

**The California Transparency in Supply Chains Act of 2010
REI's Disclosures**

REI Support of Human Rights in Our Business Practices

Our Response to The California Transparency in Supply Chains Act of 2010

REI is a national outdoor retail co-op dedicated to inspiring, educating and outfitting our members and the community for a lifetime of outdoor adventure and stewardship. We are known for our commitment to social responsibility, both as an employer and in how we do business. REI promotes environmental stewardship and increases access to outdoor recreation through volunteerism, gear donations and financial contributions. We have been recognized as one of Fortune Magazine's "100 Best Companies to Work for" for 14 consecutive years.

Our goal is to ensure that human rights are upheld for all workers involved in our supply chain, and that individuals experience safe, fair and non-discriminatory working conditions. A supply chain includes every phase of the process of bringing a product to market, from raw materials through purchase by the customer. Companies doing business internationally have learned that relying on local laws and enforcement is not always enough to achieve specified standards for human rights throughout the supply chain.

This document describes REI's actions to support human rights, including our actions in response to recent human rights legislation, **The California Transparency in Supply Chains Act of 2010**, referred to as "the Act" elsewhere in this document.

Overview of REI's actions to support human rights

REI's supply chain relies on sources around the world. The raw materials used in our merchandise are produced globally. Manufacture of our merchandise occurs domestically and internationally, including our REI Gear & Apparel private label and merchandise produced by independent, outdoor industry companies whose products are sold by REI.

REI recognizes fair labor practices as being an inherent part of human rights. Much of our focus on human rights in business practice has centered on our **own private label suppliers** and on the Tier One phase of manufacturing, when previously manufactured materials are assembled in a factory. We also sell goods in our stores produced by **our merchant vendors** (other outdoor industry companies). While many of our merchant vendors have fair labor compliance programs in place, REI's Vendor Guide also stipulates that all vendors must apply REI standards in their production facilities.

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/aboutrei/about_rei.html

REI's key actions in support of human rights include:

- **A rigorous process for evaluating potential supplier factories.** Every facility that wishes to work with REI, whether contract or subcontract, must qualify as an REI vendor. REI first evaluates factories on fair labor practices and other considerations important to our business. Each supplier factory must complete a rigorous Fair Labor audit that examines the facility's fair labor practices. Once a facility is approved, the organization must sign a Vendor's Agreement to Comply form. Signing the compliance form authorizes the specific facility to produce REI-brand product in compliance with the REI Factory Code of Conduct. Signing this agreement does not mean that a supplier is authorized to produce REI-brand product at any other facility.
- **Abiding by a Factory Code of Conduct.** REI first introduced a Factory Code of Conduct in 1993. Our Factory Code of Conduct addresses human rights principles and sets standards of workplace conduct for the factories that produce products we sell. The Factory Code of Conduct applies to factories producing our own REI-brand products (REI and Novara) and the products of other brands that REI sells in its retail locations. REI's Factory Code of Conduct is supported through regular assessments of the suppliers that we work with, including an ongoing audit and capacity-building program . As our supplier base has grown and becomes increasingly complex, it has become necessary to consider the relevance and a revision of our current Factory Code of Conduct.
- **Support and use of our industry's Fair Labor Toolkit.** In 2006, we began an ongoing partnership with the Outdoor Industry Association (OIA) to develop, publish and maintain the [Fair Labor Toolkit](#). The Fair Labor Toolkit is designed to help companies identify and address human rights violations in their supply chains.
- **Information-sharing across industries.** In 2009, we joined the Fair Factories Clearinghouse (FFC) to promote and participate in deeper collaboration across several industries. FFC members often work with the same suppliers to manufacture their merchandise and share fair labor compliance audit results. This information-sharing helps retailers as a whole set consistent expectations with their suppliers and share very detailed information on factory environments.
- **Direct involvement and accountability of senior leadership in our commitment to human rights.** REI has a dedicated team responsible for our Fair Labor Compliance Program. This team is a part of our legal department and the Fair Labor Compliance Manager reports to REI's associate general counsel. In addition to dedicated staff, REI's Fair Labor Oversight Committee (FLOC) oversees the development of the Fair Labor Compliance Program. The FLOC is chaired by an executive vice president and its membership includes REI's senior vice president and general counsel, the vice president of Gear & Apparel and the vice president of Public Affairs. The FLOC reports to the Audit and Finance Committee of REI's board of directors.

A concern for human rights is an inherent part of REI's approach to fair labor practices. The following pages describe REI's response to the recent human rights legislation passed by the State of California. This report includes our actions, our progress and areas where we are improving our vigilance.

The California Transparency in Supply Chains Act of 2010 In 2010, the California Legislature passed [The California Transparency in Supply Chains Act of 2010](#), 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 chainsⁱ. Human trafficking involves the recruitment, transportation or sale of people for forced labor.

The Act applies to larger manufacturers and retailers with annual worldwide gross receipts over \$100 million. Beginning January 1, 2012, the Act 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.”ⁱⁱ The Act requires that the information be posted on the company's website, with a conspicuous and easily-understood link on the company's homepage.ⁱⁱⁱ

The company must also disclose its specific actions in relation to five key points, as described in the Act:

Number 1: Engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery. The disclosure shall specify if the verification was not conducted by a third party.

Number 2: Conducts audits of suppliers to evaluate supplier compliance with company standards for trafficking and slavery in supply chains. The disclosure shall specify if the verification was not an independent, unannounced audit.

Number 3: Requires direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business.

Number 4: Maintains internal accountability standards and procedures for employees or contractors failing to meet company standards regarding slavery and trafficking.

Number 5: Provides company employees and management who have direct responsibility for supply chain management with training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.

REI's Response to the Act

The following are REI's actions related to each key point described in the Act.

Number 1: Engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery. The disclosure shall specify if the verification was not conducted by a third party.

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. Cross-divisional collaboration involved in this effort includes our Fair Labor Compliance, Customs Compliance and Sourcing teams. Executive management also has a role in this process and that role is exercised through the FLOC (see page 2).

Our process for establishing a supplier relationship

Many REI divisions are involved in evaluating new countries to source from and new factory partners. When considering a new country, the REI Sourcing, Customs Compliance and Fair Labor Compliance teams vet it for political stability and port safety, the government's backing of labor law, known labor issues, percentage of migrant labor, REI employee safety and travel, and other factors. At the factory level, REI assesses the workforce profile, the manufacturing processes and the associated health and safety risks. Third-party monitors always conduct initial audits prior to REI issuing any production orders. We continue to assess each supplier factory on a regularly scheduled basis. After the Fair Labor Compliance team assesses the findings of any audit, the factories are ranked by a color-coded system.

To date, the primary focus of our efforts has been REI-branded apparel, equipment and accessories. In recent years, REI has established relationships with reputable and experienced third-party auditors, who work directly for us to audit suppliers' factories. In assessing the REI supply chain, our third-party monitors cross reference factory policies and procedures against the REI audit scope, based on the REI Factory Code of Conduct. The audit process involves both announced and unannounced audits; observation and walk-throughs of each factory and related facilities such as dormitories; and interviews of 10 percent of the workforce, both on the factory floor and in private interviews outside of factory grounds. REI fair labor or sourcing employees are onsite for the audits when feasible.

REI's Factory Code of Conduct addresses the prohibition of trafficking and/or slave labor in three code elements: Child Labor; Forced Labor; and Disciplinary Practices and Coercion. The code elements read as follows:

Child Labor

We will work only with partners who do not use children younger than 16 years (or who are younger than school compulsory age, if that is older than 16 years) in any of their facilities.

Forced Labor

We will work only with partners who do not use forced illegal or forced prison labor, including indentured, bonded, or any other form of compulsory labor to manufacture our products.

Disciplinary Practices and Coercion

We will work only with partners who do not use physical or mental disciplinary tactics. Furthermore, no employee should be subject to threats of violence, sexual harassment, or physical abuse.

REI's audit scope includes the following Forced Labor provisions, which are verified by REI's third-party auditors:

- Employers shall comply with all local laws, regulations and procedures concerning the prohibition of forced labor.
- All workers have the right to enter into and to terminate their employment freely.
- Employers shall not bind workers to employment as a condition of fulfilling terms of a debt to a third party or to the employer.
- The factory is free of monetary charges for tools, uniforms, etc.
- Employer does not require workers to pay a deposit as a condition of employment
- Workers can keep all their original documents, such as passports, identity papers, travel documents or any other personal legal documents.
- Employees are free to leave facility after work or during meal breaks.
- Overtime is voluntary (the employee's choice) and paid appropriately; workers are not forced to work overtime. If they choose not to work overtime, they should not be required to complete a leave application.
- The factory does not withhold any part of the worker's wages to repay recruitment fees.
- Workers are free to move about during the work day to use the restroom, drink water, etc.

Currently REI does not audit or monitor factories producing goods for REI merchant vendors (other outdoor industry companies) whose products (non-REI and non-Novara branded) are sold by REI. REI's Vendor Guide, however, requires that merchant vendors apply REI's Factory Code of Conduct standards in their production facilities. The REI Factory Code of Conduct is included in the vendor on-boarding packet. The precise language states:

"Based on REI's commitment to practicing business with Vendors who share our basic values, we consistently apply the following standards as we select REI vendors, domestic or international. It is REI's expectation that every vendor who supplies REI will monitor their own sourcing processes to ensure that they meet or exceed these standards."

In addition to the language contained in the Vendor Guide, REI includes the following language in the Purchase Order Standard Terms and Conditions (for Product Resale):

"Products shipped under the (specific) PO were purchased in compliance with all applicable laws, regulations, orders and ordinances of the country of origin and of the United States, and any state, or an agency or political subdivision thereof."

Number 2: Conducts audits of suppliers to evaluate supplier compliance with company standards for trafficking and slavery in supply chains. The disclosure shall specify if the verification was not an independent, unannounced audit.

Currently, REI audits 10 percent of our supplier sites per year on average and participates in additional, shared audits through the Fair Factories Clearinghouse (FFC). REI selects third-party service providers that utilize the most progressive methods for detecting noncompliance with the REI Factory Code of Conduct. While some audits are announced, REI conducts unannounced audits as well. When a supplier is asked to remediate a violation of the Factory Code of Conduct, unannounced audits enable REI to confirm if remediation has occurred. As described above, we are in the process of revising the audit tool to help auditors investigate potential incidences of human trafficking. We will strengthen the sections on recruitment, the use of labor intermediaries (agents or brokers) and on investigating the practice of human trafficking. As we revise our Factory Code of Conduct and audit tools, REI will rely on and reference the standards of [the International Labor Organization](#), the [Fair Labor Association's](#) Factory Code of Conduct, and recognized, credible labor rights organizations dedicated to promoting fair labor practices and safe working conditions worldwide.

Number 3: Requires direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business.

REI recognizes the importance of protecting the human rights of workers who produce the raw materials for our products. We are focusing on two efforts:

- Developing better industry-wide measurement tools to uphold human rights throughout the supply chain, including the raw materials phase.
- Providing clear guidance to our suppliers on our human rights standards.

Measurement

REI's Fair Labor Compliance team is collaborating with the REI Product Integrity team to develop a fair labor approach that goes deeper into our supply chain, tracking a product to the raw materials stage. Good measurement capabilities can help retailers better assess fair labor issues at the raw materials stage. As a member of the Apparel Coalition, REI is part of the effort to create a [Sustainable Apparel Index](#), a way to evaluate the apparel supply chain in terms of social responsibility. The Sustainable Apparel Index will be piloted in 2012. The indicators will be useful in measuring a factory's performance on a continuum, starting with basic compliance up to leadership practices.

Suppliers

REI specifies in our Factory Code of Conduct Agreement that manufacturing partners must associate with suppliers that comply with legal requirements in any country in which their business is conducted.

Below are examples of REI's Contractual Terms Applicable to REI Purchase Orders:

"Based on REI's commitment to practicing business with vendors, who share our basic values, we will consistently apply the following set of standards as we select vendors, whether domestic or international, for products carrying the REI label. These standards will apply to all vendors, including contractors and / or manufacturers, of products carrying the REI label. These

standards also supplement, amend and apply to all purchase orders and other agreements between REI and each vendor accepting these standards.

Each vendor shall be provided with a copy of the REI Code of Conduct Standards and shall be responsible for ensuring that every facility used by such vendor to produce REI product, packaging and labeling meets or exceeds the requirements in each area of the standards below.

Vendors must maintain current sufficiently detailed records to substantiate their compliance with this Code of Conduct. These documents must be made available to REI employees or anyone acting on behalf of REI on request. Such documents should include: (i) Personnel files on each employee reflecting proof of age; (ii) Working hours and payroll records by employee; (iii) Local health and safety evaluations; (iv) Employee grievances and suggestions and employer responses; (v) Documentation of exemption from local law; (vi) Payroll records; (vii) Terms and conditions of employment.”

Qualifying Factories

Each qualifying factory is to fulfill these two obligations as a part of the New Vendor Onboarding Process:

- Listing all factory or facility locations. At this point REI does not require a complete listing of each materials supplier.
- Providing a signature by a principal of the company contracting business with REI and by the resident general manager of the factory or facility.

Number 4: Maintains internal accountability standards and procedures for employees or contractors failing to meet company standards regarding slavery and trafficking.

REI has an escalation process in place in the event that we identify a potential violation of human rights. To date, we have never encountered a violation related to slavery or trafficking in any of our supplier facilities. We have used our escalation process to work with suppliers to remedy potential fair labor violations.

Escalation process

REI considers fair labor practices an important part of human rights. REI’s approach to fair labor violations focuses on working with suppliers to remedy the violations, uphold workers’ rights and improve the overall workplace environment.

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 internationally recognized best practices and standards for fair labor compliance. Any potential violation is reported to the REI FLOC, composed of four senior executives, including our general counsel and an executive vice president (as described on page 2).

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 are prepared to end the

relationship with that supplier. We would also share information on the situation with other retailers doing business with that entity or considering a prospective partnership.

REI understands the importance of eradicating slavery and human trafficking. In the event of a potential incidence of slavery or human trafficking in our supply chain, we would use our escalation approach, but also seek broader support.

Internal accountability

As described previously on page 2, REI senior leadership has direct involvement and accountability in supporting our commitment to human rights. Our Fair Labor Compliance team, through the authority of the FLOC, has a direct reporting line to our board of directors. As part of our legal department, the manager of REI's Fair Labor Compliance team reports directly to REI's associate general counsel, who is staff to the Audit and Finance Committee of the REI board of directors. As a result, the manager and her team have a direct reporting line to REI's board of directors. In addition, the FLOC reviews the results of every supplier audit conducted by REI.

Number 5: Provides company employees and management who have direct responsibility for supply chain management with training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.

Our Fair Labor Compliance team and the director of our Corporate Social Responsibility program have received training on human trafficking and slavery issues. REI will establish a training program on human trafficking and slavery issues for a broader audience. The training will include use of online modules provided by a respected, independent resource on human rights issues. We will provide training for other company employees and management who have direct responsibility for our international supply chain, including our Sourcing and Quality teams. In 2011, REI opened a new Quality Office in Shenzhen, China. We will train all members of our Shenzhen team to identify potential human rights violations and to seek assistance from colleagues in Fair Labor Compliance.

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 in the About REI section of our public website, www.REI.com.

ⁱ Bill Analysis, SB 657, California Senate Judiciary Committee

ⁱⁱ Bill Text, SB 657, Chapter 556, Filed with Secretary of State Sept. 30, 2010

ⁱⁱⁱ Bill Text, SB 657