May 1, 2006

TO: President David Skorton
FROM: Salome Raheim, Chair and DSP Ad Hoc Evaluation Committee:
Lon Moeller, David Grady, Mark Abbott, Mary Jane Beach, Gay Pelzer, Robin Paetzold
RE: Evaluation of UI SAS Recommendation to Adopt The Designated Suppliers Program

As charged in your letter of March 22, 2006, members of the DSP Ad Hoc Evaluation Committee have assessed the recommendation of the UI Students Against Sweatshops (UI SAS) that The University of Iowa adopt the Designated Suppliers Program (DSP). The committee recommends that the University of Iowa (UI) agree to adopt the underlying principles and concepts of the DSP and also actively participate in the Workers Rights Consortium Working Group to assist in planning the implementation of this program. The process the committee used to develop this recommendation, issues considered and questions that remain to be addressed are detailed below. First, a brief overview of the DSP is provided.

Overview of the DSP
The following excerpt from the WRC The Designated Suppliers Program: An Outline of Operational Structure and the Implementation Process, section Overview of the Designated Suppliers Program provides an overview of the DSP.

The Designated Suppliers Program requires licensees to source an increasing percentage of their university logo apparel from factories that have affirmatively demonstrated a high level of respect for worker rights. In effect, the program will entail a consolidation of the production of university logo apparel – now spread across thousands of factories, each of which produce primarily non-university goods – into a smaller set of factories, which will produce primarily for the logo goods market. Through the program, universities will ask their licensees to strike a bargain with a subset of their suppliers: stable orders at fair prices in exchange for a lasting, enforceable commitment to high labor standards. By making code compliance a winning proposition for factories, the program is designed to enable a much higher level of respect for university labor standards than is currently possible under existing code enforcement strategies.

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)

The program includes two key features designed to ensure that licensees’ purchasing practices enable factories to meet the designated supplier standards. First, licensees are required to order goods from the designated suppliers at prices that are sufficient to allow each factory to comply with all code of conduct standards, including the payment of a living wage. Second, the program requires that licensees ensure that two-thirds of each designated supplier’s business is dedicated to university licensees or other buyers committed to the program’s standards. In tandem, these requirements are designed to ensure that each designated supplier factory receives a sufficient volume of orders at adequate prices to adhere to university standards.

The DSP proposal also includes an implementation timeline, premised on the reality that few if any factories currently meet the program’s standards in full. In order to allow time for factories to reach compliance with the new requirements, as well to allow licensees time to make the necessary changes in their sourcing operations, the requirement that licensees source products from designated factories is phased in over time: licensees will be required to source 25% of their university logo goods from designated suppliers in the first year of the program, increasing to 50% in the second year, and 75% in the third year. In addition, the program outline provides for a six month grace period prior to imposition of the program’s requirements during which licensees and factories will work to transition to the program. This implementation timeline, as well as the role that licensees will play in the transition to the program, are explained in detail in the following section. (pp. 1-2)

DSP Ad Hoc Evaluation Committee members are Mark Abbott, Lon Moeller, David Grady, Gay Pelzer, Mary Jane Beach, Robin Paetzold and Salome Raheim, who served as convener. The committee held three meetings on March 31, April 19 and 25, 2006. Professor Marcella David, a member of the Workers Rights Consortium Board, was invited to attend the April 19 and April 25 meetings to share relevant information. UI SAS members were invited to present at the April 25 meeting.
Committee members used the *Evaluation Steps for Considering WRC’s Designated Supplier Program*, enclosed in your letter of March 22, 2006, to guide our deliberations. These considerations and information collected about each are discussed below.

1. Identify how similar universities are considering this issue and what actions they have taken or expect to take. To date, the universities listed below have issued public official statements regarding adoption of the DSP proposal. Each institution has committed to the principles behind the DSP, and some have committed to the DSP on a regular or pilot basis.

- University at Albany
- Brandeis University
- Columbia University
- University of Connecticut
- Cornell University
- Duke University: Statement, Press Release
- Georgetown University
- Grand Valley State University
- Hamilton College
- Indiana University
- University of Maine - Farmington
- Santa Clara University
- Skidmore College
- Smith College
- Syracuse University
- University of Wisconsin - Madison

2. Licensees in general are wary of a plan that would require them to only use certain factories to produce goods for them. They believe that it is a disadvantage for other companies to see how their goods are manufactured. In addition, they find many areas where it is too early to tell what impact this program would have on their businesses. The antitrust question is not as clear to the licensees as it is to those espousing the DSP program. Primarily, it is the uncertainty of how the program would be administered and run that is difficult for the licensees. There are simply too many unanswered questions for the licensees to be able to adequately assess the program and its impact on their businesses.

3. Gather information from the FLA on its reaction to the designated supplier program initiative. The FLA asserts that the DSP *repeats many of the shortcomings of compliance work in the 1990’s in that it places too much emphasis on complying with unilaterally specified provisions that would result in huge resources having to be devoted to setting, reviewing and monitoring standards and that it underestimates the degree of capacity building, over time, required to achieve sustainable change* (Auret van Heerden, President and CEO, FLA, March 30, 2006 letter).

4. Examine antitrust and other legal issues from the Office of General Counsel (OGC). OGC reviewed documents provided by the WRC and FLA and
information obtained from their respective websites, along with the legal opinion commissioned by the WRC from Donald Baker, former head of the Department of Justice Antitrust Division. The opinion concludes that the proposed DSP is unlikely to conflict with federal antitrust laws. The OGC has no reason or additional facts at hand which would lead to a disagreement with Mr. Baker's opinion. However, OCG advises that if a decision is made by the UI to adopt the DSP, the UI should consider implementing specified steps to decrease any potential antitrust challenges and should also consider seeking further clarification from outside legal experts on the potential antitrust and labor issues which may be posed by the program. The opinion of OGC is attached.

5. Determine the reaction of factory owners and workers to this initiative. FLA has not gathered any information from factory owners or workers at this time.

6. Determine how the DSP plan affects business in China or other countries. The FLA says that it is too early to determine how the DSP will affect economies in China or other countries. It is possible that the effect will be minimal as the collegiate licensed product industry is such a small part of the overall apparel industry.

7. Suggest how the plan would be implemented, monitored and enforced. The UI can participate in the Workers Rights Consortium Working Group, composed of universities that are implementing the DSP on a regular or pilot basis, to plan the implementation of this program and develop monitoring and enforcement mechanisms. The group held its first meeting on March 24, 2006, and the second on April 21, 2006. The next meeting will be held in May 2006.

8. It is not possible at this time with all of the uncertainty that surrounds the DSP program to determine what impact its implementation would have on the Iowa Trademark Licensing Program.

9. Determine the potential effect of the DSP on factories now producing UI trademarked apparel and the workers at those factories? Will the plan displace workers in factories not chosen as designated suppliers? What effect will the proposal have on factories that currently produce logo bearing apparel? The impact will depend on how much capacity is being used for licensed apparel and whether the factory will be part of the DSP. The number of jobs related to producing university apparel is essentially fixed, and they move from plant to plant according to price. Potentially, workers in some countries lose their jobs while other workers are hired, but it is too early to be certain of this outcome.

10. Include any assessment or advice available from the UI Human Rights Committee.

The UI Committee on Human Rights is in support of the goals of the DSP proposal and yet expresses concern over unanswered questions involving implementation. The Committee encourages ongoing participation in the further development of the DSP, as well as the establishment of an evaluation process to
determine if progress towards the stated goals are achieved through this policy change.

A number of questions remain unanswered about how the DSP will be implemented, monitored and enforced, as well as what the effects will be, both intended and unintended. Questions and/or concerns that need to be addressed as this process moves forward include:

- Weigh any concerns that we have regarding impact of the DSP on factory workers.
- Will DSP lean towards taking only the factories that have a union already in place?
- Will the cost of the license product increase or royalty revenues decrease? For example, if we lose Nike, etc., would someone take over their share of the market?
- How do we maintain the standards? How are we involved? Who assumes the cost of certification and inspection of the DSP to ensure compliance?
- How high is the bar set on DSP standards?
- A thorough background history of the DSP is needed.
- Consider obtaining a legal opinion from an outside antitrust/labor expert.
- DSP requires that factory workers have organized representation. Does this need to be in the form of a union or, is it sufficient that workers have a forum to express their concerns?
- Examine potential collateral effects of adopting the DSP, i.e. UI relationship with Licensees. For example, some UI Licensees also maintain endorsement and sponsorship agreements, unrelated to licensing.

Therefore, the committee recommends that the UI agree in principle with the concepts of the DSP and participate in the Workers Rights Consortium Working Group to plan the implementation of this program. Additionally, the committee recommends that the UI —

1. Reaffirms our commitment to the code of conduct.
2. Sets a date for assessment regarding our continued involvement in the DSP.