REI is a national outdoor retail co-op dedicated to inspiring, educating and outfitting our members for a lifetime of outdoor adventure and stewardship. We are committed to social responsibility, both as an employer and in how we conduct business. REI has been recognized as one of Fortune Magazine’s “100 Best Companies to Work for” for 18 consecutive years. The co-op also promotes environmental stewardship and increases access to outdoor recreation through volunteerism, gear donations and financial contributions.

Companies doing business internationally have learned that relying on local laws and enforcement is not always sufficient to achieve specified standards for human rights throughout the supply chain. To this end, REI operates a Fair Labor Program to promote fair, safe and non-discriminatory working conditions for people working in the co-op’s supply chains.

This document describes REI’s actions to support human rights, including our actions in response to disclosure requirements of the California Transparency in Supply Chains Act of 2010.

The California Transparency in Supply Chains Act of 2010

According to the International Labour Organization, nearly 21 million people are victims of forced labor, generating $150 billion in illegal profits per year. In response, the California Legislature passed The California Transparency in Supply Chains Act of 2010 (the “Act”), a law which applies to large manufacturers and retailers doing business in California.

As described in a bill analysis prepared by the California Senate Judiciary Committee, the goal of the Act is to ensure that retail manufacturers and sellers develop, maintain and implement policies related to their compliance with federal and state law regarding the eradication of slavery and human trafficking from their supply chains.

The Act applies to larger manufacturers and retailers with annual worldwide gross receipts over $100 million. It specifically requires retail sellers and manufacturers doing business in the state to “disclose their efforts to eradicate human slavery and trafficking from their direct supply chains for tangible goods offered for sale.” Companies subject to the Act must post disclosures related to five specific areas: verification, supplier audits, certification, internal accountability, and training.

REI supports this legislation, and we see it as a policy lever that will assist in the global fight against human trafficking. Under no circumstances is it acceptable for child labor, forced labor, or trafficked labor to be used in the production of any REI-branded product or any products retailed by REI from other brands. We believe that no person should be subject to a situation where basic needs and fundamental rights are denied.

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2 Bill Analysis, SB 657, California Senate Judiciary Committee.
3 Bill Text, SB 657, Chapter 556, Filed with Secretary of State Sept. 30, 2010.
Support of Human Rights in Our Business Practices

REI relies on global supply chains. Manufacturing of our merchandise occurs domestically and internationally. This includes the two REI private brands (REI Co-op and Co-op Cycles) and the products we retail from approximately 1,400 independent companies.

REI recognizes fair labor practices are essential to ensuring that the rights of workers are respected. The REI Factory Code of Conduct defines requirements for doing business with REI (see Appendix A). Our Code standards are based on International Labour Organization principles and internationally-accepted fair labor practices. Where industry or REI standards are higher than required by law, employers are required to meet the higher standards. The Code explicitly states that forced labor of any kind is strictly prohibited.

Much of our focus on human rights in business practice has centered on our own private brands’ suppliers, especially suppliers of finished goods. This stage of manufacturing involves assembling previously manufacturing materials into finished products.

REI also retails goods produced by wholesale vendors (other independent companies, many from within the outdoor industry). REI’s contract with wholesale vendors stipulates that all vendors must have in place labor standards comparable to the REI Factory Code of Conduct. Our Vendor Guide further elaborates:

*It is our expectation that wholesale vendors to REI share our basic values about employee health and safety, employment practices, environmental commitment and legal compliance. REI requires that every wholesale vendor with products merchandised by REI will monitor its own sourcing processes to ensure product suppliers meet or exceed the standards outlined in the REI Factory Code of Conduct. […] REI may contact wholesale vendors with requests to provide more details on internal programs to ensure that REI’s standards are met. This includes information for specific products sold by REI.*

Since 2006, REI has reported to the public on our actions to support human rights in the workplace. This information is part of our annual Stewardship Report, available on our website: [http://www.rei.com/stewardship](http://www.rei.com/stewardship)

Verification

REI regularly evaluates and addresses human rights issues as part of our commitment to fair labor practices within our supply chain. This begins with our evaluation of new countries of origin and new factory partners.

Many REI departments are involved in evaluating new countries of origin and new factory partners. When considering new factory partners or other changes within our product supply chain, the REI Operations, Trade Compliance, Quality and Sustainability departments review multiple factors, including: political stability; port safety; the government’s backing of labor laws; known labor issues; migrant labor patterns; REI employee safety and other factors. At the factory level, REI assesses the workforce profile, the manufacturing processes and the associated health and safety risks.

All new finished goods suppliers for REI-branded products agree to REI’s Factory Code of Conduct. The Code is then reviewed each year thereafter, with suppliers either signing an acknowledgment of receipt and understanding or reviewing the Code at the start of an on-site
audit. The Code strictly requires that employers “not use forced labor, including imprisonment, indentured, bonded, or any other form of compulsory labor.” It also prohibits “physical or psychological disciplinary tactics”, including “threats of violence, sexual harassment, or psychological abuse.” REI considers any violation of this provision to be a “zero tolerance” offense, following guidelines from the International Labour Organization. Additionally, recognizing the increased risk of forced labor and human trafficking when labor brokers are employed, REI has heightened scrutiny of the use of labor brokers when on-boarding a new factory.

Third-party monitors conduct initial audits of new factories prior to REI issuing any production orders. Factories then enter an ongoing program of engagement and periodic auditing.

Supplier Audits

REI uses audits to assess factories’ compliance with our Code of Conduct. To date, the focus of our efforts has been factories producing REI-branded products. We have established relationships with reputable and experienced third-party monitors, who work directly on behalf of REI to audit suppliers’ factories. In assessing the REI supply chain, our third-party monitors vet factory policies and practices against the REI Factory Code of Conduct. These monitors seek out indications of forced labor and human trafficking. They also review the presence and quality of internal grievance systems for factory workers. REI Sustainability staff periodically observe audits, particularly when the factory is considered to be at a higher risk of non-compliance. Our Sustainability staff and third-party monitors have deep knowledge of common issues from observing audits, interviewing workers, and engaging with factories over extended periods of time.

We use both announced and unannounced audits. Announced audits are used with new suppliers and with suppliers that have a history of strong performance. Unannounced audits are used for lower performing suppliers. When a supplier is asked to remediate a serious or persistent violation of the Factory Code of Conduct, unannounced audits enable REI to confirm if remediation has occurred.

For new suppliers to our private brands, an audit is required prior to the start of production. To reduce audit fatigue for factories and to focus resources on driving sustainable change, REI will consider accepting an existing audit conducted within the last six months. Such audits must be conducted using standards similar to our own, and REI must receive the audit results directly from the organization conducting the audit, whether another brand or a multi-stakeholder organization. When a factory is a member of the International Labour Organization Better Work Program, REI has agreed to accept those assessments in lieu of conducting our own audits.

In rare situations, we exempt new factories from an initial audit. This determination is made when the supplier is operating in a very low-risk environment based on a risk matrix that includes the possibility of forced labor and human trafficking. Our decision is informed by the British Standards Institute’s reports on trends in child labor and forced labor and by the U.S. Department of Labor’s list of countries with increased risk of child labor or forced labor.6

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Currently, REI re-audits 75 percent of our supplier sites per year. The audit consists of 150 provision questions and 8 best practices linked to the Factory Code of Conduct. Monitors are guided by a standard operating procedure. Dormitories and local subcontractors (e.g., embroidering facilities) are included in the audit scope. The monitors also conduct interviews of approximately 10 percent of the workforce, both on the factory floor and in private interviews outside the factory grounds.

Annually, a risk-based matrix is used to determine which factories will be audited each year. This assessment includes ownership structure (e.g., direct vs. indirect vendor ownership), geographic trends (e.g., use of migrant labor), production processes (e.g., use of harsh chemicals), the factory’s management systems (e.g., prior audit results, third-party certifications) and other related variables.

Where possible, REI seeks to collaborate with other brands that share our high standards. We share audits through the Fair Factories Clearinghouse (FFC) database. In certain instances, we also accept assessments from leading multi-stakeholder initiatives (e.g., International Labour Organization Better Work Program).

The Sustainability department assesses the findings of every audit. Any “zero tolerance” finding, including forced labor, immediately triggers an escalation plan and prompt action. All other findings are prioritized for remediation, which is overseen by REI’s Sustainability staff. Factories are assessed according to their performance using an internal scorecard. A factory with persistent safety, ethical, or labor issues that fails to continuously improve is rejected as a supplier and is no longer authorized to supply product to REI.

Beyond auditing, REI engages in numerous activities with our factories to prevent forced labor, child labor, and human trafficking in accordance with our Code. These activities include continuous improvement programs and capacity-building initiatives, like the ILO Better Work Program.

Currently REI does not audit or monitor factories producing goods for the approximately 1,400 REI wholesale vendors (external brands) whose products are sold by REI. REI’s Vendor Guide, however, requires that wholesale vendors apply standards comparable to those contained in REI’s Factory Code of Conduct in their production facilities.

Certification

REI recognizes the importance of protecting the human rights of workers who produce the raw materials for our products. While REI’s business impact is greatest amongst finished goods (“tier-1”) manufacturers, we are committed to extending the principles of our fair labor program throughout the supply chain. This includes multiple avenues of engagement with material (“tier-2”) suppliers.

In most instances, the primary materials used in REI’s privately branded products are nominated directly by REI. We maintain working relationships with these tier-2 suppliers, including periodic visits from REI Sustainability staff.

Where our tier-1 suppliers are responsible for sourcing materials on REI’s behalf, they are required to certify that the provisions in the REI Factory Code of Conduct are extended to subcontractors. Specifically, REI requires that:
Vendors/factories must maintain current, accurate, and sufficiently-detailed records to substantiate their compliance. These documents must be made available on request to REI employees or anyone acting on behalf of REI. Such documents should include: (i) terms and conditions of employment from hiring to termination; (ii) personnel files on each employee reflecting proof of age; (iii) working hours and payroll records going back 12 months; (iv) local health and safety evaluations; (v) employee grievances and suggestions and employer responses; (vi) documentation of exemption from local law.

While REI and the broader outdoor industry have made progress in engaging tier-2 material suppliers on human rights, we recognize that we have significant work ahead of us. In order to increase scale and consistency in tier-2 engagement, REI is active in creating and implementing the Sustainable Apparel Coalition’s Higg Index tool. Within the Higg Index, there are two factory-specific modules, namely the Facility Environment Module (FEM) and the Facility Social Labor Module (FSLM – beta version). These two tools help factories to identify the environmental and social impacts of manufacturing products. The indicators in the tools are useful in measuring a supplier’s performance on a continuum, ranging from basic compliance to aspirational, leading practices. As of 2016, we have begun to pilot the implementation of the FEM in our material supply chain.

REI is also working in conjunction with a number of international multi-stakeholder organizations and the Sustainable Apparel Coalition on the development of a converged Social/Labor tool that will supersede the FLSM. We believe this tool has the potential to become a standardized, global social compliance audit protocol that includes forced labor and human trafficking. Successfully establishing a tool of this nature will position REI to more effectively engage with our tier-2 supply chains.

While the converged Social/Labor tool is being developed, REI’s Supply Chain Sustainability team is conducting a pilot in 2016 to expand the Fair Labor Program into our tier-2 materials supply chain. Recognizing that there are intrinsic differences in the different layers of our manufacturing supply chain, as part of this pilot, we are working to tailor our internal Social & Environmental Audit to address those differences. Once completed, the updated Social & Environmental Audit tool will then be applied to our materials supply chain until the industry converged Social/Labor tool is ready.

Accountability

REI’s Fair Labor Program is governed by the REI Fair Labor Oversight Committee, a group of six senior leaders chaired by our Senior Vice President, General Counsel. The primary duties of the Committee are to (i) provide executive level oversight of the program, (ii) establish the operating principles and the scope of the program; (iii) assure independence and appropriate rigor in auditing and major decisions; and (iv) report periodically to the Audit and Finance Committee of the Board.

The program is executed by the Sustainability department, which includes staff based at REI’s headquarters in Kent, WA and our office in Shenzhen, China. These staff are responsible for overseeing factory audits and addressing any findings of non-compliance, including those related to forced labor and human trafficking.

For REI, forced labor and human trafficking fall under our “zero tolerance” policy. Zero tolerance findings trigger an escalation process in which the program staff notify the Fair Labor Oversight Committee. In the event of a potential violation, REI promptly addresses the issue with the
supplier and sets expectations for how the situation is to be addressed, based on requirements outlined in the REI Zero Tolerance Policy.

We then conduct unannounced audits to confirm that the supplier has addressed and remedied the potential violation. If a supplier does not correct the violations, we end the relationship with that supplier. We would also share information on the situation with other brands doing business with that entity or considering a prospective partnership. The primary purpose of sharing information with other retailers is to collectively apply leverage on the manufacturer to encourage compliance.

REI understands the importance of eradicating slavery and human trafficking. To date, we have never encountered a violation related to slavery or trafficking in any of our supplier facilities.

Training

Education and communication are vital to the successful execution of our Fair Labor Program. A thorough understanding of the program allows key stakeholders to successfully support the co-op’s requirements and spread awareness of critical issues. For this reason, training is an integral component of the Fair Labor program—particularly for REI staff working directly with the suppliers of our privately branded products.

These staff have all been trained in identifying signs of forced labor. Training is also part of new employee onboarding. REI has developed an internal online survey, the Snapshot. This tool is used by REI employees when visiting factories. It assists in identifying notable concerns or changes since the last audit. Results from the Snapshot are reviewed by the Sustainability department and can be uploaded to Fair Factories Clearinghouse for records maintenance and the creation of a CAP.

REI’s Sustainability department also conducts periodic trainings on persistent and emerging issues. Training materials are developed in partnership with multi-stakeholder organizations, including the Sustainable Apparel Coalition, Outdoor Industry Association, and Retail Industry Leaders Association.

The Fair Labor Oversight Committee is another critical audience, receiving training on relevant program updates and emerging industry issues. General training is provided as needed for audiences who are engaged with external stakeholders, including REI retail staff, Public Affairs, and Merchandising.

Conclusion

REI is committed to upholding human rights as we conduct every aspect of our business. We will update this document to reflect our progress in preventing and addressing potential human rights violations in our supply chain, particularly in the areas of slavery and human trafficking. We encourage our members, customers and the public at large to review this document and our Stewardship Report at www.rei.com/stewardship.
Appendix A: REI Factory Code of Conduct

REI is committed to promoting fair, safe, and non-discriminatory working environments for the workers producing our products. The REI Factory Code of Conduct (Code) supports this commitment and defines requirements for doing business with REI. Our Code standards are based on International Labour Organization principles and internationally-accepted fair labor practices. Where industry or REI standards are higher than required by law, employers will meet the higher standards. REI monitors compliance to these standards and promotes a model of continuous improvement. REI encourages our manufacturing partners to take ownership of their social compliance programs.

TRANSPARENCY Employers must provide REI with open and forthright communication about their business practices. This includes maintaining and providing, upon request, accurate and complete payroll and employee records and full disclosure of locations producing REI goods.

NON-DISCRIMINATION Employees will be considered for positions on the basis of their qualifications and abilities. Employers will not discriminate on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social group, or ethnic origin.

HARASSMENT OR ABUSE Employers will not use physical or psychological disciplinary tactics. Furthermore, employers will not subject employees to threats of violence, sexual harassment, or psychological abuse.

RECRUITMENT AND HIRING Voluntary Employment: Employers will not use forced labor, including imprisonment, indentured, bonded, or any other form of compulsory labor. Minimum Hiring Age: Employers will not use persons younger than 16 years of age (or who are younger than school compulsory age, if that is older than 16 years) in any of their facilities.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING Employers will recognize and respect the legal rights of employees to free association and collective bargaining. Where the right to freedom of association is restricted under law, employers will allow their employees to raise any job-related grievances they may have without penalty or threat of reprisal.

HOURS OF WORK Working hours will not exceed 60 hours per week on a regularly scheduled basis (except under exceptional unforeseen circumstances) and will comply with all applicable laws and regulations. Where overtime is required, workers must be compensated appropriately according to law. Workers will be entitled to one day off for every seven-day period worked.

COMPENSATION Employers will meet all legal requirements for wages and benefits in the country in which they are conducting business, or local industry standards, whichever are higher.

HEALTH AND SAFETY Employers will provide workers with a safe and healthy work environment in compliance with all applicable laws and regulations. The same standards will apply to residential facilities, where they are offered.

ENVIRONMENT Employers will comply with all applicable environmental laws and regulations and adopt credible, proactive measures to mitigate negative impacts on human health and the environment.

COMMUNITY Employers are encouraged to engage directly or through partnerships in projects that improve the social well-being of employees and their families in the local community.