

Frequently Asked Questions About LS&Co. Global Sourcing Practices

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- 1. How many factories do you own? How many suppliers do you outsource to or contract with?**

Levi Strauss & Co. manufactures products in facilities owned by our company and under contractual agreements with approximately 600 external suppliers in more than 50 countries. We also manufacture products through joint ventures and through country and product licensee agreements at approximately 350 additional facilities. [See a full list of our suppliers.](#)

- 2. When did you release the names of your suppliers?**

In October 2005, we were one of the first companies to release the names and locations of all active, approved owned-and-operated, contract and licensee factories that manufacture and finish Levi's®, Dockers® and Signature by Levi Strauss™ products. You can find the list [here](#).

- 3. Why did you publicly release the names of your suppliers?**

We believe that making our factory list public fosters collaboration with other brands and leads to sector-wide improvement in supplier adherence to codes of conduct. By sharing

our list of suppliers, we establish broad recognition of our suppliers' efforts and ability to meet our Terms of Engagement (TOE). We hope that other brands will acknowledge and reward these suppliers with additional business. We believe that public awareness of our suppliers establishes a powerful accountability mechanism that will encourage them to maintain positive working conditions and continuously improve their performance on our Terms of Engagement.

4. How do you select your suppliers?

Prior to engaging with a prospective supplier, Levi Strauss & Co. (LS&Co.) informs the supplier of our Terms of Engagement (TOE) requirements and provides them with copies of our Social and Environmental Sustainability Guidebook, which defines specific factory-level practices, policies and LS&Co. expectations. The specific facility that will produce the LS&Co. products is then assessed to ensure that it meets the TOE. In order for production orders to be placed at the facility, any zero-tolerance or immediate-action items identified during the initial assessment must be corrected.

In addition to compliance with our TOE, suppliers are also evaluated on their ability to meet our other requirements, including price, quality, delivery and capability.

All suppliers are required to sign a document acknowledging their agreement to comply with the TOE as part of the purchase or licensing agreement with LS&Co. They must agree to follow the TOE and any corrective action plans as a condition for continuing the manufacturing relationship.

5. How do you ensure that suppliers adhere to your Terms of Engagement?

Levi Strauss & Co.'s approach to TOE implementation is based on a philosophy of cooperation and continuous improvement with our contractors. We work on-site with our contractors to develop strong alliances dedicated to responsible business practices and continuous improvement. We work with our suppliers to identify and resolve problems in their factories and to improve working conditions for their employees. We advise suppliers on other resources that can help them to build their capabilities, such as third-party training providers, Levi Strauss Foundation-supported worker rights programs and respected monitoring and worker rights program such as the International Labor Organization's Better Work program. Increasingly, we are learning from our suppliers' successes and sharing their best practices across our supplier base.

6. What happens if a supplier does not meet the requirements set out in your Terms of Engagement?

We understand that our standards are higher than those of many other apparel companies and that our suppliers will be challenged at times to meet them. As long as a supplier is willing and capable of meeting our requirements, we will work with and support that supplier.

We impress upon suppliers the importance of TOE performance to our business relationship. Poorly performing suppliers are warned that they are in danger of having their production orders reduced unless they are able to improve their TOE performance. In most cases, such notification motivates the supplier to quickly improve.

If performance does not improve, we will reduce production orders until the supplier can bring it up to an acceptable level. If performance still does not improve, as a last resort we will end our relationship with that supplier. Such a situation rarely occurs, as most suppliers are interested in keeping our business.

Should we find it necessary to withdraw orders or exit production at a facility, we work to do so responsibly so that factory employees receive their proper wages and benefits.

7. How are your Terms of Engagement communicated at the factory level?

The TOE are communicated at the factory level through our detailed Social and Environmental Sustainability (SES) Guidebook, which defines specific factory-level practices and policies, and provides examples of violations, recommended remediation timeframes and specific steps required to address violations. All suppliers are provided copies of the SES Guidebook.

Periodically, we provide a half-day orientation on the TOE to groups of suppliers in various countries. As part of corrective action plans, suppliers may be requested to conduct supervisor training on codes of conduct or work with local nongovernmental organizations (NGOs) or labor specialists to provide such training.

In addition to educating factory management on TOE requirements, we believe it is critical to educate factory employees on their rights in the workplace and our company's expectations of factory management.

In some cases, Levi Strauss & Co. assessors provide direct education to workers on the TOE. In others, we partner with or, through the Levi Strauss Foundation, fund local NGOs to educate workers on their rights.

8. How do you know your guidelines are being met on a day-to-day basis?

Levi Strauss & Co. (LS&Co.) employs full-time factory assessors worldwide, spread out across all regions. These individuals are experts on labor standards and familiar with the languages, cultures, laws and business contexts of the countries in which they work. They conduct annual assessments of all contract factories using the Terms of Engagement (TOE) Guidebook and skills they learn through our rigorous assessor training program to determine if a factory meets the requirements of our TOE and, where applicable, to develop a corrective action plan. We also work with our field quality assurance and sourcing teams, who visit our suppliers regularly to get visibility into day-to-day operating practices at our supplier factories. In addition, we are increasingly working

with other apparel brands and retailers that use the same factories, sharing monitoring results and cooperating on remediation plans and guidance to the factories.

9. What does a formal assessment involve?

The formal assessment consists of interviews with the facility management; a review of personnel, wage and working hour records; a physical walk-through and inspection of health, safety and environmental conditions in the factory and dormitories (if they exist); and informal discussions with workers. Facility conditions are also monitored informally by field assessors and other Levi Strauss & Co. employees who visit the facilities on a regular basis as part of their sourcing responsibilities.

An important aspect of the assessment process involves assessors gathering information from workers to identify potential TOE violations and gauge their understanding of the TOE requirements. Conversations with workers are conducted in their native language and are carried out both on factory premises and off site. When these conversations yield information that may indicate violations of the TOE, assessors verify the information through other sources. Workers are given the assessor's local contact information and invited to contact the assessor at no cost to report additional relevant information, including any actual or perceived retaliation by the supplier. (See also Question 12.)

We work to continually improve our monitoring program. At the same time, we recognize that the key to sustaining improved working conditions long term is to move beyond monitoring. To that end, while we work to strengthen our TOE policies and procedures, we are simultaneously testing models of increased supplier ownership, including factory-based management systems. (See also Question 16.)

10. Do you ever use third-party monitors?

We use third-party monitors for our product licensee suppliers of non-core products, including belts, watches, glasses and other accessories, and to supplement our own monitoring efforts. All third-party monitors used for our direct and licensee suppliers must be approved by Levi Strauss & Co. through a process that involves interviews and screening for proper qualifications. Once screened, the candidates must attend a LS&Co. assessor training and pass an assessment review that includes a one-on-one, post-training interview with a LS&Co. senior TOE assessor and a "shadow audit" in the field.

Approximately 70 individual third-party monitors currently are approved to conduct TOE assessments in licensee factories.

11. What kind of training do your factory assessors receive?

Levi Strauss & Co. conducts a core training for all assessors and third-party monitors. The training is based on a global standardized curriculum and is conducted by regional Terms of Engagement (TOE) managers. It includes the following modules: LS&Co.

values; tools to establish the country situation/context, including labor laws; TOE standards as defined in the Social and Environmental Sustainability (SES) Guidebook; how to conduct an assessment; TOE database and documentation; how to conduct productive discussions with workers; and hands-on factory assessment training. Tools such as group exercises, role playing, written testing, one-on-one interviews (assessor and trainer) and factory visits are employed throughout the training to enhance understanding. Participant feedback and coaching are also an important part of the training.

A key component of a factory assessor's training, and an area where we have made significant progress over the years, is the gathering of information from workers. In the course of implementing the TOE and assessing our own program and procedures, we discovered that in some cases employees were being coached on what to say to assessors or pressured by factory management to provide false information. In response, we expanded our monitor training to include a significant focus on the detailed processes, skills and practices required to effectively gather accurate information from workers during a TOE assessment while ensuring that workers feel safe and remain protected from management retribution.

At the conclusion of the training, an experienced assessor accompanies the trainee in conducting actual contractor assessments.

In addition to this comprehensive training program for assessors, LS&Co. conducts training sessions for other employees who may have the opportunity to visit contractor facilities as part of their jobs. With an understanding of the TOE requirements, those employees—including buying agents, merchandisers and product development managers—can better support the work of the LS&Co. and third-party assessors.

12. What happens when the assessment is completed?

Field assessors complete an extensive TOE assessment form for each contractor. The information collected is entered into a central information management system that is accessible by other assessors and TOE and sourcing staff to share best practices, provide detailed historical information about specific suppliers, identify trends and make future sourcing decisions.

13. How do you deal with suppliers found in violation of your Terms of Engagement? And how do you ensure they take corrective action?

Violations of our Terms of Engagement (TOE) are classified in three categories:

- **Zero-tolerance violations** typically involve a serious infringement of individual rights or a threat to life safety. They include child labor, prison/forced labor, infringement of workers' freedom to associate or organize, unethical or illegal practices, use of corporal punishment and failure to comply with agreed-upon action items.

- **Immediate-action violations** involve a negative impact on individual rights or life safety and include excessive working hours, nonpayment of overtime premiums, discrimination and other offenses.
- **Continuous-improvement violations** are less serious in nature and involve labor, health and safety, and environmental issues that can be improved in the factory for the well being of workers and/or betterment of its reputation or management practice.

If an inspection reveals a violation, then a corrective action plan is developed in cooperation with the contractor. Follow-up visits between annual assessments occur to verify implementation of any agreed-upon action items in the plan. If not addressed in the appropriate timeframe, an immediate-action violation can become a zero-tolerance violation, and a continuous-improvement violation can become an immediate-action violation, which may influence the placement of future orders and lead to additional corrective action plans.

Once assessed, suppliers receive an overall annual rating based on all available information, including the current assessment results, any change in results from the previous year, repeat violations and the level of follow-up on corrective action plans. The rating and information derived during the assessment process is entered into our information management system. TOE ratings are a key consideration in determining the factories in which we will place production.

14. How do you ensure that workers have the right to associate?

Levi Strauss & Co. (LS&Co.) strongly supports workers' rights to establish and join organizations of his or her own choosing, including unions. We see this as a fundamental right and refer to it in our Terms of Engagement (TOE) as "freedom of association."

In a number of countries, regardless of local labor law requirements, the right to freely associate is not widely observed. In recent years, we have seen the right to freedom of association challenged by factory management in countries such as Bangladesh, Cambodia, the Dominican Republic, Haiti and Mexico. We have worked with a number of stakeholders, including nongovernmental organizations (NGOs) and trade unions, to address the issues with factory management and, in most cases, to achieve successful resolution. In exceptional cases, we ended our business relationship with suppliers that would not meet the freedom of association provisions of our TOE. Read case studies on worker rights.

Cornell University's School of Industrial and Labor Relations has provided training to LS&Co. TOE managers, and we have developed locally tailored presentations for external monitors and suppliers around the world, covering our expectations in this area.

We understand that the right to freely associate and organize is an issue in certain countries where there are significant historical, social and legal obstacles. We endeavor to

work with our suppliers, governments, other companies and interested stakeholders to uphold these rights for all workers. (See also Question 15.)

15. How do you enforce your guidelines on freedom of association in China?

Freedom of association issues can be particularly challenging in China because the government controls the only sanctioned union for apparel workers.

To strengthen our guidance on freedom of association, we revised the relevant Terms of Engagement provisions in 2005 using the Ethical Trading Initiative's freedom of association guidelines as a baseline and incorporating the advice of leading labor and human rights organizations. We included language enabling the development of lawful "parallel means" for independent free association and bargaining.

To further support workers in China, the Levi Strauss Foundation funds targeted education programs that have, to date, assisted hundreds of thousands of migrant women workers with workplace rights and health and safety issues. (Read a case study about our support for the Asia Foundation's work with migrant workers in China.) We also develop and support worker health and safety committees and facilitate meetings between the committees and factory management.

16. What is supplier ownership?

Levi Strauss & Co. (LS&Co.) and an ever-growing number of companies and key stakeholders believe that while factory monitoring has achieved significant global results with regard to improved working conditions in apparel factories, there are limits on what the monitoring approach can achieve. Together, we recognize that the monitoring approach is essentially a punitive one, has resulted in duplication of efforts on the part of many brands and is not a path to long-term change in factory working conditions.

To achieve a more sustainable impact, we believe we must encourage suppliers to take direct ownership of the policies and practices in the codes of conduct that they have agreed to uphold. We want to see suppliers do more than respond to violations found during our factory assessments. We want to undertake a deeper, "root cause" analysis to find out why their policies and practices do not meet our requirements.

We believe that once we and factory management understand the root causes, all parties can take steps to make the changes that will result in more lasting improvements. In our view, this requires establishing factory management systems—company policies, procedures, appropriate staffing, evaluation programs and mechanisms to identify problems and correct them—that will enable factories themselves to maintain and improve their performance on our Terms of Engagement.

17. Do you ever conduct independent assessments of your program?

We have been developing and improving our implementation program since we established our code of conduct. In 1998 and 1999, we collaborated with leading nongovernmental organizations (NGOs) such as Oxfam and Greenpeace on an independent evaluation of our implementation program in the Dominican Republic and the Philippines. This program led to increased engagement with external stakeholders.

In 2001, as part of the Fair Labor Association, we undertook third-party monitoring of a number of our suppliers, obtaining important feedback on our assessment process. As a result, we implemented changes, including significant improvements in our process for gathering information from workers.

And, in recent years, we have been working directly with multi-stakeholder organizations such as the ILO's Better Work program, the United Nations Global Compact and the MFA Forum. These programs have led to expansion of our brand collaboration efforts, focus on supplier ownership and purchasing practices.

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