Submitted by Siobán D. Harlow, Chair

Executive Summary
The President’s Advisory Committee on Labor Standards and Human Rights advises the University concerning policies and practices to ensure that corporations engaged in the manufacture of licensed goods, bearing the University of Michigan name and/or logos, are not engaged in unlawful or unconscionable labor practices.

In 2011-2012, in accordance with the charge to the Committee by the President, we focused on monitoring code enforcement and promoting University leadership in corporate citizenship with respect to fair labor practices, human rights, and sustainability in its licensing operations. The committee continued to make recommendations regarding the U-M’s continued participation with the CLC’s Corporate Responsibility pilot program aimed at strengthening code compliance through the licensing process.

In addition, our major activities included responding to a complaint involving Adidas and the PT Kizone factory in Indonesia and reviewing and recommending changes in the UM Code of Conduct language.

In the educational arena we hosted a licensee training event in November and Committee member Ravi Anupindi spoke on code-related issues at the Supply Chain Thought Leaders Roundtable in Istanbul, Turkey. We were unable to implement the summer internship program in Bangladesh due to the unexpected departure of the Director of the Center for International Business Education from the University.

In the operational arena we
• Continued our ongoing reviewed of the impact of the Collegiate Licensing Company’s (CLC) Corporate Responsibility program to incorporate compliance evaluation as part of license renewals on the UM Licensing program; and,
• Recommended updates to the UM Code of Conduct based on review of updates to the FLA code, review of the WRC code, review of proposed revisions by the CLC to streamline the numerous University codes into a more common structure, and discrepancies between the existing text and the intent of the code identified by the Committee during evaluation of PT Kizone case.

Recommendation 1
In an effort to increase consistency in Codes of Conduct, the committee recommends modifications be made to the UM code in the categories of Child Labor and Compensation in order to make our code consistent with current standards across codes (eg. 2011 changes to the FLA code). See June 11, 2012 letter to the President.
Recommendation II
That the code be revised to include a preamble with a statement of principles of University, i.e. that goods with our label be produced in accordance with international labor standards and respect for human rights and dignity; and, that the preamble state

- That the UM retains its code but accepts implementation of the WRC, CLC and FLA codes.
- That the UM’s goal is to work with licensee to improve standards.
- That the UM’s goal is to move towards a living wage.
- That the term “licensee” be clearly defined as exemplified here:
  “The term Licensee shall for purposes of the Code, and unless otherwise specified in the Code, encompass all of Licensees’ contractors, subcontractors or manufacturers which produce, assemble or package finished Licensed Articles for the consumer.”
- That a code element be added that addresses expectation of remediation and dispute resolution, similar to what is currently included in the model WRC code.

In the monitoring arena we

- reviewed cases of ongoing concern identified by our monitoring bodies, the Fair Labor Association (FLA) and the Workers Rights Consortium (WRC);
- investigated and made recommendations to the President regarding the University response to a complaint involving PT Kizone and adidas.

Issues that likely will need attention in the upcoming year include

- Review of the UM participation in the Designated Supplier Program given the WRC May 12th memo recommending that University’s adopt this program following the release of the Business Review Letter from the US Department of Justice.
- Drafting of a preamble to the Code of Conduct as per Recommendation 2 above.
- Address with FLA the development of an insurance system to be paid by licensees and their suppliers which would provide and/or advance funds for remediation" when legally owed wages and benefits are not paid.
- Evaluation of the feasibility of continuing a summer internship program.
Report of the Committee

The President’s Advisory Committee on Labor Standards and Human Rights advises the University concerning policies and practices to ensure that corporations engaged in the manufacture of licensed goods, bearing the University of Michigan name and/or logos, are not engaged in unlawful or unconscionable labor practices. This year, the Committee has representation from LSA, the Schools of Business, Public Policy and Public Health, the International Institute and student groups as well as the Licensing office and Purchasing.

In 2011-2012, in accordance with the charge to the Committee by the President, we focused on monitoring code enforcement and promoting University leadership in corporate citizenship with respect to fair labor practices, human rights, and sustainability in its licensing operations. The committee continued to make recommendations regarding the U-M’s continued participation with the CLC’s Corporate Responsibility pilot program aimed at strengthening code compliance through the licensing process. The Committee strove to ensure that Committee members, particularly new members, were well informed of the history, role and engagement of the Committee. Recognizing the increased engagement of the Licensing Department in evaluating compliance as part of the licensee renewal process, the Committee’s goal was to focus primarily on ensuring the Committee remained informed and agile should a complaint arise. One complaint did emerge over the course of the year that required the Committee’s attention, the case involving adidas and a failure to pay severance to workers at the PT Kizone factory in Indonesia. During our review of this case, it came to the Committee’s attention that the language of our code required revision both to ensure the intent of the code was adequately reflected in the language of the code, to reflect current standards, and to move towards the goal of fewer, more common codes.

As we noted in previous reports, as the University moves into its second decade of our engagement with this issue, we are focused on ensuring that our commitments go beyond a presumption of compliance to conducting proper due diligence. In collaboration with the CLC, Licensing now incorporates review of compliance with the University’s code of conduct as part of the licensing decision and has become more active in programs to directly educate our licensees in about best practices in the development of company monitoring and remediation processes.

I. Educational Leadership:
In collaboration with Brad Farnsworth and the Center for International Business Education (CIBE), LS-HR had jointly supported a highly successful summer internship program in Bangladesh. In summer 2011, the third year of the program, two students, one from Law and one from Public Policy, were sent to Dhaka to work on WRC affiliated projects. Unfortunately with the sudden departure from the university of the CIBE Director, we were unable to continue this excellent program in 2012. Furthermore, although funds for continuing and expanding this internship program were requested and funded as part of the Title VI programs at the Centers for International Business Education, South Asia, and South East Asia. In the past year, these Title VI programs had their funding cut substantially. Thus, although a highly successful program, LS-HR will need to re-evaluate its ability to continue this internship activity. Notably, Sarah Kanter who was a LS-HR student member and an intern in summer 2010 was hired as an associate at a labor law firm in Washington DC.

In addition we

- Hosted a CLC licensee training event in November 2011 at the Alumni Center and Michigan League.
• Committee member Ravi Anupindi, Professor of Operations Management at the Ross School presented the talk “Social Responsibility in the Extended Supply Chain: A live case” at the Supply Chain Thought Leaders Roundtable in Istanbul, Turkey, July 6-7, 2012. The presentation centered on the PTKizone case posing questions to the group on what could be done.

II. Operational Leadership:
The Committee continues to promote U-M’s leadership in pursuing fair labor practices and human rights in licensing operations through its support of the CLC Corporate Responsibility program, now in its third year of operation. Kristin Ablauf, Director of Licensing provides semi-annual reports to the Committee regarding the impact of the program on licensing renewals and adaptations to the process that were made for the 2011-12 renewal period. As noted in our previous report, several adjustments have been instituted that have led to smoother operation and greater clarity for the licensees. For example, the Corporate Responsibility Questionnaire is now sent in advance of the license renewal paperwork with an accompanying letter to prevent miscommunications. Licensee’s can be required to attend training programs as a condition of renewal. In November 2011, UM hosted one CLC-run licensee training event focused on corporate responsibility. LS-HR provided staff support to facilitate logistics of the training; 120 US licensees attended the event. The Committee met with Liz Kennedy in person in September and by teleconference in May.

The Committee held a retreat in May to discuss revisions to UM’s code of conduct. Review of the code was prompted by inconsistencies between the code language and intent identified during evaluation of the PT Kizone case, the recent revisions to the FLA code, and the efforts by CLC to restructure the contract language to emphasize commonalities across the multiple University codes. The Committee discussed CLC’s effort with Liz Kennedy, reviewed and provided input on a draft revision for the CLC. In addition, we compared current language of the revised FLA code and benchmarks, the model WRC code and the UM code.

RECOMMENDATION 1
1) In the Child Labor category, the committee made a motion and unanimously voted to strike the parenthetical comment after the labor age of 15 as shown in the attached document. The paragraph would now read:

Child Labor – Licensees shall not employ any person at an age younger than 15. Where the age for completing compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights, and non-governmental organizations, and to take reasonable steps to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.

2) In the category of Compensation, the committee made a motion and voted unanimously to amend the language to clarify that payment of wages and benefits is expected as indicated in the attached document. The revised text would now read:
Compensation – Licensees recognize that wages are the principal means of meeting the basic needs of employees and their families, and therefore shall pay a wage that enables employees to satisfy their basic needs and provide legally mandated benefits. Licensees shall ensure that wages and benefits for a standard working week are paid and meet at least legal minimum standards and industry averages, whichever is greater, and that net compensation is at least sufficient to meet the worker’s basic needs. Compensation standards will be adjusted periodically based on experience and increased knowledge concerning local labor markets and living conditions.

RECOMMENDATION 2:

• That the code be revised to include a preamble with a statement of principles of University, i.e. that goods with our label be produced in accordance with international labor standards and respect for human rights and dignity; and, that the preamble state
  o That the UM retains its code but accepts implementation of the WRC, CLC and FLA codes.
  o That the UM’s goal is to work with licensee’s to improve standards.
  o That the UM’s goal is to move towards a living wage.
  o That the term “licensee” be clearly defined as exemplified here:
    The term Licensee shall for purposes of the Code, and unless otherwise specified in the Code, encompass all of Licensees’ contractors, subcontractors or manufacturers which produce, assemble or package finished Licensed Articles for the consumer.

• That a code element be added that addresses expectation of remediation and dispute resolution, similar to what is currently included in the model WRC code.

III. Compliance Issues and Procedures

The Committee continued to monitor complaints and assess concerns about licensees raised by the FLA/WRC. Throughout the year we reviewed cases of ongoing concern identified by our monitoring bodies the Fair Labor Association (FLA) and the Workers’ Rights Consortium (WRC). One complaint required specific attention by the Committee.

The PT Kizone factory in Indonesia was closed in 2011 but factory workers were not paid their legally required severance. Nike brought the case to the attention of the WRC. Subsequently Nike and other suppliers provided contributions that amounted to about half of the money owed. Adidas had not provided a contribution. The Committee reviewed the investigative report from the WRC and adidas’ response. The committee reviewed the guidelines for acting on complaints and proceeded in accordance with those guidelines. We sent three written requests for information to Gregg Nebel of the Adidas-Group and subsequently met with him in person. In February, the committee met with the Associate General Counsel, Stan Bies. Recommendations for action were sent to the President on April 11.
The WRC reported in December 2011 that the Acting US Assistant Attorney General for Antitrust, Sharis Pozen, issued a favorable Business Review Letter for the Designated Supplier Program (DSP), stating that the Antitrust Division would not take any action if the DSP initiative was implemented. In May 2011 following Board review, the WRC recommended adoption of the DSP program. The Committee did not recommend that the University participate in this program when it was first proposed in 2006. This issue will likely need to be reviewed in the coming year.

The University continues to benefit from its memberships in both the Fair Labor Association (FLA) and the Worker Rights Consortium (WRC), two complementary organizations. While the FLA generally focuses on internal and external monitoring, developed in consultation with companies, the WRC focuses on addressing problems identified through complaints from workers. Both approaches build company compliance from different vantage points and this dual strategy helps to establish a system of checks and balances in our evaluation of code compliance complaints. UM has been affiliated with both since their inception approximately 10 years ago and we continue to see value in maintaining both associations because of the complementary information they offer on licensee issues. Provision of internship placements for our students has proved a significant side benefit of our participation with the WRC.

Suggestions regarding 2012-2013 activities

Based on activities of the Committee to date and issues pending as of May 2012, issues that will likely need attention in the upcoming year include:

- Review of the UM participation in the Designated Supplier Program given the WRC May memo recommending that University’s adopt this program following the release of the Business Review Letter from the US Department of Justice.
- Drafting of a preamble to the Code of Conduct as per Recommendation 2 above and follow through on proposed changes to the code items on child labor and compensation.
- Potentially follow through with FLA the development of an insurance system to be paid by licensees and their suppliers which would provide and/or advance funds for remediation when legally owed wages and benefits are not paid.
- Evaluation of the feasibility of continuing a summer internship program.