

CORPORATE SOCIAL RESPONSIBILITY

Working to ensure that Patagonia products are produced under safe, fair, legal and humane working conditions.

This is a report about Patagonia's efforts toward corporate social responsibility. At its core, it's about this company's relationship with the people who work in the factories that make our clothing and gear, and what we have done, and are trying to do, to ensure that Patagonia products are produced under safe, fair, legal and humane working conditions.

What Is Corporate Social Responsibility?

Corporate Social Responsibility (CSR) is a broad-based movement in business that encourages companies to take responsibility for the impact their activities have on customers, employees, communities and the environment. It's an obligation to include international labor and human rights standards. CSR means different things to different people. At Patagonia, it's guided by our Mission Statement, our Core Values, our Operational Values and our Code of Conduct (see page 6). To us, CSR means taking steps to improve the quality of life for our employees and their families as well as for the community and society at large.

The Apparel Industry

Most people these days are familiar with the term "sweatshop." Its use became widespread when a human rights group reported in 1996 that some of the clothing carrying the Kathie Lee label was being made in sweatshops and sold at Wal-Mart. The Kathie Lee brand, we came to find out, was not alone in its use of sweatshop labor. We've since heard tales of similar conditions in garment factories from Asia to the Americas – factories with interminable workweeks, sub-minimum wages, no overtime pay, unsafe work conditions and even child labor. We've seen the names of some of the biggest apparel and footwear brands in the world associated with some of the most disheartening examples of these kinds of abuses.

This is the marketplace in which Patagonia also develops its products.

In truth, not all factories are terrible. Some are actually quite good. These are well managed and produce clothing under safe, healthy and humane working conditions. But as evidenced by the steady stream of negative press and other anecdotal evidence, there is definitely widespread abuse. People who work in the global garment industry are often poor, young, uneducated and disenfranchised. Labor laws in their countries can be lax. Workers are sometimes taken advantage of, discriminated against, denied the right to unionize, harassed, threatened and cheated. Working conditions can be neither safe nor healthy.

Mistreatment of garment workers is not just the result of global competition for low-price products, factory greed or malfeasance. It can also be the result of inefficiency, not only at the factory but also on the part of the company buying the goods. Last-minute changes to orders, unreasonable price demands and hurry-up delivery times can exacerbate already difficult conditions on the factory floor.

Patagonia's Place in the Apparel Industry

Patagonia is a \$275 million a year, privately owned company based in Ventura, California. We design, develop and market clothing and gear for a wide range of outdoor sports, travel and everyday wear, and are best known for our innovative designs, quality products and strong environmental conscience. Our Mission Statement goes like this: "Build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis." To that end, we use environmentally sensitive materials (organic cotton, recycled and recyclable polyester, and hemp among them) and both sponsor and participate in a host of environmental initiatives that range from promoting wildlife corridors to combating genetic engineering. To date, we have given some \$29 million in grants to grassroots environmental organizations.

Our own employees – the thousand or so people who work directly for us in our offices, stores and distribution center – are paid fairly and enjoy good benefits. Many of them share our values, care about quality and are active in environmental and community causes. Employee turnover is in the single digits, and on average, we receive a couple hundred résumés each month. We also receive considerable press both for our innovative products and progressive work environment, which includes generous health care, subsidized day care, flexible work schedules and paid time off for environmental internships.

Like most clothing companies, we do not make our own products, nor do we own any of the more than 100 factories that do. We design, test, market and sell Patagonia gear. These are our areas of strength. We pay other companies to produce the fabrics and do the actual cutting and sewing. They have the technical expertise and equipment.

We try to work with factories that share our values of integrity and environmentalism. In the past, we found we didn't have to make a lot of extra effort to achieve this. Our demand for high quality and our close relationships with the small number of factories we did business with pretty much assured it. It really is true that you can't make good products in a bad factory, and we did business with some of the world's best. They were, for the most part, efficient and well run. The people who worked in them tended to have a lot of experience. Despite high employee turnover elsewhere in the garment industry, these factories were able to retain employees because they paid them fairly and treated them humanely.

Patagonia's Road to Responsibility

We were pretty confident of these facts when our business was still small. However, eventually we recognized we needed to test these assumptions and begin to formalize our contractor review process. In 1990 we started asking our contract managers and quality assurance staff to begin reviewing the factories they visited, both for product quality and working conditions. We made the decision not to work with any factory we couldn't visit.

The following year we unveiled something we called a "contractor relationship assessment." We did so at our first supplier conference, to which we invited representatives from every factory we worked with. The assessment was a scorecard we kept with each factory. We used it to rate a factory's performance in

different areas and asked factory managers to do the same. If we gave a factory a low mark in one area and the factory scored itself high, it became the subject of conversation and focus. Our approach was informal, but our demands for high quality largely kept us on the responsible side of social compliance.

Third-Party Audits

We didn't begin contracting with third-party auditors until around 1994, when we started employing people from outside the company to visit and assess new factories with which we were interested in working. Though audits are but a snapshot in time, they do give an idea of a factory's work conditions and management systems. They're also a good way of initiating discussions about change. Our social auditing was informal until two former Patagonia employees were invited to take part in President Clinton's "No Sweat Initiative" in 1996.

Fair Labor Association

The initiative gave rise to the Apparel Industry Partnership, which later became the Fair Labor Association (FLA). President Clinton challenged the body to take steps to: 1) make certain that products sold in the U.S. were made in compliance with acceptable labor standards; 2) ensure decent working conditions for garment workers; 3) inform consumers that the products they were buying were not made under exploitative conditions. Patagonia joined the partnership and became one of the 10 founding members of the FLA. An initiative to improve the lives of workers worldwide, the FLA is composed of companies, colleges, universities and nongovernmental organizations. It complements the efforts of the International Labor Organization to ensure that participating companies observe a workplace code of conduct throughout their supply chains.

In 2001 Patagonia became a "participating" FLA member when we agreed to take part in its Independent External Monitoring program. As a participating company, we agreed to adhere to FLA principles. This includes a rigorous internal monitoring program conducted by Patagonia employees as well as unannounced third-party audits at 5% of our factories each year. Membership in the FLA provides us with access to its extensive expertise in monitoring, training and research. Because it posts the results of its random audits on its Web site for everyone to see, it lends our program greater credibility and transparency. We encourage you to visit www.fairlabor.org for more information.

A Step Backward

After these several steps forward, we took a step back. It happened when we began sourcing products in new factories that could produce them at a lower cost. The number of factories we came to work with ballooned, and some of these subcontracted work to other factories we knew nothing about. We lost track of who we were doing business with and what working conditions were like in many of our factories.

In 2002 we hired a manager of social responsibility to monitor social compliance throughout our supply chain and to collaborate with the FLA to improve working conditions in every link. That role has since expanded to include educating Patagonia employees about factory workplace issues and helping them understand how their own actions can unwittingly cause factory workers to suffer longer workweeks, hurry-up pressure and greater stress.

JO-IN

In 2004 Patagonia joined the Joint Initiative on Corporate Accountability and Workers Rights (JO-IN). This is an effort to improve working conditions and observe labor rights for garment workers worldwide by standardizing disparate workplace codes of conduct and factory monitoring procedures. A trial project was launched in a number of apparel factories in Turkey. That country was chosen because of its strategic position as an exporter of textiles and apparel in global markets.

The Clean Clothes Campaign, Ethical Trading Initiative, Fair Labor Association, Fair Wear Foundation, Social Accountability International and Workers Rights Consortium came together to collaborate on this trial project. We nominated a factory that makes Patagonia products in Turkey to participate. Adidas, Gap, Inc., Hess Natur, Marks & Spencer, Nike and Puma did the same for some of their factories.

As a result of this 30-month process we've seen some positive changes in our Turkish factory, and we've learned a lot about the need to be culturally sensitive and embrace a long-term commitment to effecting change. We intend to apply the lessons learned from this trial to our factories in other countries. For more information on JO-IN please visit www.jo-in.org/.

Verité

In summer 2007 all Patagonia employees who are in contact with our factories received a formal two-day training on our corporate

social responsibility program and their roles. The training was conducted by Verité, an international nonprofit social auditing, training and capacity-building organization whose mission is “to ensure that people worldwide work under safe, fair and legal conditions.” Verité worked with these 75 or so employees to help them fully understand Patagonia’s Workplace Code of Conduct, which governs what is and is not permissible in our factories. Though most of those who attended the training do not conduct social compliance audits, they do visit our factories on a regular basis for other reasons. Their knowledge of the code will help them identify workplace issues and report them to our social responsibility manager.

In order to build greater overall awareness, Verité also presented an overview of global working conditions in the garment industry to all employees at our headquarters in Ventura. A similar presentation was repeated for Patagonia store managers and sales reps. We will soon do so again for employees at our distribution center in Reno, Nevada.

Overall, the apparel industry’s approach to ensuring fair and humane working conditions has been rather fragmented and can be confusing for factories. A single factory often has many clients. We, for example, share factories with brands such as Nike, Asics, The North Face, MEC and others. To change conditions, every brand needs to ask their factories to abide by the same workplace code of conduct.

Many brands recognize the value in collaborating. We are working with some of them to develop industry standards that apply to auditing, codes of conduct and the sharing of information. A coherent strategy to move the ideals of the anti-sweatshop movement forward requires all entities working together.

Fair Factory Clearinghouse

To that end, in 2007 we became a member of the Fair Factory Clearinghouse (FFC) – a database that helps us track and manage social and environmental data. FCC enables us to share the results of audits with other apparel brands doing business in the same factories, and them with us. This reduces the overall number of audits. That may not sound like a good thing, but it is when audits become so numerous as to be redundant. Factories can suffer from “audit fatigue,” which occurs when every brand they make products for audits them. For more information about the FFC, visit www.fairfactories.org/.

Currently, we are working to adopt a fourfold approach to all of our sourcing and factory decisions – one that gives equal weight to business requirements, quality assurance, social responsibility and our environmental footprint. We are also putting together an information package to communicate our social responsibility program to all of our factories. It includes our obligations as a member of the FLA and a copy of Patagonia’s Workplace Code of Conduct to be posted in the factory.

Challenges

The same public pressure that has forced brands to take social responsibility more seriously is pushing factories to adopt better social and environmental practices. Noticeable progress is frustratingly slow industry-wide. But some of the more progressive factories see the advantages of investing in their workplace and workforce. They are accepting greater responsibility for the health and welfare of their workers; establishing management systems for human resources, health and safety and payroll; and allowing employees to become more involved in decision-making.

While we’d like to do business only in factories that mirror our values applying to social and environmental responsibility, some aren’t quite there. But instead of taking our business elsewhere, we are trying to partner with them, and with other brands that make clothing in their factories, to improve the treatment of workers. This will take more time, education and coordination. There are cultural and cost barriers that prevent it from happening as quickly as we would like.

The relatively large number of factories we have in relation to our size presents another challenge to achieving our goals. Our contract managers and quality assurance managers routinely visit each of our factories to ensure they are meeting our product quality standards, but they do not actively monitor workplace code of conduct standards. We rely on third-party social compliance auditors to help us with that, and they are able to audit about one-third of our factories each year.

Fortunately, our audits show that only about a third of the factories we work with warrant annual inspection. The other two-thirds do not present an ongoing risk of violating our code of conduct. We know that certain factors heighten the probability of code violations. These include the country the factory operates in, the products they make and the age of the factory. For example,

an aging factory that uses potentially harmful substances and operates in a country with lax labor and environmental laws would pose a relatively high risk of code violations. A new factory using benign materials and operating in a developed country with more rigorous labor and environmental standards would pose a much lower risk.

While two-thirds of our factories may not require annual audits, that doesn’t mean we don’t keep track of them. We do, by way of less frequent audits and the sharing of audit information with other brands.

Social audits are imperfect. They give us information about the health and safety of a factory’s work environment, payment of wages, benefits, hours and treatment of workers. They do not, however, necessarily reflect ongoing conditions. A factory’s desire to “pass” an audit gives some the impetus to cheat. Factories have been known to develop a second set of books to hide information from the brands they work for. They may also coach or intimidate workers to lie about things such as working conditions, hours and wages. So we have to work gradually and collaboratively to get results. It can be slow going.

Benefits of Social Responsibility

The greatest benefit of our efforts to become more socially responsible is the more fair and humane treatment of workers. But there are other reasons, as well. Here are a few articulated from more of a business standpoint by Verité’s Daniel Viederman in *Business Week’s* “The Debate Room”:

“First, avoiding sweatshops is good business. Not only do poorly treated workers typically make poor-quality goods, but U.S. companies that aren’t careful about sweatshops could face the costly job of reputation repair if a watchdog group links their brands to workplace abuses. Furthermore, desirable employees want to work for companies whose values they share, just as consumers want to buy from companies that put values into practice. Second, respect for human rights leads to social and economic development. Some business advocates say that labor standards raise costs and thus limit the number of jobs that would otherwise be available to poor people. But fair work is a critical underpinning of social stability...”

Frequently Asked Questions

Where does Patagonia manufacture its products?

We make products in factories all over the world, including China, Thailand, Vietnam, Japan, Turkey, Portugal, Mexico, Costa Rica, Colombia, El Salvador, Israel, Morocco, Tunisia, Bulgaria, the Philippines and the U.S.

Why so many different countries?

When we develop a new product, we look worldwide to find factories with the skills and equipment to do a quality job and deliver on time at a competitive price. Other factors are also involved, such as a factory's proximity to raw materials and favorable import duties. Because quality is critical to our business, we do not compromise on it. In addition, we look for vendors that abide by our environmental and social standards.

Why don't you make more of your products in the U.S.?

The global chase for skilled labor and low cost of goods has caused the U.S. garment industry to pretty much shut down. Even in its heyday, U.S. garment factories didn't have the expertise to make our most technical products. U.S. factories simply can't compete with most offshore operations when it comes to quality, efficiency and cost of goods. Though we do manufacture some Patagonia garments in the U.S., they are few and limited to some of our more basic styles.

Why does Patagonia make products in China?

This is the most common question we get about our manufacturing. Customers want to know how we can uphold our high environmental and social justice standards, while buying products from a country with a long history of human rights and environmental violations.

We work in China because of our desire to build the best quality products. Yes, price is also a factor, along with others. But skill, technology and technical know-how are the biggest reasons and they far outweigh concerns about costs. There are countries with even lower labor costs than China's. But we choose not to do business with most of them because of their poor working conditions.

Many of our Chinese factories are quite modern and clean. Because of the skill required to make our technical products, they have to pay their employees fair wages and treat them well or lose them to industries that will.

Much of the controversy over doing business in China stems from the policies of the Chinese government, which is generally held in low regard for many things, including its authoritarian policies, lax environmental standards, the occupation of Tibet and a blatant disregard for human rights. As a company, we don't agree with many of the policies and practices of our own government pertaining to environmental matters, foreign policy, even human rights. Yet we continue to do business here because we believe we have the opportunity to promote positive change. By conducting our own business as ethically as possible, we can serve as a model for others.

Making products in China, as with any country, gives us the opportunity to advance social and environmental issues there. When we ask factories to build us quality products and abide by our code of conduct, we influence the greater community. We have seen evidence of this as more and more factories in China are improving working conditions, wages and benefits in order to retain their workers.

Patagonia alone cannot change China's work culture or government. We work with other brands that share our factories and we collaborate with NGOs and others trying to improve working conditions. We believe it's important to stay.

Working with our suppliers to advance human rights and environmental protection throughout our supply chain is a core element of our business. Our Footprint Chronicles™ Web site is a useful tool to share best practices, educate ourselves and influence our supply chain to improve in all areas. Check it out at www.patagonia.com/footprint.

Do children make your clothes?

Our workplace code of conduct states that factories must comply with local child labor laws. Our code prohibits them from employing anyone younger than 15 years of age in every country in which we manufacture products. If a country requires its students to remain in school beyond age 15, whatever age they require serves as the minimum working age. The International Labor Organization has determined 15 the accepted age. In many countries, juveniles are encouraged to enter the workforce to contribute to their household income. But their roles are restricted to protect them from abuse.

What happens if a factory is found to be out of compliance with Patagonia's Workplace Code of Conduct?

We use professional third-party auditors to perform most of our social audits. They provide us with a report that outlines how a factory conforms to the requirements of our workplace code of conduct. This report goes to Patagonia's social responsibility manager, who then, if necessary, works with the factory to develop a corrective action plan. The plan lists the problems and corrective actions. It includes a timeline for compliance. At that stage it's incumbent upon the factory to take ownership of its shortcomings and embrace the fact that rectifying them is good for its business.

Does Patagonia ever sever relations with factories found to be out of compliance with the company's workplace code of conduct?

Yes, we have. But because the goal of our program is to safeguard and improve workers' rights, it is our policy to work with factories to correct social problems and promote better practices. As a factory customer we can have a positive influence, while as an outsider we would have little or no leverage. Furthermore, the Fair Labor Association advises against "firing" noncompliant suppliers unless the supplier is unwilling to work toward improvement. Leaving a factory usually leads to further deterioration of workplace conditions and can result in layoffs. Should a factory ultimately be unwilling or unable to meet our requirements, we would terminate our relationship.

How do you select your factories?

Quality, technology, skill, location, price, customer service, ability to deliver on time, environmental and social performance, and cultural fit with Patagonia are all factors. Failure to meet our high minimum standards in any regard automatically disqualifies a factory from being considered. When evaluating social performance we look at two things: the degree to which the factory meets or exceeds the standards set in our code of conduct and the extent to which its owners are willing to work with us to improve areas in which they fall short.

How much contact do you have with your factories?

In addition to our third-party social compliance audits, Patagonia employees are in constant contact with our factories. Quality workmanship is extremely important to us. Therefore, we conduct quality audits on a regular basis. Other employees, such as product designers and developers, also visit our factories and are in continuous communication.

Patagonia Mission Statement

Build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis.

Patagonia Core Values

Quality: Pursuit of ever-greater quality in everything we do.

Integrity: Relationships built on integrity and respect.

Environmentalism: Serve as a catalyst for personal and corporate action.

Not Bound by Convention: Our success - and much of the fun - lies in developing innovative ways to do things.

Patagonia Operational Values

We understand product quality to be defined by durability, minimum use of natural resources (including materials, energy and transport), multi-functionalism, non-obsolescence and the kind of beauty that emerges from suitability to task.

We recognize that a sustainable environment requires successful communities. We consider ourselves to be an integral part of communities that include our colleagues, the cities and towns in which we live, our suppliers and our customers. We recognize our responsibilities to all these relationships.

We work to develop a shared understanding of our priorities and direction. In our operations, we encourage open communication, collaboration and individual responsibility, all the while guarding our sensitive business information.

We recognize that achieving our goals requires courageous innovation and risk taking, and so we work to build an environment of trust, respect and mutual support.

We actively support continuous learning and personal and professional growth throughout the organization.

We aim to set the standards in our markets and in how business is done. We view our sales as evidence that we have developed and delivered products and services that our customers value. Without giving its achievement primacy, we seek to profit on our activities.

We respect our customers. We recognize them as potential allies in our efforts to seek positive environmental change.

We evaluate the impact of every product and every process and work to decrease the harm we cause. We support environmental activism, encourage everyone in the Patagonia community to act in ways that reflect our values and work to influence the larger corporate community.

These principles are not presented in order of importance. They represent an “ecology” of values that we wish to honor in our practice.

Patagonia’s Workplace Code of Conduct*

We have developed the following workplace code of conduct to make our expectations clear to the factories in which we make products. At Patagonia, we continuously push ourselves to lead an examined life and improve social and environmental conditions. We encourage our suppliers to do the same.

Forced Labor - There shall not be any use of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise.

Child Labor - No person shall be employed at an age younger than 15 or younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

Harassment and Abuse - Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

Nondiscrimination - No person shall be subject to any discrimination in employment – including hiring, salary, benefits, advancement, discipline, termination or retirement – on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion or social or ethnic origin.

Health and Safety - Employers shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with or occurring in the course of work or as a result of the operation of employer facilities. The employer shall take a proactive approach to health and safety by including policies, systems and training designed to help prevent accidents and injuries.

Freedom of Association and Collective Bargaining - Employers shall recognize and respect the right of employees to freedom of association and collective bargaining.

Wages and Benefits - Employers shall recognize that wages are essential to meeting employees’ basic needs. Employers shall pay employees at least the minimum wage required by local law. Employers shall provide mandated benefits as directed by the laws of the country.

Hours of Work - Except in extraordinary business circumstances, employees shall not be required to work more than the lesser of 60 hours per week or the limits on regular and overtime hours allowed by the law of the country of manufacture. Except in extraordinary circumstances, employees shall be entitled to at least one day of rest in every seven-day period.

Overtime Compensation - In addition to their compensation for regular hours of work, employees shall be compensated for overtime hours at such premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Women’s and Disabled Rights - All employers will ensure that workers who are women or disabled receive equal treatment in all aspects of employment.

Environmental - Factories shall have written environmental policies and standards and must comply with all applicable environmental laws and regulations. Factories shall continuously monitor their production process, including those related to emissions, discharge and disposal of wastes. Factories shall take the necessary steps to minimize negative impacts on the environment.

Quality - Factories shall have well-integrated systems and good communication to encourage the highest quality workmanship. This includes training in Patagonia’s standards of quality. Employers shall also appoint a factory quality auditor who will provide an unbiased perspective on every finished good leaving the factory to ensure that Patagonia’s quality standards are upheld.

Subcontracting - Patagonia does not permit subcontracting under any circumstances. We require all sales samples and bulk production orders to be placed in facilities we have approved. There are no exceptions.

* *This Code of Conduct is for use with foreign factories.*

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