nike); Dick Rademaker (Licensing Resource Group); Harvey Saferstein (Merge Left, Inc.); Dana Schlemmer (Gear for Sports); Jim Short (Outdoor Cap Co., Inc.); Bruce Siegal (Collegiate Licensing Company); John Staton (College Concepts); Paul Swisher (T-Shirt International, Inc.); Dennis Thornburg (T-Shirt International, Inc.); Pete Wilson (Top of the World); Paige Wingert (Legacy Athletic); and Brandon Wingert (Legacy Athletic). Student observer attending was Christina Carr (University of Miami). Also observing were Christine Briscoe (FLA); Victoria Cepeida-Mojarro (USAS); Rich Hershman (NACS); Zack Knorr (USAS); Sarah Labowitz (FLA); and Todd Miller (Baker & Miller). WRC staff attending were Scott Nova, Theresa Haas, Anne O'Rourke, and Nancy Steffan.

Pre-Meeting (Members of DSP Working Group and university observers only)

Welcome, Introductions, Agenda Review: Jim Wilkerson began the meeting by welcoming all participants. The agenda was approved with one inquiry about continuing to discuss the University Caucus meeting scheduled for March 13.

Update on Department of Justice (DOJ) Business Review Process: Scott Nova summarized that attorney Don Baker made a formal submission to the DOJ on January 12 to request a business review letter. The submission incorporates revisions based on comments from the Working Group and others. Don also had a meeting with the DOJ in advance of the formal submission for the purpose of making technical clarifications and it was reported that this meeting was helpful. The Working Group is now expected to wait for the DOJ opinion which is estimated to take 3 to 6 months. The submission to the DOJ has been circulated to the Working Group and it was ultimately decided that it would also be posted on the WRC website tomorrow and made

available to licensees and others. Later in the meeting, it was also requested that any licensees making a related submission to the DOJ should also make such documents public as a matter of equity.

Update on Licensee Data Request: Scott summarized that there was a discussion of the DSP impact on retail prices during the Working Group's November conference call with licensees regarding the revised DSP. Overall, some licensees estimate that the impact will be more significant than WRC projections, and the Working Group is seeking data from licensees to support these assumptions. It was noted that one licensee was trying to develop data on the average labor costs of its suppliers and that it would be useful to devote a portion of this meeting to that issue if such data was presented today.

Update on Agent Data Request: Jim led everyone in thanking Mel Tenen of the University of Miami for his leadership on a request to the CLC for data on the top 75 licensees formatted in groups of 5 according to their percentage of total apparel royalties. Through this process, the Working Group is seeking to develop an appropriate cut-off point for the small licensee exemption while avoiding asking for proprietary information about any single company or dollar figures. The small licensee exemption is intended to facilitate easier program administration and avoid an undue burden on smaller companies. The CLC data confirms that relatively few larger licensees represent most of the market (the top 5 represent 34.22% and the top 10 represent 47.09%). Discussion followed about developing adequate safeguards and the need for retroactive application of program requirements if licensees previously exempt from the DSP increase their collegiate business. Notice was taken of licensee concerns that even relatively small companies could use the exemption for a competitive advantage in specialized markets. Furthermore, given that the DSP is likely to increase wholesale prices and that exempt licensees would avoid this impact, it was discussed that other measures could be considered to equalize the effect on small and large licensees. It was agreed that defining an appropriate cut-off point may ultimately require obtaining dollar figures but that the Working Group had decided to begin by reviewing more easily accessible data. It was also confirmed that licensees with multiple labels would be viewed as a single entity for the purpose of evaluating the applicability of the small licensee exemption. It was also agreed that it was important to have a manageable number of licensees in order to avoid overextending enforcement resources. It was noted that the WRC expected that the DSP would cause a manageable increase in the need for resources for program administration and field assessments; and estimates were given that WRC work has significantly involved about 30 to 40 licensees with several hundred factories involved since the WRC's inception with significant activities occurring in about 15 factories at a time.

Discussion of DSP Implementation Issues: In discussing a go-forward strategy after a response is received from the DOJ, it was decided to form a subcommittee that would develop plans for moving forward in the case of a favorable or unfavorable response from the DOJ, with a focus on strategies for resolving any anti-trust issues identified during the business review process. It was agreed that USAS would be invited to this subcommittee. The initial members are Julie Bell-Elkins (University of Connecticut); LaMarr Billups (University of Wisconsin-Madison); Julia Filippone (University at Albany); and William Wei (University of Colorado at Boulder). Honey Sue Fishman (Columbia University) also indicated she would serve if needed. Representing USAS would be Rita Dongas (Purdue University); Joel Feingold (University of Wisconsin-Madison); and/or Sara Wallace-Keeshen (Georgetown University).

It was also summarized that there has been a very positive response to a proposal for a Working Group trip to El Salvador with about 10 institutions indicating interest in participating. Follow-up

will be conducted next week about possible dates and the invitation will be extended to all WRC affiliates.

Discussion continued about meeting with additional institutions not yet engaged in the DSP. Scott noted that the University Caucus (UC) meeting agenda was still in progress and would likely include a session on the DSP of about 2 to 3 hours. It was agreed to consider inviting non-WRC affiliates to the meeting pending the approval of the UC representatives who were expected to discuss the agenda at the WRC board meeting the following day. It was clarified that UC elections are usually held between February and June with the bylaws specifying that terms end in June; that nominations are made according to affiliation categories based on revenues; and that uncontested elections can be finalized by acclamation and contested elections conducted by email. Additional information is available in the WRC and University Caucus bylaws available at www.workersrights.org. It was also agreed that it would be educational for the UC meeting to include a panel composed of workers to balance licensee input.

Scott suggested that, for today's final agenda item on technical implementation issues, it would be valuable to focus on measuring compliance with the DSP procurement requirement currently set at 25%. The current assumption is that this would be based on collecting the total dollar figure for college logo apparel at supplier factories in order to avoid disclosing unit price information. Discussion would be helpful to clarify that the total dollar figure is the best measurement. There was also discussion about the potential for the DSP to encourage large companies to eliminate collegiate production; and the need to consider both the size of the company and its level of collegiate business in assessing compliance capacity.

Scheduling Future Working Group Meetings: Considering the March 13 University Caucus meeting, it was decided to schedule the next Working Group meeting in April. Possible dates will be discussed by email.

Working Group Meeting with Licensees

Welcome and Introductions for Working Group Meeting with Licensees: Nancy Steffan gave a PowerPoint presentation providing an overview on revisions to the DSP; and how these revisions sought to balance concerns that licensees voiced at the July 2006 meeting while maintaining the integrity and effectiveness of the DSP. The related discussion noted that the reduction of the two-thirds requirement to a simple majority may not address all licensee concerns because it still requires consolidation and likely some factory sharing but this requirement is considered fundamental to the design and feasibility of the DSP; that the cut-off point for the small licensee exemption is still under discussion; and that there is a narrow provision in the factory selection process to ensure support for a small number of factories with an exemplary record on labor rights improvements.

In response to questions on technical clarifications, it was noted that "long-term contracts" are now defined as 3 years with one transition year.

It was noted that the threshold for the small licensee exemption is still under discussion pending analysis of the CLC data. It was reiterated that the intention is to streamline program administration and avoid an undue burden on small companies while avoiding unfair competitive advantage where smaller companies could undercut competitors in specialized markets. It was noted that a previously exempt licensee would quickly and retroactively lose its exemption if its collegiate business significantly increased such that it exceeded the threshold.

On the issue of seasonality, it was noted that revisions including an explicit exemption for highly specialized products have been made and that the Working Group would continue to seek licensee input regarding ways to minimize the burden imposed by the DSP while maintaining program integrity.

One participant disputed whether negotiations to date had been conducted in good faith and maintained that the DSP was too intrusive and complex to function. It was affirmed that the Working Group would continue consulting with licensees but did not expect full agreement; that identifying serious global labor problems was not meant as an accusation against individual licensees; and that all participants should be hard on issues and soft on people.

On the issue of publicly reporting non-compliance, it was noted that this principle already exists in current codes and that the Working Group would continue to work to balance the need to hold licensees responsible for factory behavior while avoiding situations in which licensees would be held responsible for factory misconduct beyond their control.

There was some discussion about how different size companies would interact with the DSP. Scott summarized that there appears to be three general categories: very large licensees with global compliance programs; middle-size companies who need assistance with compliance capacity; and small companies without significant market share. It was expected that the DSP would help the middle tier of companies and provide some new options for smaller companies by offering a list of DSP factories that meet meaningful standards.

One licensee raised the issue that the current DSP plan would require it to re-source 100% of its product because no factory that it currently uses meets the 50% plus one requirement for collegiate production even though these current factories are engaged in collegiate licensee production for large licensees with extensive compliance programs. The Working Group acknowledged that consolidation will pose logistical challenges for licensees but that it was necessary to create an incentive for compliance on the part of the factories. It was noted that companies need to be willing to influence factory practices and must have adequate leverage for this; while also noting that the DSP will necessitate many licensees leaving at least some of their current factories and that factories may prefer having numerous and diverse customers given present industry conditions.

Observer comments included praise for the evolution of the DSP and giving priority to developing a critical mass of supporting universities; balancing the need to address licensee concerns about business realities with the humanitarian principles of the program; recognizing the complex nature of sourcing and the prevalence of labor violations; consideration of whether the Working Group has accurately understood and adequately addressed licensee concerns; and noting that recognition of the limitations of codes should not be used to undervalue their positive results to date.

The discussion then returned to DSP sourcing challenges and the issue of a single licensee having an adequate percentage of business at any single factory. The Working Group reiterated that the intention of consolidation was to match a higher price premium with better treatment and compensation for factory workers and that the least onerous means to accomplish this would be welcome. It was again acknowledged that factory sharing is an option and that most DSP factories would likely be facilities that several licensees are already currently using.

The observation was made that collegiate production is a relatively small percentage of business for at least some of the top 15 licensees. It was noted that if these licensees consolidate production into their best factories, those may not be factories that are currently collegiate. There could also be difficult issues relating to consolidating at peak production times and maintaining reasonable efficiency. The Working Group noted that the gradual phase-in of the DSP may help with these issues. In response to a question about a licensee sourcing the same product from various factories for collegiate and non-collegiate customers, the Working Group indicated that compliance could be demonstrated by sourcing the total amount of apparel equivalent to the required percentage of collegiate volume from a designated factory. Licensees also raised concerns about competing demands for increased worker wages and lower prices for the universities. Licensees also indicated the difficulty of infinitely subdividing production noting that large, high-volume and reasonably-priced factories are characteristic of many licensee supply chains and that the DSP may be biased against large suppliers and diverse customer bases.

There was some discussion of bookstore issues concerning prices and scheduling expectations. The example was given of a replenishment company that makes projections but does not book orders in advance and would thus need to retroactively assess if it met DSP requirements making compliance difficult and also making it difficult to assure universities that it was in compliance. Some participants questioned the necessity of replenishment or “just-in-time” operations and their potential to denigrate labor conditions. It was stressed that the Working Group should consult retailers as well as licensees and assess buying patterns and not just sourcing. It was noted that, independent of the DSP, licensed apparel can be a difficult form of production with special requirements; and that factories may consider it a bad business decision to devote the majority of their business to licensed products. It was reiterated that the DSP could create inefficiencies especially in the case of seasonal and highly specialized products. The Working Group stressed that the DSP does now propose an exemption for specialized products that cannot be made in factories alongside common collegiate products as well as highly seasonal products.

There was also discussion about potential problems with sharing factories relevant to individual businesses and competitor secrets. One licensee raised a concern about a headwear factory which the licensee is adverse to leaving because they have had a 30 year relationship and report high quality production and good labor practices but the factory has only 15% collegiate production. It was suggested that there may be an option for large campus facilities to devote one unit to collegiate production for the purpose of DSP compliance. There was also discussion about possible problems with creating pay differences between DSP and non-DSP workers while noting that pay differences already exist in such circumstances as supervisory and non-supervisory workers. Another issue raised was that licensees may wind up subsidizing other customers in any facility where non-collegiate buyers are paying prices less than what is required by the DSP fair price standard.

Some licensees stressed the need for partnership and program alternatives. Some commended the innovation behind the DSP and urged focusing on core issues of helping global workers; changing the parameters of the debate; and addressing education needs possibly by taking the DSP to university business schools for modeling. Some Working Group members commented that apparel brands participated in creating the present structure of the global garment industry and that systemic change might reduce the negative impact on any individual business. It was also noted that the 2006 University Caucus meeting included panelists from apparel manufacturers’ associations who said the DSP would be attractive for many factories and that stable orders at favorable prices could offset other challenges. Licensees commented that long-term production agreements could be vitiated by economic realities of lack of orders and defunct businesses.

One participant commented that the DSP plan extensively complicates compliance; and that there doesn't appear to be a problem with pricing considering that many licensees currently sell unique products in niche markets and that bookstore prices are trending upwards rather than being driven down. Responses from the Working Group included noting that complexity concerns may be overstated while citing that the compliance protocols of other, existing monitoring programs that run much longer; noting that licensees had previously requested more details which are now being characterized as increasing complexity; confirming that the appeals process is still under discussion and will prioritize speed and efficiency; and noting that the Working Group has spoken with individuals within the industry who have concluded that the DSP is feasible to implement.

Licensees reiterated that any solution should be designed with adequate input and consultation with all entities and with extensive knowledge of the apparel industry; and that fundamental issues should be collectively addressed rather than adhering to one single approach.

The Working Group summarized that it has been operating for one full year as of February; that various issues and approaches have been debated; that there have been many consultations with licensees including meetings in July and the present meeting; and that the process has been characterized throughout by great openness and consultation. It was acknowledged that licensees face strong and sometimes competing pressures from universities and retailers.

Some licensees presented their perception that they had not received adequate communications about possible wrongdoing but were now being asked to change factories for unclear reasons. It was noted that the FLA and codes have existed since 1999 but that corporations may still be unclear about a number of requirements; and that many violations may remain unknown in the absence of effective monitoring. Examples were given to demonstrate that large numbers of producers make monitoring difficult; that any licensee operating in China should know there are code issues concerning freedom of association independent of any communication from enforcement agents; and that the loss of orders at exemplary factories who improved their labor conditions highlights the need for systemic change. Licensees noted that they are not just price-driven, but give priority to quality and to consumers. It was generally noted that case-by-case actions are inadequate to address systemic challenges to compliance; that it is necessary to address fundamental sourcing issues; that an open dialogue among workers and industry experts and students and university administrators could be beneficial; and that data is needed from licensees to assess various predictions. One Working Group member noted that the key issues are living wages and the right to unionize; expressed concerns about the relative lack of openness early in the DSP development process; and cited the value of being open to alternatives that address the key issues. USAS representatives indicated that they are hopeful that the DSP can be implemented this summer although this does not represent a current policy position on the part of the Working Group or any individual university.

In response to questions, it was noted that current WRC assessments are triggered by complaints from workers and worker organizations and that monitoring expenses account for 70% of the WRC budget. The DSP is predicted to increase field costs including staffing but this may be offset in part by the reduction in the number of factories involved. It was also clarified that DSP-related discussions have been underway for about 2 years and university code compliance work for about 8 years.

One licensee gave the example of having a relatively small presence in 13 factories where they conduct annual social compliance audits and observed that this audit impact would be lost if they consolidated into one factory. It was noted that WRC's experience shows that licensees with a

small percentage of business tend to have little impact on factory operations so concentration may reduce the number of factories affected but make the impact more meaningful.

In response to a question about trade restrictions and geographic shifts, it was noted that it is difficult to project the ultimate number of DSP factories but an estimate was provided of about 200. The geographic spread is also uncertain but expectations are that the DSP will not worsen the current level of shifting between countries and may help shift production to countries with better labor standards. It was reiterated that many universities want to remain engaged with China to have a positive impact, experiment with creating space for the exercise of associational rights, and establish benchmarks for evaluating factories in China.

In response to questions, it was noted that many universities have adopted policies on fair wages and benefit plans for university employees and examples were given including the University of Wisconsin-Madison, Duke University, and Georgetown University. The WRC also offered to provide information about living wage ordinances from various cities upon request. Some participants cautioned that such discussions were off-topic and some licensees stated their interest in knowing if universities were applying the same standards to themselves that they impose on others especially considering that the DSP may result in smaller profit margins for licensees. It was also noted that universities have more control over their trademarks than over unmarked products they purchase. It was further noted that distinctions should be made between universities' essential operating purchases and their licensing programs from which they accrue revenues but which may not be an operational necessity. It was generally noted that the Working Group is sympathetic to licensees' concerns about fairness, and concerns about apparel licensees being the starting point for the DSP especially when many companies have existing compliance programs. On the issue of the DSP's focus on apparel, it was noted that many current codes cover all products and that the DSP supports the ultimate principle of comprehensive coverage but sought to start with the industry that monitors know best. References were also made to some examples of university procurement codes and environmentally responsible purchasing policies.

In discussing living wage formulas for foreign countries, it was noted that the WRC has produced examples for Indonesia and El Salvador; and that such models generally generate figures of 2.5 to 3 times the prevailing wage, based on line item calculations for an appropriate basket of necessary goods and services. There was also a mention of the healthcare company Novartis which recently became the first major multinational company to implement a living wage policy.

Adjournment: The meeting was adjourned with Jim thanking everyone for their participation and thanking Doug Shaw and Georgetown University for continuing to serve as hosts. Jim noted that the dialogue and consultation would continue and led everyone in expressing appreciation for the candid input and rigorous exchange which enriches the DSP planning process.