United States General Accounting Office

GAO

Report to Congressional Requesters

January 2002

DEFENSE MANAGEMENT

Industry Practices Can Help Military Exchanges Better Assure That Their Goods Are Not Made by Child or Forced Labor

GAO

Accountability * Integrity * Reliability

GAO-02-256

Contents

Letter 1

Results in Brief 3
Background 5
Military Exchanges' Efforts to Identify Working Conditions in Overseas Factories Not As Proactive As Some Private Sector Retailers' Efforts 9
Single Industry Standard Not Considered Practical, but Industry Practices and Other Assistance Could Be Useful to Military Exchanges 13
Conclusions 18
Recommendations for Executive Action 19
Agency Comments and Our Evaluation 20

Appendix I **Scope and Methodology** 22

Appendix II **Efforts of Government Agencies, Nongovernmental Organizations, and Industry Associations to Address Working Conditions in Overseas Factories** 25

Government Agencies 25
Nongovernmental Organizations 30
Industry Associations 35

Appendix III **Examples of Web Sites With Codes of Conduct** 37

Appendix IV **Comments From the Department of Defense** 38

Appendix V **GAO Contacts and Staff Acknowledgments** 41

Tables

Table 1: Number of Retail Locations and Reported Annual Revenues and Earnings for Military Exchanges 7
Table 2: Private Label Merchandise of the Military Exchanges 8

Table 3: Number of Factories by Country or Territory That Produced AAFES' Private Label Apparel in Fiscal Year 2000 11
Table 4: Retailers' Web Sites With Codes of Conduct 37

Abbreviations

AAFES	Army and Air Force Exchange Service
DOD	Department of Defense

United States General Accounting Office
Washington, DC 20548

January 31, 2002

Congressional Requesters

The military exchanges operate retail stores similar to department stores at 1,552 locations worldwide, selling apparel, footwear, household appliances, jewelry, cosmetics, food, and other merchandise. Their mission is to (1) provide quality merchandise and services for active duty military personnel and certain other persons affiliated with U.S. armed forces at uniformly low cost and (2) generate reasonable earnings for the support of the Department of Defense's morale, welfare, and recreation programs. With sales of $9 billion a year, the military exchanges, as a group, are comparable to some of the largest general retail chains in the nation. The military exchanges sell name brand items (such as Nike, Levi's, and Liz Claiborne), as well as apparel and other merchandise under their own private labels.[1]

Like leading retailers in the private sector, the exchanges do not manufacture the merchandise they sell but, instead, rely on independent suppliers, including national name brand companies, brokers and importers, and overseas companies. With globalization, U.S. businesses have increased their reliance on the latter—importers and overseas companies—and, at the same time, have encountered a growing number of allegations that overseas factories manufacture merchandise under sweatshop conditions. In various countries, there are reports of worker rights abuses (such as child labor, forced overtime work, and workplace health and safety hazards) and of antilabor practices. Such issues have led human rights organizations and the news media to scrutinize working conditions at overseas factories. Because of this situation, you requested that we examine the overseas buying practices of the Army and Air Force Exchange. On June 20 and 21, 2001, we briefed the staff of Representatives Cynthia McKinney and Sherrod Brown and the Morale, Welfare, and Recreation oversight panel of the House Armed Services Committee,

[1] Private label merchandise includes products carrying the exchange's own name or a name created exclusively for that exchange.

respectively, on the progress of our work.[2] As a result of our briefings, the *House Armed Services Committee Report for the Fiscal Year 2002 National Defense Authorization Act* directed the Secretary of Defense to ensure that the military exchanges implement a program to assure that their private label merchandise is not produced by child or forced labor.

As agreed with your office, we continued with our work to identify industry practices that might provide a framework for or prove beneficial to the Navy, Marine Corps, and Army and Air Force exchanges in establishing their program. In this report, we (1) compare military exchanges with the private sector in terms of the methods used to identify working conditions at the overseas factories used by their private label suppliers and (2) address whether a single industry standard exists to promote adequate working conditions at such factories, identify the steps the private sector has taken to promote adequate working conditions at overseas factories that could serve as a framework for the exchanges' efforts, and identify assistance available to the exchanges to initiate steps similar to those of the private sector.

In conducting this review, we analyzed 10 leading private sector companies' efforts to identify working conditions in overseas factories. We chose seven of the companies from the National Retail Federation's list of the *2001 Top 100 Retailers* (in terms of sales) in the United States.[3] The retailers and their ranking on the Federation's list are Federated Department Stores, Inc. (15); JCPenney (8); Kohl's (36); Kmart (5); The Neiman Marcus Group, Inc. (64); Sears, Roebuck and Co. (4); and Wal-Mart (1). The remaining three companies—The Walt Disney Company, Levi Strauss & Co., and Liz Claiborne, Inc.—were chosen on the basis of recommendations from government agencies, nongovernmental organizations, and industry associations as being among the leaders in efforts to address working conditions in overseas factories.[4] In addition, we interviewed officials and reviewed documents from the Departments of

[2] Specifically, we noted that the Army and Air Force Exchange (1) has not had a program to address the working conditions and rights for employees of overseas suppliers of its merchandise, (2) recognized that it needed to develop a program that provides visibility of worker rights and working conditions for employees of its overseas suppliers, and (3) was interested in identifying industry practices that it might apply to its operations.

[3] The National Retail Federation is the world's largest retail trade association.

[4] These three companies generally refer to themselves as "manufacturers" or "licensing" companies, but they also operate retail stores. Therefore, in this report, we refer to the 10 companies we contacted as "retailers."

State and Labor, the Office of the United States Trade Representative, and the International Labor Organization,[5] which provided perspective on government and industrywide efforts to address working conditions in overseas factories. We also interviewed industry associations and labor and human rights groups. We did not independently evaluate the private sector programs to determine their effectiveness or to independently verify specific allegations of worker rights abuses. Instead, our results rely on independent analyses (such as reports from the State and Labor Departments and the International Labor Organization), interviews with industry associations and labor and human rights groups, and statements made by and documentation provided by the retailers' officials. More information on the scope and methodology of our work is presented in appendix I.

Results in Brief

The military exchanges' methods for identifying working conditions in overseas factories that manufacture their private label merchandise are not as proactive as the methods employed by companies in the private sector, which generally know the identity of their overseas suppliers and have knowledge of the conditions under which their products are manufactured. The methods taken by retailers in the private sector to assess working conditions vary in scope and rigor, and they are evolving; nevertheless, leading retailers—either from a sense of social responsibility, pressure from outside groups, or a desire to protect the reputation of their companies' product lines—are far more proactive than the military exchanges in identifying working conditions in overseas factories. Specifically, the retailers we contacted identified the name and location of the factories making their private label merchandise, used information on human rights issues to assess the risks of doing business with the factories, questioned suppliers about factory working conditions, and visited the factories to identify working conditions first-hand. Conversely, only the Army and Air Force Exchange knew the identity of the factories that manufactured its private label merchandise, and none of the exchanges knew the nature of the working conditions in these factories. Instead, they assumed that their suppliers and other government agencies ensured good working conditions. At the same time, they have not taken steps to verify that overseas factories have complied with labor

[5] The International Labor Organization is a United Nations specialized agency that seeks to promote social justice and internationally recognized human and labor rights.

laws and regulations or otherwise acted to determine the status of employee working conditions.

A single industrywide standard for working conditions at overseas factories was not considered practical by the 10 retailers we contacted, whose officials told us that each company must address different needs, depending on the size of its operations, the various locations where its merchandise is produced, and the labor laws that apply in different countries. However, in the past few years, these retailers have taken three key steps that they believe helped to better assure that their merchandise is not manufactured in sweatshop conditions, especially not by child or forced labor. The three steps could serve as a framework to guide the exchanges' efforts to develop a program to assure that their goods are not manufactured by child or forced labor and assistance is available to help the exchanges initiate similar action. First, retailers have developed workplace codes of conduct that reflect their values and expectations of suppliers. The codes include provisions to foster fair and safe labor conditions, such as prohibitions against the use of forced labor and child labor. Second, retailers implemented the provisions in their codes of conduct by disseminating information on them and by providing training for their own employees and suppliers and, in some instances, for factory workers. For example, most retailers posted information on workers rights and workplace standards in the factories in the workers' native language and posted their codes of conduct on their Internet Web sites. Third, various retailers used their own employees, contractors, or a combination of both to regularly inspect factories and to make sure their codes of conduct are upheld. The government agencies we contacted, such as the Departments of State and Labor, expressed a willingness to assist the exchanges in shaping a program that meets the congressional direction to assure that private label exchange merchandise is not produced by child or forced labor. In addition, the International Labor Organization offered to provide advisory services, technical assistance, and training programs to help the military exchanges define and implement best labor practices throughout their supply chain.

Our report recommends a framework that the Department of Defense and its exchange services should adopt as they move to implement the congressionally directed program to assure that the exchanges' private label merchandise is not produced by child or forced labor. In written comments on a draft of this report, the Department concurred with our conclusions and recommendations.

Background

Protections for workers in the United States were enacted in the Fair Labor Standards Act of 1938, which established three basic rights in American labor law: a minimum wage for industrial workers that applied throughout the United States; the principle of the 40-hour week, with time-and-a-half pay for overtime; and a minimum working age for most occupations. Since 1938, the act has been amended several times, but the essentials remain. For many years, the act (combined with federal and state legislation regarding worker health and safety) was thought to have played a major role in eliminating sweatshops in the United States. However, we reported on the "widespread existence" of sweatshops within the United States in the 1980s and 1990s.[6] Subsequent to our work, in August 1995, the Department of Labor and the California Department of Industrial Relations raided a garment factory in El Monte, California, and found sweatshop working conditions—workers were confined behind razor wire fences and forced to work 20 hours a day for 70 cents an hour. Leading retailers were found to have sold clothes made at this factory. According to the National Retail Federation, an industry trade association, the El Monte raid provoked a public outcry and galvanized the U.S. government's efforts against sweatshops.

Concern in the United States about sweatshops has spread from its shores to the overseas factories that supply goods for U.S. businesses and the military exchanges. With globalization, certain labor-intensive activities, such as clothing assembly, have migrated to low-wage countries that not only provide needed employment in those countries but also provide an opportunity for U.S. businesses to profit from manufacturing goods abroad and for consumers to benefit from an increasing array of quality products at low cost. Various labor issues (such as child labor, forced overtime work, workplace health and safety, and unionization) have emerged at these factories. In May 2000, for example, the Chentex factory in Nicaragua—which produces much of the Army and Air Force exchange's private label jeans and denim product—interfered in a wage dispute involving two labor groups, firing the union leaders of one of the groups. Subsequently, much publicity ensued over working conditions at this factory.

[6] In 1988, 1989, and 1994, we reviewed the nature and prevalence of sweatshops in *Sweatshops in the U.S.: Opinions on Their Extent and Possible Enforcement Options* (GAO/HRD-88-130BR, Aug. 30, 1988), *"Sweatshops" in New York City: A Local Example of a Nationwide Problem* (GAO/HRD-89-101BR, June 8, 1989), and *Garment Industry: Efforts to Address the Prevalence and Conditions of Sweatshops* (GAO/HEHS-95-29, Nov. 2, 1994).

International labor rights were defined in the Trade Act of 1974 as the right of association; the right to organize and bargain collectively; a prohibition on the use of any form of forced or compulsory labor; a minimum age for the employment of children; and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. As globalization progressed, U.S. government agencies, nongovernmental organizations,[7] industry associations, retailers, and other private organizations began addressing worker rights issues in overseas factories. For example, the International Labor Organization, a United Nations specialized agency that formulates international policies and programs to help improve working and living conditions, has endorsed four international labor principles: (1) freedom of association and the effective recognition of the right to collective bargaining, (2) the elimination of all forms of forced or compulsory labor, (3) the effective abolition of child labor, and (4) the elimination of discrimination in employment.[8] Appendix II provides additional information on governmental agencies', nongovernmental organizations', and industry associations' efforts to address worker rights in overseas factories.

The Military Exchanges and Their Private Label Merchandise

The military exchanges are separate, self-supporting instrumentalities of the United States located within the Department of Defense (DOD). The Federal Acquisition Regulation, the Defense Federal Acquisition Regulation supplement, and component supplements do not apply to the merchandise purchased by the exchanges and sold in their retail stores, since the purchases are not made with appropriated funds.[9] The Assistant Secretary of Defense (Force Management Policy) is responsible for

[7] In this case, nongovernmental organizations are private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development.

[8] The four principles are contained in the International Labor Organization's Declaration on Fundamental Principles and Rights at Work that were adopted by the International Labor Conference in 1998.

[9] The exchanges indirectly receive benefits from appropriated funds. For example, they do not pay (1) rent for the use of properties owned by the U.S. government, (2) the salaries of military personnel working for the exchanges, and (3) utilities associated with overseas exchanges. Such benefits are not recorded on the exchanges' books; however, DOD's finance and accounting data showed that, in fiscal year 2000, such benefits accrued to the Army and Air Force Exchange totaled $155.9 million; to the Navy Exchange Service Command, $32.3 million; and to the Marine Corps Community Services, $6.4 million.

establishing uniform policies for the military exchanges' operations.[10] The exchanges are managed by the Army and Air Force Exchange Service (AAFES), the largest exchange, and by the Navy Exchange Service Command (Navy Exchange) and Marine Corps Community Services (Marine Corps Exchange). The exchanges operate retail stores similar to department stores selling apparel, footwear, household appliances, jewelry, cosmetics, food, and other merchandise.[11] For the past several years, about 70 percent of the exchanges' earnings from these sales revenues were allocated to morale, welfare, and recreation activities—libraries, sports programs, swimming pools, youth activities, tickets and tour services, bowling centers, hobby shops, music programs, outdoor facilities, and other quality of life improvements for military personnel and their families—and about 30 percent to new exchange facilities and related capital projects.

The number of retail locations and the annual revenues and earnings reported by the exchange services for 1999 and 2000 are shown in table 1.

Table 1: Number of Retail Locations and Reported Annual Revenues and Earnings for Military Exchanges

Dollars in millions

Exchange service	Number of locations	1999 revenues	1999 earnings	2000 revenues	2000 earnings
AAFES	1,423	$6,690	$361	$7,042	$381
Navy	113	1,831	55	1,974	76
Marine Corps	16	547	44	573	46
Total	**1,552**	**$9,068**	**$460**	**$9,589**	**$503**

Source: GAO's analysis of data provided by AAFES, Navy Exchange, and Marine Corps Exchange.

The exchanges have created private label products, which generally carry their own name or a name created exclusively for the exchange. The exchanges began creating private labels in the mid-1980s to provide lower prices for customers, to obtain higher earnings margins for the exchanges, and to remain competitive with major discount retailers. Private labels are profitable for retailers because their costs do not include marketing, product development, or advertising, which are used by companies to position national brands in the marketplace and to maintain the market

[10] The Assistant Secretary reports to the Under Secretary (Personnel and Readiness) who, in turn, reports to the Deputy Secretary of Defense.

[11] The exchanges provide a host of other services and specialty stores, including furniture stores, florist shops, barber and beauty shops, optical shops, liquor stores, and fast-food restaurants.

share. In 2000, AAFES reported purchases of $44.8 million in private label merchandise from overseas companies, and the Navy Exchange reported purchases of $11.6 million in private label merchandise from importers.[12] The Marine Corps Exchange only recently created its private label and did not purchase any private label merchandise from importers or overseas companies in 2000, but it reported purchases of about $350,000 of AAFES' and the Navy Exchange's private label merchandise for resale in its stores. The private label goods sold by the military exchanges are shown in table 2.

Table 2: Private Label Merchandise of the Military Exchanges

Exchange	Types of merchandise	Exchanges' private label name
AAFES	Apparel	Ponytails, Royal Manor, Gumballs, Passports, Laura Leigh, and RR Menswear
	Housewares	Belagio
	Beverages & snacks	Patriot's Choice
	Lawn & garden	Strike
	Toys	Soldier Bear
	Health & beauty aids	AAFES Brand
	Toiletries	American Mercantile
	Beef jerky	KC Cattle Company
	Dog treats	Paw Prints
Navy Exchange	Apparel	Basic Concepts and Modern Images
	Health & beauty aids	NEX
	Beverages & snacks	Patriot's Choice
	Lawn & garden	Strike
	Automotive accessories	Autoport
	Housewares	Harbor Home, Belagio
	Eyeglass accessories	NEX Optics
	Eyeglass frames	Harborview Eyewear
	Toiletries	American Mercantile
	Beef jerky	KC Cattle Company
	Dog treats	Paw Prints
Marine Corps Exchange	Apparel	4 Star
	Health & beauty aids	NEX
	Beverages & snacks	Patriot's Choice
	Lawn & garden	Strike
	Automotive accessories	Autoport
	Housewares	Harbor Home, Belagio
	Toiletries	American Mercantile
	Beef jerky	KC Cattle Company

Source: AAFES, Navy Exchange, and Marine Corps Exchange.

[12] For merchandise purchased directly from overseas companies, the exchanges pay customs duties and tariffs on the portion that is imported into the United States, as do retailers in the private sector. In fiscal year 2000, AAFES was the only exchange that directly imported merchandise from overseas companies, and it paid $6 million in tariffs.

Military Exchanges' Efforts to Identify Working Conditions in Overseas Factories Not As Proactive As Some Private Sector Retailers' Efforts

The retailers we contacted in the private sector are more proactive about identifying working conditions than the military exchanges. They periodically requested that suppliers provide a list of overseas factories and subcontractors that they used to make the retailers' private label merchandise, administered questionnaires on working conditions, visited factories, and researched labor issues in the countries where prospective factories are located. The military exchanges largely rely on their suppliers to identify and address working conditions in overseas factories that manufacture the exchanges' private label merchandise. The exchanges generally did not maintain the names and locations of the relevant overseas factories. The exchanges assumed that their suppliers and other U.S. government agencies, such as U.S. Customs Service, ensured that labor laws and regulations that address working conditions and minimum wages were followed.

Leading Private Sector Retailers Are Proactive in Identifying Overseas Working Conditions

The 10 leading private sector retailers we contacted are more active in identifying working conditions than the military exchanges for a variety of reasons, ranging from a sense of social responsibility to pressure from outside groups and a desire to protect the reputation of their companies' product lines. These retailers periodically requested that overseas suppliers provide a list of factories and subcontractors that they used to make the retailers' private label merchandise. Some retailers we contacted terminated a business relationship with suppliers that used a factory without disclosing it to the retailers. For example, JCPenney's purchase contracts stipulate that failure by a supplier or one of its contractors to identify its factories and subcontractors may result in JCPenney's taking the following actions: seeking compensation for any resulting expense or loss, suspending current business activity, canceling outstanding orders, prohibiting the supplier's subsequent use of the factory, or terminating the relationship with the supplier. JCPenney officials told us that they have terminated suppliers for using unauthorized subcontractors. Some retailers that we interviewed, such as The Neiman Marcus Group, Inc., JCPenney, and Liz Claiborne, Inc., developed a company questionnaire, which they had factory management complete. The questionnaire addressed health and safety issues and whether U.S. or foreign government agencies had investigated the factory. The retailers used the questionnaire to provide factories with feedback on their compliance with the retailers' standards and for the retailer to provide the factory an opportunity to make improvements in working conditions before an inspection. The representatives of these retailers told us that they visited factories to verify the accuracy of the factories' answers to the questionnaire before ordering merchandise.

Each of the 10 retailers we contacted told us they also used information on human rights issues that was either developed internally or was available from government agencies and nongovernmental organizations to assess labor issues in the countries where the factories are located. This included the Department of State's annual *Country Reports on Human Rights Practices* (a legislatively mandated report to Congress that covers worker rights issues in 194 countries), which the retailers frequently cited as a source for identifying labor issues in a particular country. Most retailers also used information obtained from the United Nations; U.S. Department of State; U.S. Customs Service; U.S. Department of Labor; and nongovernmental organizations, such as Amnesty International.[13] The retailers we contacted used this information in their assessments of suppliers to avoid business arrangements with factories in areas with a higher risk of labor abuses. In addition, some of the retailers told us that their decisions to buy merchandise made in a particular country sometimes depended on whether they could improve factory conditions in a country. For example, companies such as Levi Strauss & Co. used only those Chinese factories that corrected problem conditions, an approach supported by the officials we met at the Departments of State and Labor.[14]

Exchanges Are Less Proactive in Identifying Factories' Working Conditions

The military exchanges' methods for identifying working conditions in overseas factories that manufacture their private label merchandise are not as proactive as the methods employed by companies in the private sector. Only the Army and Air Force Exchange knew the identity of the factories that manufactured its private label merchandise, and none of the exchanges knew the nature of working conditions in these factories. Instead, they assumed that their suppliers and other government agencies ensured good working conditions. While the exchanges have sent letters to some suppliers describing their expectations of compliance with labor laws and regulations that address working conditions and minimum wages in individual countries, they have not taken steps to verify that overseas factories are in compliance or otherwise acted to determine the status of employee working conditions; instead, they assumed that their suppliers and other government agencies ensured good working conditions. For

[13] Amnesty International is a human rights organization that annually releases a report about human rights abuses in every country of the world.

[14] According to the State Department's *Country Reports on Human Rights Practices*, freedom of association is severely restricted in China, and forced labor is a problem as well.

example, the Navy Exchange and the Marine Corps Exchange do not routinely maintain the name and location of the overseas factories that manufactured their merchandise because they rely on brokers and importers to acquire the merchandise from the overseas factories. The AAFES Retail Business Agreement[15] requires suppliers to promptly provide subcontractors' name and manufacturing sites upon request. But because it had no program to address working conditions in overseas factories, AAFES has not requested this information, except for the suppliers it used for its private label apparel, and then only to check on the quality of the merchandise being manufactured. AAFES' records show that in fiscal year 2000, its private label apparel was manufactured in 70 factories in 18 countries and territories, as shown in table 3.

Table 3: Number of Factories by Country or Territory That Produced AAFES' Private Label Apparel in Fiscal Year 2000

Country/territory	No. of factories
China	27
Taiwan	9
Indonesia	6
Singapore	6
Hong Kong	3
India	3
Fiji	2
Macau	2
Nicaragua	2
Pakistan	2
Brunei	1
Myanmar (Burma)	1
Honduras	1
Korea	1
Malaysia	1
Mauritius	1
Saipan	1
Thailand	1

Source: AAFES.

In some cases, the exchanges' private label merchandise was manufactured in countries that have been condemned internationally for their human rights and worker rights violations. For example, at 9 of the

[15] The AAFES Retail Business Agreement contains terms and conditions applicable to the business relationship between the supplier and AAFES.

10 retailers we contacted, officials told us that they had ceased purchasing from Myanmar (formerly Burma) in the 1990s because of reports of human rights abuses documented by governmental bodies, nongovernmental organizations, and the news media; at one retailer we contacted, officials told us that they had ceased purchasing from Myanmar in 2000 for the same reasons. In contrast, during 2001, each exchange purchased private label apparel made in Myanmar.

For the most part, the exchanges assume compliance with laws and regulations that address child or forced labor in the countries where their factories are located instead of determining compliance. In 1996, for example, following the much publicized El Monte, California, sweatshop incident, the Navy Exchange notified all of its suppliers by letter that it expected its merchandise to be manufactured without child or forced labor and under safe conditions in the workplace, but it did not attempt to determine whether these suppliers and their overseas factories were willing and able to meet these expectations.[16] The Navy Exchange and Marine Corps Exchange relied solely on their suppliers to address working conditions in the factories. Similarly, AAFES' management officials told us that they assumed that their suppliers were in compliance with applicable laws and regulations by virtue of their having accepted an AAFES purchase order. According to these management officials, when suppliers accept a purchase order, they certify that they are complying with their Retail Business Agreement. This agreement, distributed by letter to all suppliers in 1997, states that by supplying merchandise to AAFES, the supplier guarantees that it—along with its subcontractors—has complied with all labor laws and regulations governing the manufacture, sale, packing, shipment, and delivery of merchandise in the countries where the factories are located.[17] According to AAFES officials, an AAFES contracting officer and a representative of the supplier are to sign the agreement. We reviewed the contracting arrangements between AAFES and nine of its suppliers of private label merchandise. Only four of the nine suppliers had signed the AAFES Business Agreement.

AAFES management officials also told us that they rely on the reputation of their suppliers for assurance that overseas factories are in compliance

[16] Although its suppliers have changed since 1996, the Navy Exchange has not issued another notification letter.

[17] Although its suppliers have changed since 1997, AAFES has not issued another agreement letter.

with its business agreements. For example, these officials told us that they use only the overseas suppliers that have existing business relationships with other major U.S. retailers. The officials also stated that since many of these private retailers have developed and are using their own program to address working conditions in their overseas factories, the use of the same suppliers provided some degree of confidence that the suppliers are working within the laws of the host nation. However, some retailers we contacted said their programs addressed factory conditions only for the period that the factories were manufacturing the retailer's merchandise and that the factories did not have to follow their program when they were manufacturing merchandise for another company. AAFES management officials also told us that they rely on the U.S. Customs Service to catch imported products that are manufactured under abusive working conditions. However, the Customs officials we interviewed told us that their agency encourages companies to be aware of the working conditions in supplier factories to further reduce their risk of becoming engaged in an import transaction involving merchandise produced with forced or indentured child labor.[18] According to the Customs' officials, the military exchanges—like retailers—are responsible for assuring that their merchandise is not produced with child or forced labor.

Single Industry Standard Not Considered Practical, but Industry Practices and Other Assistance Could Be Useful to Military Exchanges

A single industry standard for adequate working conditions does not exist, and the retailers we contacted did not believe that such a standard was practical because each company must address different needs, depending on the size of its operations, the various locations where its merchandise is produced, and the labor laws that apply in different countries. However, each of the retailers that we contacted had taken three key steps that could serve as a framework for the exchanges in promoting compliance with local labor laws and regulations in overseas factories. They involve (1) developing codes of conduct[19] for overseas suppliers; (2) implementing their codes of conduct by disseminating expectations to their purchasing staff, suppliers, and factory employees; and (3) monitoring to better ensure compliance. The three steps taken by the retailers vary in scope

[18] See *Forced Child Labor Advisory*, U.S. Customs Service (Dec. 2000).

[19] For the purpose of this report, the term "codes of conduct" is used generically to refer to various types of corporate policies and standards concerning working conditions in factories. These codes of conduct take different forms, including statements of company policy in the form of letters to suppliers, provisions in purchase orders or letters of credit, and/or compliance certificates.

and rigor, and they are evolving. We did not independently evaluate the effectiveness of these retailers' efforts, but the retailers' representatives told us that although situations could occur in which their codes of conduct are not followed, they believed that these steps provided an important framework for ensuring due diligence and helped to better assure fair and safe working conditions. The government agencies we visited and the International Labor Organization also recognized these three steps as key program elements and expressed a willingness to assist the exchanges in shaping a program to assure that child or forced labor was not used to produce their private label merchandise.

Three Industry Practices Could Provide a Framework for the Exchanges

Representatives of the 10 retailers we contacted believed that the three steps they have taken—developing codes of conduct for overseas suppliers; implementing their codes of conduct by disseminating expectations to their purchasing staff, suppliers, and factory employees; and monitoring to better ensure compliance—provide due diligence as well as a mechanism to address and improve working conditions in overseas factories. For example, officials at Levi Strauss & Co. told us that after they refused to do business with a prospective supplier in India because the supplier's factory had wage violations and health and safety conditions that did not meet Levi Strauss & Co.'s guidelines, the supplier made improvements and requested a reassessment 4 months later. According to Levi Strauss & Co., the reassessment showed that the supplier had corrected wage violations and met health and safety standards. In addition, employee morale had also improved, as indicated by lower turnover, improved product quality, and higher efficiency at the factory.

Developing a Code of Conduct

In 1991, Levi Strauss & Co. became the first multinational company to establish a code of conduct to convey its policies on working conditions in supplier factories, and subsequently such codes were widely adopted by retailers. According to the Department of Labor, U.S. companies have adopted codes of conduct for a variety of reasons, ranging from a sense of social responsibility to pressure from competitors, labor unions, the media, consumer groups, shareholders, and worker rights advocates. In addition, allegations that a company's operations exploit children or violate other labor standards put sales—which depend heavily on brand image and consumer goodwill—at risk and could nullify the hundreds of millions of dollars a company spends on advertising. According to Business for Social Responsibility, a nongovernmental organization that provides assistance for companies developing and implementing corporate codes of conduct, adopting and enforcing a code of conduct can be

beneficial for retailers because it can strengthen legal compliance in foreign countries, enhance corporate reputation/brand image, reduce the risk of negative publicity, increase quality and productivity, and improve business relationships.

Codes of conduct vary in content. They can be a mixture of labor principles recommended by international organizations like the International Labor Organization, local laws, and internal corporate standards,[20] but they almost always include the following elements: prohibitions against child labor, forced labor, discrimination, harassment, or abuse, and requirements to ensure health and safety. They frequently include provisions on working hours, overtime compensation, wages and benefits, support for freedom of association and the right to organize and bargain collectively, and compliance with applicable laws. In addition, enforcement or corrective actions for violations of the code are listed in some codes of conduct. For example, the code of conduct for Federated Department Stores (one of the retailers we contacted) states,

> "when notified by the U.S. Department of Labor or any state or foreign government, or after determining upon its own inspection that a supplier or its subcontractor has committed a serious violation of law relating to child or forced labor or unsafe working conditions, Federated will immediately suspend all shipments of merchandise from that factory and will discontinue further business with the supplier."[21]

An official from Federated Department Stores, Inc., said that the company would demand that the supplier factory institute the monitoring programs necessary to ensure compliance with its code of conduct prior to the resumption of any business dealings with that supplier.

A variety of monitoring organizations, colleges, universities, and nongovernmental organizations have codes of conduct, and codes of conduct have now been widely adopted by the private sector. The International Labor Organization's Business and Social Initiatives

[20] Resource guides on codes of conduct in the apparel industry are available from the International Labor Organization and the Department of Labor. Business for Social Responsibility, a nongovernmental organization, provides companies that are developing corporate codes of conduct with guidance and information and maintains a database of corporate human rights policies and practices for its membership.

[21] Federated Department Stores, Inc., Corporate Polices, Sweatshops.

Database[22] includes codes of conduct for about 600 companies. While the military exchanges' core values oppose the use of child or forced labor to manufacture their merchandise, the military exchanges do not have codes of conduct articulating their views. Examples of Internet Web sites with codes of conduct are included in appendix III.

Implementing Codes of Conduct

Although retailers in the private sector implement their codes of conduct in various ways, officials of the retailers we contacted told us that they generally train their buying agents and quality assurance employees on their codes of conduct to ensure that staff at all stages in the purchasing process are aware of their company's code. For example, an official at Levi Strauss & Co. stated that his company continually educates its employees, including merchandisers, contract managers, general managers in source countries, and other personnel at every level of the organization during the year. Officials of the retailers we contacted told us they also have distributed copies of their codes of conduct to their domestic and international suppliers and provided them with training on how to comply with the code. In addition, some retailers required suppliers to post codes of conduct and other sources of labor information in their factories in the workers' native language. For example, The Walt Disney Company has translated its code of conduct into 50 different languages and requires each of its suppliers to post the codes in factories in the appropriate local language. Retailers such as Liz Claiborne, Inc., and Levi Strauss & Co. also work with local human rights organizations to make sure that workers understand and are familiar with their codes of conduct.

Some retailers dedicate staff solely to implementing a code of conduct, while other retailers assign these duties to various departments—such as compliance, quality assurance, legal affairs, purchasing agents, and government affairs—as a collateral responsibility. Executives and officials from the retailers we contacted stated that the successful implementation of a code of conduct requires the involvement of departments throughout the supply chain, both internally and externally (including supplier and subcontractor factories). They also stated that the involvement of senior executives is critical because they provide an institutional emphasis that helps to ensure that the code of conduct is integrated throughout the various internal departments of the company.

[22] The database consists of information on corporate policies and reports, codes of conduct, accreditation and certification criteria, and labeling programs and is available on the International Labor Organization's Web site at http://oracle02.ilo.org:6060/vpi/vpisearch.first.

Monitoring for Compliance

To help ensure that suppliers' factories are in compliance with their codes of conduct, the retailers we contacted have used a variety of monitoring efforts. Retailer officials told us that the extent of monitoring varies and can involve internal monitoring, in which the company uses its own employees to inspect the factories; external monitoring, in which the company contracts with an outside firm or organization to inspect the factories; or a combination of both. The various forms of monitoring involve the visual inspection of factories for health and safety violations; interviewing management to understand workplace policies; reviewing wage, hour, age, and other records for completeness and accuracy; and interviewing workers to verify workplace policies and practices. The 10 retail companies we contacted did not provide a precise cost for their internal and external monitoring programs, but a representative of Business for Social Responsibility estimated that monitoring costs ranged from $250,000 to $15 million a year. Some retailers suggested that the military exchanges could minimize costs by joining together to conduct monitoring, particularly in situations where the exchanges are purchasing merchandise manufactured at the same factories.

Companies that rely on internal monitoring use their own staff to monitor the extent to which supplier factories adhere to company policies and standards. According to an official with the National Retail Federation, the world's largest retail trade association, retailers generally prefer internal monitoring because it provides them with first-hand knowledge of their overseas facilities. At the same time, representatives of the nongovernmental organizations we visited expressed their opinion that inspections performed by internal staff may not be perceived as sufficiently independent. According to information we obtained from the retailers we contacted, nearly all of them had an internal monitoring program to inspect all or some supplier factories; their internal monitoring staff ranged from 5 to 100 auditors located in domestic and international offices. Some retailers said they perform prescreening audits before entering into a contractual agreement, followed by announced and unannounced inspections at a later time. The frequency of audits performed at supplier factories depends on various factors, such as the rigor and size of the corporation's monitoring plan, the location of supplier factories, and complaints from workers or nongovernmental organizations.

Some retailers—along with colleges, universities, and factories—are also using external monitoring organizations that provide specially trained auditors to verify compliance with workplace codes of conduct. We visited four of these monitoring organizations—Fair Labor Association, Social

Accountability International, Worker Rights Consortium, and Worldwide Responsible Apparel Production. More information on these monitoring organizations appears in appendix II. Each organization has different guidelines for its monitoring program, but typically, a program involves (1) a code of conduct that all participating corporations must implement and (2) the inspection of workplaces at supplier factories participating in the program by audit firms accredited by the organization. External monitoring organizations' activities differ in scope. For example, under the Fair Labor Association's program, companies use external monitors accredited by the Fair Labor Association for periodic inspections of factories. In contrast, in the Worldwide Responsible Apparel Production's program, individual factories are certified as complying with their program. Although differences in scope exist—and have led to debate on the best approach for a company—corporations that are adopting external monitors believe they are valuable for providing an independent assessment of factory working conditions.

Advisory Services Are Available to Assist the Exchanges in Formulating a Program

Some retailers we contacted offered to share their experiences in developing programs to address working conditions in overseas factories. The Departments of Labor and State, the U.S. Customs Service, and the International Labor Organization prepare reports that address working conditions in overseas factories. These organizations expressed a willingness to assist the military exchanges in shaping a program to assure that child or forced labor does not produce private label exchange merchandise. Furthermore, the International Labor Organization offered to provide advisory services, technical assistance, and training programs to help the military exchanges define and implement best labor practices throughout their supply chain.

Conclusions

The military exchanges lag behind leading retailers in the practices they employ to assure that working conditions are not abusive in overseas factories that manufacture their private label merchandise. As a result, the exchanges do not know if workers in these factories are treated humanely and compensated fairly. The exchanges recently became more interested in developing a program to obtain information on worker rights and working conditions in overseas supplier plants, and the *House Armed Services Committee Report for the Fiscal Year 2002 National Defense Authorization Act* requires them to do so. However, developing a program that is understood throughout the supply chain, lives up to expectations over time, and is cost-effective will be a challenge. Leading retailers have been addressing these challenges for as long as 10 years and have taken

three key steps to promote adequate working conditions and compliance with labor laws and regulations in overseas factories—developing codes of conduct, implementing the codes of conduct by the clear dissemination of expectations, and monitoring to ensure that suppliers' factories comply with their codes of conduct. Drawing on information and guidance from various U.S. government agencies and the International Labor Organization can facilitate the military exchanges' development of such a program. Information available from these entities could be useful not only in establishing an initial program but also in implementing it over time, and the costs may be minimized by having the military exchanges pursue these efforts jointly.

Recommendations for Executive Action

As the Secretary of Defense moves to implement the congressionally directed program to assure that private label exchange merchandise is not produced by child or forced labor, we recommend the Under Secretary of Defense (Personnel and Readiness), in conjunction with the Assistant Secretary of Defense (Force Management Policy), require the Army and Air Force Exchange Service, Naval Exchange Service Command, and Marine Corp Community Services to develop their program around the framework outlined in this report, including

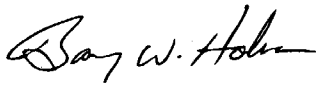
- creating a code of conduct that reflects the values and expectations that the exchanges have of their suppliers;
- developing an implementation plan for the code of conduct that includes steps to communicate the elements of the code to internal staff, business partners, and factory workers and to train them on these elements;
- developing a monitoring effort to ensure that the codes of conduct are upheld;
- using government agencies, such as the Departments of State and Labor, retailers, and the International Labor Organization as resources for information and insights that would facilitate structuring their program;
- establishing ongoing communications with these organizations to help the exchanges stay abreast of information that would facilitate their implementation and monitoring efforts to assure that exchange merchandise is not produced by child or forced labor; and
- pursuing these efforts jointly where there are opportunities to minimize costs.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Assistant Secretary of Defense (Force Management Policy) concurred with its conclusions and recommendations. The Assistant Secretary identified planned implementing actions for each recommendation and, where action had not already begun, established July 1, 2002, as the date for those actions to be effective. The Department's written comments are presented in their entirety in appendix IV.

We are sending copies of this report to the appropriate congressional committees; the Secretary of Defense; the Secretary of the Army; the Secretary of the Navy; the Secretary of the Air Force; the Commander, Army and Air Force Exchange Service; the Commander, Navy Exchange Service Command; the Commander, Marine Corps Community Services; the Director, Office of Management and Budget; and interested congressional committees and members. We will also make copies available to others upon request.

Please contact me at (202) 512-8412 if you or your staff has any questions concerning this report. Major contributors to this report are listed in appendix V.



Barry W. Holman, Director
Defense Capabilities and Management

List of Congressional Requesters

The Honorable Cynthia McKinney
The Honorable Sherrod Brown
The Honorable David E. Bonior
The Honorable Julia M. Carson
The Honorable Peter A. DeFazio
The Honorable Sam Farr
The Honorable Earl F. Hilliard
The Honorable Marcy Kaptur
The Honorable Dennis Kucinich
The Honorable Jim McGovern
The Honorable George Miller
The Honorable Lynn Nancy Rivers
The Honorable Bernard Sanders
The Honorable Jan Schakowsky
The Honorable Fortney Pete Stark
House of Representatives

Appendix I: Scope and Methodology

To compare military exchanges with the private sector in terms of the methods used to identify working conditions at the overseas factories, we limited our work to the exchanges' efforts related to private label suppliers and performed work at the military exchanges and leading retail companies. To determine the actions of the exchanges to identify working conditions in the factories of their overseas suppliers, we reviewed the policies and procedures governing the contract files, purchase orders, and contractual agreements at the exchanges' headquarters offices and interviewed officials responsible for purchasing merchandise sold by the exchanges. For example, we reviewed the contracting arrangements between the Army and Air Force Exchange Service (AAFES) and nine of its suppliers of private label merchandise to determine if AAFES had requested information on working conditions in overseas factories and whether the suppliers had signed the contractual documents. For historical perspective, we reviewed the results of prior studies and audit reports of the military exchanges. We met with officials and performed work at the headquarters of AAFES in Dallas, Texas; the Navy Exchange Service Command (Navy Exchange) in Virginia Beach, Virginia; and the Marine Corps Community Services (Marine Corps Exchange) in Quantico, Virginia.

To determine the actions of the private sector to identify working conditions in the factories of their overseas suppliers, we analyzed 10 leading private sector companies' efforts to identify working conditions in overseas factories by interviewing the companies' officials and the documentation they provided. We chose seven of the companies from the National Retail Federation's list of the *2001 Top 100 Retailers* (in terms of sales) in the United States.[1] The retailers and their ranking on the Federation's list follow: Federated Department Stores, Inc. (15); JCPenney (8); Kohl's (36); Kmart (5); The Neiman Marcus Group, Inc. (64); Sears, Roebuck and Co. (4); and Wal-Mart (1). The remaining three companies—The Walt Disney Company, Levi Strauss & Co., and Liz Claiborne, Inc.—were chosen on the basis of recommendations from U.S. government agencies, nongovernmental organizations, and industry associations as being among the leaders in efforts to address working conditions in overseas factories. These three companies generally refer to themselves as "manufacturers" or "licensing" organizations, but they also operate retail stores. We interviewed officials and reviewed documents from the Departments of State and Labor, the Office of the United States Trade

[1] The National Retail Federation is the world's largest retail trade association.

Representative, and the International Labor Organization to gain a perspective on government and industry efforts to address factory working conditions. We also interviewed officials from industry associations and labor and human rights groups.

To identify steps the private sector has taken to promote adequate working conditions at factories that could serve as a framework for the exchanges, we focused on the efforts of the 10 retailers. We documented the programs and program elements (e.g., codes of conduct, plans for implementing codes of conduct throughout the supply chain, and monitoring efforts) used by the 10 retailers that we contacted. We did not independently evaluate the private sector programs to determine the effectiveness of their efforts or to independently verify specific allegations of worker rights abuses. Rather, we relied primarily on discussions with retailers' officials and the documentation they provided. We met with officials from government agencies and reviewed independent studies such as State and Labor Department and International Labor Organization reports, providing a perspective on government and industrywide efforts to address working conditions in overseas factories. We documented the procedures the exchanges used to purchase merchandise and interviewed headquarters personnel responsible for buying and inspecting merchandise made overseas. We also reviewed the exchanges' policies, statements of core values, and oversight programs.

To gain a perspective on the various approaches to address worker rights issues, we interviewed nongovernmental organizations and industry associations, including representatives from the National Labor Committee, National Consumers League, International Labor Rights Fund, Global Exchange, Investor Responsibility Research Center, Business for Social Responsibility, National Retail Federation, and the American Apparel and Footwear Association. In addition, we interviewed officials from four monitoring organizations—the Fair Labor Association; Social Accountability International; Worldwide Responsible Apparel Production; and Worker Rights Consortium—which inspect factories for compliance with codes of conduct governing labor practices and human rights.

To collect information on government enforcement actions and funding for programs to address working conditions in overseas factories, we interviewed officials from the Department of State's Office of International Labor Affairs, the Department of Labor's Bureau of International Labor Affairs, the U.S. Customs Service's Fraud Investigations Office, and the Office of the United States Trade Representative. For an international

perspective on worldwide efforts, we visited the International Labor Organization's offices in Washington, D.C., and Geneva, Switzerland.

We performed our review from April through November 2001 in accordance with generally accepted government auditing standards.

Appendix II: Efforts of Government Agencies, Nongovernmental Organizations, and Industry Associations to Address Working Conditions in Overseas Factories

Government Agencies

U.S. Customs Service

The Customs Service's Fraud Investigations Office and its 29 attaché offices in 21 countries investigate cases concerning prison, forced, or indentured labor.[1] The Customs officials work with the Department of State, Department of Commerce, and nongovernmental organizations to collect leads for investigations. In some cases, corporations have told Customs about suspicions they have about one of their suppliers and recommended an investigation. In addition, private citizens can report leads they may have concerning a factory. The Forced Child Labor Center was established as a clearinghouse for investigative leads, a liaison for Customs field offices, and a process to improve enforcement coordination and information. Customs also provides a toll-free hotline in the United States (1-800-BE-ALERT) to collect investigative leads on forced labor abuses.

Outreach efforts from the Customs Service involve providing seminars around the world for U.S. government agencies, foreign governments, nongovernmental organizations, and corporations concerning forced and indentured labor issues. In December 2000, Customs published a manual entitled *Forced Child Labor Advisory*, which provides importers, manufacturers, and corporations with information designed to reduce their risk of becoming engaged in a transaction involving imported merchandise produced with forced or indentured child labor. Customs also publishes on its Internet Web site a complete list of outstanding detention orders and findings concerning companies that are suspected of producing merchandise from forced or indentured labor. Customs can issue a detention order if available information reasonably, but not necessarily conclusively, indicates that imported merchandise has been produced with forced or indentured labor; the order may apply to an individual shipment or to the entire output of a type of product from a given firm or facility. If, after an investigation, Customs finds probable

[1] Customs enforces section 307 of the Tariff Act of 1930 (19 U.S.C. sec. 1307), which prohibits the importation of merchandise produced in whole or in part with prison labor, forced labor, or indentured labor under penal sanction. Customs attaché offices are in the following countries: (1) Austria, (2) Belgium, (3) Brazil, (4) Canada, (5) Columbia, (6) England, (7) France, (8) Germany, (9) Italy, (10) Japan, (11) Korea, (12) Mexico, (13) Panama, (14) People's Republic of China, (15) the Philippines, (16) Russia, (17) Singapore, (18) South Africa, (19) Thailand, (20) Uruguay, and (21) Venezuela.

cause that a class of merchandise is a product of forced or indentured child labor, it can bar all imports of that product from that firm from entering the United States.

On June 5, 1998, the Department of the Treasury's Advisory Committee on International Child Labor was established to provide the Treasury Department and the U.S. Customs Service with recommendations to strengthen the enforcement of laws against forced or indentured child labor, in particular, through voluntary compliance and business outreach. The Advisory Committee was established to support law enforcement initiatives to stop illegal shipments of products made through forced or indentured child labor and to punish violators. The Committee comprises industry representatives and child labor experts from human rights and labor organizations.

Customs Service officials told us they have met with leading retailers to provide feedback on their internal monitoring programs to assure that their merchandise is not produced with forced child labor. Customs Service officials expressed a willingness to assist the exchanges in shaping a program to assure that child or forced labor does not produce private label exchange merchandise.

U.S. Department of Labor

The Department of Labor conducts targeted enforcement sweeps in major garment centers in the United States, but it does not have the authority to inspect foreign factories. In August, 1996, the Department of Labor called upon representatives of the apparel industry, labor unions, and nongovernmental organizations to join together as the Apparel Industry Partnership (later becoming the Fair Labor Association) to develop a plan that would assure consumers that apparel imports into the United States are not produced under abusive labor conditions.

The Bureau of International Labor Affairs, Department of Labor, has produced seven annual congressionally requested reports on child labor, entitled *By the Sweat and Toil of Children*, concerning the use of forced labor, codes of conduct, consumer labels, efforts to eliminate child labor, and the economic considerations of child labor. Other relevant reports on worker rights produced by the Bureau include the *2000 Report on Labor Practices in Burma* and *Symposium on Codes of Conduct and International Labor Standards*.

Since 1995, the Department of Labor has also contributed $113 million to international child labor activities, including the International Labor

Organization's International Program for the Elimination of Child Labor. In addition, the Department of Labor provided the International Labor Organization with $40 million for both fiscal years 2000 and 2001 for programs in various countries concerning forced labor, freedom of association, collective bargaining, women's rights, and industrial relations in lesser-developed nations. The Department also provides any company that would like to learn how to implement an effective monitoring program with technical assistance, and Labor officials have expressed a willingness to assist the exchanges in shaping a program to assure that private label exchange merchandise is not produced by child or forced labor.

U.S. Department of State

On January 16, 2001, the Department of State's Anti-Sweatshop Initiative awarded $3.9 million in grants to support efforts to eliminate abusive working conditions and protect the health, safety, and rights of workers overseas. The Anti-Sweatshop Initiative is designed to support innovative strategies to combat sweatshop conditions in overseas factories that produce goods for the U.S. market. Five nongovernmental and international organizations, such as the Fair Labor Association, International Labor Rights Fund, Social Accountability International, American Center for International Solidarity, and the International Labor Organization, received over $3 million. In addition, the U.S. Agency for International Development will administer an additional $600,000 for smaller grants in support of promising strategies to eliminate abusive labor conditions worldwide.

The Department of State's Bureau of Democracy, Human Rights, and Labor publishes *Country Reports on Human Rights Practices*, a legislatively mandated annual report to Congress concerning worker rights issues, including child labor and freedom of association in 194 countries. Retailers and manufacturers stated they have utilized these reports to stay abreast of human and labor rights issues in a particular country and to make factory selections. The Department of State has expressed a willingness to assist the exchanges in shaping a program to assure that child or forced labor does not produce private label exchange merchandise.

Office of the U.S. Trade Representative

The Office of the U.S. Trade Representative leads an interagency working group—the Trade Policy Staff Committee—which has the right to initiate worker rights petition cases under the Generalized System of Preferences. The Generalized System of Preferences Program establishes trade

preferences to provide duty-free access to the United States for designated products from eligible developing countries worldwide to promote development through trade rather than traditional aid programs. A fundamental criterion for the Generalized System of Preferences is that the beneficiary country has or is taking steps to afford workers' internationally recognized worker rights, including the right to association; the right to organize and bargain collectively; a prohibition against compulsory labor; a minimum age for the employment of children; and regulations governing minimum wages, hours of work, and occupational safety and health. Under the Generalized System of Preferences, any interested party may petition the committee to review the eligibility status of any country designated for benefits. If a country is selected for review, the committee then conducts its own investigation of labor conditions and decides whether or not the country will continue to receive Generalized System of Preferences benefits. Interested parties may also submit testimony during the review process. In addition, U.S. Trade Representatives can express their concern about worker rights issues in a country to foreign government officials, which may place pressure on supplier factories to resolve labor conditions. (The general authority for duty-free treatment expired on September 30, 2001 [19 U.S.C. 2465]. Proposed legislation provides for an extension with retroactive application similar to previous extensions of this authority. Authority for sub-Saharan African countries continues through September 30, 2008 [19 U.S.C. 2466b]).

International Labor Organization

The International Labor Organization is a United Nations specialized agency that seeks to promote social justice and internationally recognized human and labor rights. It has information on codes of conduct, research programs, and technical assistance to help companies address human rights and labor issues. Currently, the International Labor Organization is developing training materials to provide mid-level managers with practical guidance on how to promote each of its four fundamental labor principles both internally and throughout a company's supply chain. The following are the four fundamental principles: (1) freedom of association and the effective recognition of the right to collective bargaining, (2) the elimination of all forms of forced or compulsory labor, (3) the effective abolition of child labor, and (4) the elimination of discrimination in employment. These principles are contained in the International Labor Organization's Declaration on Fundamental Principles and Rights at Work and were adopted by the International Labor Conference in 1998. To promote the principles, the U.S. Department of Labor is funding various projects pertaining to improving working conditions in the garment and

textile industry and is addressing issues of freedom of association, collective bargaining, and forced labor in the following regions or countries: Bangladesh, Brazil, Cambodia, the Caribbean, Central America, Colombia, East Africa, East Timor, Kenya, India, Indonesia, Jordan, Morocco, Nigeria, Nepal, Vietnam, southern Africa, and Ukraine. For fiscal years 2000 and 2001, these projects received about $40 million in funding.

On January 16, 2001, the International Labor Organization was awarded $496,974 by the Department of State Anti-Sweatshop Initiative to research how multinational corporations ensure compliance with their labor principles. Another research project seeks to demonstrate the link between international labor standards and good business performance. A major product of the research will be a publication for company managers that looks at the relationship between International Labor Organization conventions and company competitiveness and that then examines how adhering to specific standards (i.e., health and safety, human resource development, and workplace consultations) can improve corporate performance. The International Labor Organization has also created the Business and Social Initiatives Database, which includes extensive information on corporate policies and reports, codes of conduct, accreditation and certification criteria, and labeling programs on its Web site. For example, the database contains an estimated 600 codes of conduct from corporations, nongovernmental organizations, and international organizations.

From fiscal year 1995 through fiscal year 2001, the Congress has appropriated over $113 million for the Department of Labor for international child labor activities including the International Labor Organization's International Program on the Elimination of Child Labor. The program has estimated that the United States will pledge $60 million for the 2002-3 period. The United States is the single largest contributor to the International Program on the Elimination of Child Labor, which has focused on the following four objectives:

- Eliminating child labor in specific hazardous and/or abusive occupations. These targeted projects aim to remove children from work, provide them with educational opportunities, and generate alternative sources of income for their families.
- Bringing more countries that are committed to addressing their child labor problem into the program.
- Documenting the extent and nature of child labor.
- Raising public awareness and understanding of international child labor issues.

The program has built a network of key partners in 75 member countries (including government agencies, nongovernmental organizations, media, religious institutions, schools, and community leaders) in order to facilitate policy reform and change social attitudes, so as to lead to the sustainable prevention and abolition of child labor. During fiscal years 2000-2003, the United States is funding programs addressing child labor in the following countries or regions: Bangladesh, Brazil, Cambodia, Colombia, Costa Rica, the Dominican Republic, El Salvador, Ghana, Guatemala, Haiti, Honduras, India, Jamaica, Malawi, Mongolia, Nepal, Nicaragua, Nigeria, Pakistan, the Philippines, Romania, South Africa, Tanzania, Thailand, Uganda, Ukraine, Vietnam, Yemen, and Zambia and Africa, Asia, Central America, Inter-America, and South America.

Nongovernmental Organizations

Business for Social Responsibility

Business for Social Responsibility, headquartered in San Francisco, California, is a membership organization for companies, including retailers, seeking to sustain their commercial success in ways that demonstrate respect for ethical values, people, communities, and the environment. (Its sister organization, the Business for Social Responsibility Education Fund, is a nonprofit charitable organization serving the broader business community and the general public through research and educational programs.) In 1995, this organization created the Business and Human Rights Program to address the range of human rights issues that its members face in using factories located in developing countries. The Business and Human Rights Program provides a number of services; for example, it offers (1) counsel and information to companies developing corporate human rights policies, including codes of conduct and factory selection guidelines for suppliers; (2) information services on human rights issues directly affecting global business operations, including country-specific and issue-specific materials; (3) a means of monitoring compliance with corporate codes of conduct and local legal requirements, including independent monitoring; (4) a mechanism for groups of companies, including trade associations, to develop collaborative solutions to human rights issues; and (5) the facilitation of dialogue between the business community and other sectors, including the government, media, and human rights organizations.

Fair Labor Association

The Fair Labor Association, a nonprofit organization located in Washington, D.C., offers a program that incorporates both internal and external monitoring. In general, the Association accredits independent monitors, certifies that companies are in compliance with its code of conduct, and serves as a source of information for the public. Companies affiliated with the Association implement an internal monitoring program consistent with the Fair Labor Association's Principles of Monitoring, covering at least one-half of all their applicable facilities during the first year of their participation, and covering all of their facilities during the second year. In addition, participating companies commit to using independent external monitors accredited by the Fair Labor Association to conduct periodic inspections of at least 30 percent of the company's applicable facilities during its initial 2- to 3-year participation period. On January 16, 2001, the Fair Labor Association was awarded $750,000 by the Department of State's Anti-Sweatshop Initiative to enable the organization to recruit, accredit, and maintain a diverse roster of external monitors around the world. The Fair Labor Association's participating companies include the following: Adidas-Saloman A.G.; Nike, Inc.; Reebok International Ltd.; Levi Strauss & Co.; Liz Claiborne, Inc.; Patagonia; GEAR for Sports; Eddie Bauer; Josten's Inc.; Joy Athletic; Charles River Apparel; Phillips-Van Heusen Corporation; and Polo Ralph Lauren Corporation.

Global Exchange

Global Exchange, headquartered in San Francisco, California, is a nonprofit research, education, and action center dedicated to increasing global awareness among the U.S. public while building international partnerships around the world. Global Exchange has filed and supported class-action lawsuits against 26 retailers and manufacturers concerning alleged sweatshop abuse in Saipan's apparel factories.[2] As of September 2001, 19 of those corporations had settled for $8.75 million and have agreed to adopt a code of conduct and a monitoring program in Saipanese factories that produce their merchandise.

International Labor Rights Fund

The International Labor Rights Fund is a nonprofit action and advocacy organization located in Washington, D.C. It pursues legal and administrative actions on behalf of working people, creates innovative programs and enforcement mechanisms to protect workers' rights, and advocates for better protections for workers through its publications;

[2] Saipan is part of the Commonwealth of Northern Mariana Islands, a U.S. territory.

testimony before national and international hearings; and speeches to academic, religious, and human rights groups. The Fund is currently participating in various lawsuits against multinational corporations involving labor rights in Burma, Colombia, Guatemala, and Indonesia.

In 1996, the International Labor Rights Fund and Business for Social Responsibility were key facilitators in establishing a monitoring program for a Liz Claiborne, Inc., supplier factory in Guatemala. The Guatemalan nongovernmental monitoring organization, Coverco, was founded from this process and has since published two public reports on the results of its meetings with factory management and factory workers. Officials at Liz Claiborne, Inc., stated that the monitoring initiative has been very effective in detecting and correcting problems and helpful in offering ideas for best practices and has provided enhanced credibility for the company's monitoring efforts.

In 2001, the International Labor Rights Fund was awarded an Anti-Sweatshop Initiative grant from the Department of State in the amount of $152,880. The Fund plans to undertake a project to work with labor rights organizations in Africa, Asia, and Latin America to build a global campaign for national and international protections for female workers. The Fund will conduct worker surveys and interviews in Africa and the Caribbean to determine the extent of the problem. In addition, the Fund and its nongovernmental organization partners will develop an educational video to help alert women workers in these countries about the problem of sexual harassment.

Investor Responsibility Research Center

The Investor Responsibility Research Center, located in Washington, D.C., is a research and consulting organization that performs independent research on corporate governance and corporate responsibility issues. The Center contributed to the *University Initiative Final Report*, which collected information on working conditions in university-licensed apparel factories in China, El Salvador, Mexico, Pakistan, South Korea, Thailand, and the United States. The report addresses steps the universities can implement to address poor labor conditions in licensee factories and ongoing efforts by government and nongovernmental organizations to improve working conditions in the apparel industry. The report is based on factory visits and interviews with nongovernmental organizations, labor union officials, licensees, factory owners and managers, and government officials.

National Consumers League

The National Consumers League is a nonprofit organization located in Washington, D.C. Its mission is to identify, protect, represent, and advance the economic and social interests of consumers and workers. Created in 1899, the National Consumers League is the nation's oldest consumer organization. The League worked for the national minimum wage provisions in the Fair Labor Standards Act (passed in 1938) and has helped organize the Child Labor Coalition, which is committed to ending child labor exploitation in the United States and abroad. The Child Labor Coalition comprises more than 60 organizations representing educators, health groups, religious and women's groups, human rights groups, consumer groups, labor unions, and child labor advocates. The Coalition works to end child labor exploitation in the United States and abroad and to protect the health, education, and safety of working minors.

National Labor Committee

The National Labor Committee is a nonprofit human rights organization located in New York City. Its mission is to educate and actively engage the U.S. public on human and labor rights abuses by corporations. Through education and activism, the committee aims to end labor and human rights violations. The committee has led "Corporate Accountability Campaigns" against major retailers and manufactures to improve factory conditions. In El Salvador, the National Labor Committee has facilitated an independent monitoring program between (1) The GAP, the retailer; (2) Jesuit University in San Salvador, the human rights office of the Catholic Archdiocese; and (3) the Center for Labor Studies, a nongovernmental organization. The committee advocates that corporations should disclose supplier factory locations and hire local religious or human rights organizations to conduct inspections in factories.

Social Accountability International

Social Accountability International, founded in 1997, is located in New York City, New York. It is a nonprofit monitoring organization dedicated to the development, implementation, and oversight of voluntary social accountability standards in factories around the world. In response to the inconsistencies among workplace codes of conduct, Social Accountability International developed a standard, named the Social Accountability 8000 standard, for workplace conditions and a system for independently verifying compliance of factories. The Social Accountability 8000 standard promotes human rights in the workplace and is based on internationally accepted United Nations and International Labor Organization conventions. Social Accountability 8000 requires individual facilities to be certified by independent, accredited certification firms with regular follow-up audits. As of November 2001, 82 Social Accountability 8000

certified factories were located in 21 countries throughout Asia, Europe, North America, and South America. U.S. and international companies adopting the Social Accountability 8000 standard are Avon, Cutter & Buck, Eileen Fisher, and Toys R Us. In 2001, Social Accountability International was awarded an Anti-Sweatshop Initiative grant from the Department of State of $1 million for improving social auditing through research and collaboration; capacity building; and consultation with trade unions, nongovernmental organizations, and small and medium-sized enterprises; and consumer education. These projects will take place in several countries, including Brazil, China, Poland, and Thailand, and consumer education will be focused on the United States.

Worker Rights Consortium

Worker Rights Consortium, a nonprofit monitoring organization located in Washington, D.C., provides a factory-based certification program for university licensees. University students, administrators, and labor rights activists created Worker Rights Consortium to assist in the enforcement of manufacturing codes of conduct adopted by colleges and universities; these codes are designed to ensure that factories producing goods bearing college and university logos respect the basic rights of workers. The Worker Rights Consortium investigates factory conditions and reports its findings to universities and the public. Where violations are uncovered, the Consortium works with colleges and universities, U.S.-based retail corporations, and local worker organizations to correct the problem and improve conditions. It is also working to develop a mechanism to ensure that workers producing college logo goods can bring complaints about code of conduct violations, safely and confidentially, to the attention of local nongovernmental organizations and the Worker Rights Consortium. As of November 2001, 92 colleges and universities had affiliated with the Worker Rights Consortium, adopting and implementing a code of conduct in contracts with licensees.

Worldwide Responsible Apparel Production

The Worldwide Responsible Apparel Production, a nonprofit monitoring organization located in Washington, D.C., monitors and certifies compliance with socially responsible standards for manufacturing and ensures that sewn products are produced under lawful, humane, and ethical conditions. The basis for creating the monitoring and certification program came from apparel producers that requested that the American Apparel & Footwear Association address inconsistent company standards and repetitive monitoring. The program is a factory certification program that requires a factory to perform a self-assessment followed by an evaluation by a monitor from the Worldwide Responsible Apparel

Production Certification Program. On the basis of this evaluation, the monitor will either recommend that the facility be certified or identify areas where corrective action must be taken before such a recommendation can be made. Following a satisfactory recommendation from the monitor, the Worldwide Responsible Apparel Production Certification Board will review the documentation of compliance and decide upon certification. The Certification Program was pilot tested in 2000 at apparel manufacturing facilities in Central America, Mexico, and the United States. As of November 2001, 500 factories in 47 countries had registered to become certified.

Industry Associations

American Apparel & Footwear Association

The American Apparel & Footwear Association, a national trade association located in Washington, D.C., represents roughly 800 U.S. apparel, footwear, and supplier companies whose combined industries account for more than $225 billion in annual U.S. retail sales. The Association was instrumental in creating the Worldwide Responsible Apparel Production monitoring program. The Association's Web site states that "members are committed to socially responsible business practices and to assuring that sewn products are produced under lawful, humane, and ethical conditions." The American Apparel & Footwear Association has also created a Social Responsibility Committee, in which various manufacturers meet to discuss their programs to address worker rights issues.

National Retail Federation

As the world's largest retail trade association, National Retail Federation, located in Washington, D.C., conducts programs and services in research, education, training, information technology, and government affairs to protect and advance the interests of the retail industry. The Federation's membership includes the leading department, specialty, independent, discount, and mass merchandise stores in the United States and 50 nations around the world. It represents more than 100 state, national, and international trade organizations, which have members in most lines of retailing. The National Retail Federation also includes in its membership key suppliers of goods and services to the retail industry. The Federation has a Web site link entitled, "Stop Sweatshops," which provides information on the retail industry's response to sweatshops, including forms of monitoring and a brief history of U.S. sweatshops. The Federation also has an International Trade Advisory Council, comprising retail and

sourcing representatives, which discusses various issues pertaining to international labor laws; international trade; and customs matters, both in the legislative and regulatory areas.

Appendix III: Examples of Web Sites With Codes of Conduct

The codes of conduct for the retailers we visited that have posted their codes on the Internet are at the Internet Web sites shown in table 4.

Table 4: Retailers' Web Sites With Codes of Conduct

Retailers	Web site
Federated Department Stores, Inc.	www.federated-fds.com
Levi Strauss & Co.	www.levistrauss.com
Liz Claiborne, Inc.	www.lizclaiborne.com
JCPenney	www.jcpenney.net
The Neiman Marcus Group, Inc.	www.nmgoperations.com
Wal-Mart	www.walmart.com
The Walt Disney Company	www.disney.go.com

Appendix IV: Comments From the Department of Defense

FORCE MANAGEMENT POLICY

ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

17 JAN 2002

Mr. Barry W. Holman
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Holman:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-02-256, "DEFENSE MANAGEMENT: Industry Practices Can Help Military Exchanges Better Assure That Their Goods Are Not Made by Child Or Forced Labor, dated December 13, 2001 (GAO Code 350054)."

The DoD concurs with the overall comments and recommendations in the report. Specific comments on the recommendations are enclosed.

Thank you for the opportunity to comment on this report.

Sincerely,

Charles S. Abell

Enclosure:
As stated

GAO CODE 350054/GAO-02-256

"DEFENSE MANAGEMENT: INDUSTRY PRACTICES CAN HELP THE MILITARY EXCHANGES BETTER ASSURE THAT THEIR GOODS ARE NOT MADE BY CHILD OR FORCED LABOR"

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

RECOMMENDATIONS: As the Secretary of Defense moves to implement the congressionally directed program to assure that private label exchange merchandise is not produced by child or forced labor, the GAO recommended that the Under Secretary of Defense (Personnel and Readiness), in conjunction with the Assistant Secretary of Defense (Force Management), require the Army and Air Force Exchange Service, Naval Exchange Service Command, and Marine Corp Community Services to develop their program around the framework outlined in this report, including

1. creating a code of conduct that reflects the values and expectations the exchanges have of their suppliers;

DoD RESPONSE: Concur. The Department plans to issue policy requiring the exchanges to develop a code of conduct effective July 1, 2002.

2. developing an implementation plan for the code of conduct that includes steps to communicate the elements of the code to internal staff, business partners, and factory workers and to train them on these elements;

DoD RESPONSE: Concur. The Department plans to issue policy requiring the exchanges to develop an implementation plan effective July 1, 2002.

3. developing a monitoring effort to ensure the codes of conduct are upheld;

DoD RESPONSE: Concur. The Department plans to issue policy requiring the exchanges to develop a monitoring program effective July 1, 2002.

4. using government agencies, such as the Departments of State and Labor, retailers, and the International Labor Organization as resources for information and insights that would facilitate structuring their program;

ENCLOSURE

DoD RESPONSE: Concur. During the past year, the exchanges have initiated contact with many organizations to gather information and insights about the development of their program. Among these are other retailers, including JC Penny and Sears, and other organizations such as the Fair Labor Association, Social Accountability International and Worldwide Responsible Apparel Production.

5. establishing ongoing communications with these organizations to help the exchanges stay abreast of information that would facilitate their implementation and monitoring efforts to assure that exchange merchandise is not produced by child or forced labor; and

DoD RESPONSE: Concur. The Department plans to issue policy requiring the exchanges to establish and maintain ongoing contact with these organizations effective July 1, 2002.

6. pursuing these efforts jointly to minimize costs where there are opportunities to minimize costs.

DoD RESPONSE: Concur. As part of ongoing exchange cooperative efforts, the exchanges are working together to implement this program jointly. The Department plans to issue policy effective July 1, 2002 to implement the congressionally directed program and GAO guidance that will assure private label exchange merchandise is not produced by child or forced labor.

2

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

Ronald L. Berteotti (214) 777-5702
Roger L. Tomlinson (214) 777-5777

Acknowledgments

In addition to those named above, Nelsie Alcoser, Jimmy Palmer, and Susan Woodward made key contributions to this report.

GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to daily e-mail alert for newly released products" under the GAO Reports heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
P.O. Box 37050
Washington, D.C. 20013

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

Visit GAO's Document Distribution Center

GAO Building
Room 1100, 700 4th Street, NW (corner of 4th and G Streets, NW)
Washington, D.C. 20013

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm,
E-mail: fraudnet@gao.gov, or
1-800-424-5454 or (202) 512-7470 (automated answering system).

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G. Street NW, Room 7149,
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER