



2006 MEC ETHICAL SOURCING REPORT

MEC's goal is to make quality, affordable products for the outdoors. Central to this goal is a belief that our gear should be made in a way that respects the people who manufacture it. Through our Ethical Sourcing Program, we are working to improve human conditions in factories. This means safer working conditions, legal working hours, and reasonable pay for work done.



2006 was both exciting and sobering for MEC. We exceeded our financial targets, earmarked a recurring 1% of annual sales to environmental causes, and continued to advance our Ethical Sourcing Program. However, one

area leaves us little reason to celebrate: the working conditions in factories throughout the world.

By its very nature, manufacturing challenges the rights of workers. After monitoring our supply chain for many years and reviewing the results of our peers, we believe all factories throughout the world, including those that make MEC-brand gear, have issues with workers' rights. There is no perfect factory.

Taking such a frank position may not be popular, nor commercially strategic. I'm fully aware of this. However, I believe we (both the Co-op and its members), and Canada as a whole, must establish an open and informed dialogue on this emotionally charged topic. If we don't, we will

be unable to grasp the causes behind poor factory conditions, and the role both companies and consumers hold in remedying them.

In 2006, we undertook three significant activities to address this. First, we launched a Member Engagement Strategy to foster a common set of values within MEC. The Strategy focused on improving communications and gaining a deeper understanding of our members' concerns. Second, we continued to strengthen the infrastructure of our Ethical Sourcing Program in terms of policies, processes, and technology. Finally, we launched a number of initiatives to give workers a greater voice. With all these activities, we're sowing the seeds to improve human conditions in our contract factories throughout the world.

Thank you for your interest in this report. I hope you find it informative and encouraging. Please provide your feedback to Harvey Chan, our Director of Ethical Sourcing, at harveychan@mec.ca. We look forward to hearing from you.

Sincerely,

Peter Robinson
CEO



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MEMBER ENGAGEMENT

Ethical sourcing is an emotionally charged subject. When members learn about our sourcing practices and manufacturing conditions throughout the world, some feel compassion, bewilderment, and even anger. Almost every month, we get inquiries from members about this subject. Often, our replies are not well received. In fact, we suspect that members feel a bit emptier after some of these conversations. We know we do!

We've struggled with this disconnect for some time now. How is it that a co-op, which prides itself on having a mission to promote social and environmental justice, doesn't have a better understanding of such an important topic as ethical sourcing? Frankly, we haven't been very successful in discussing the subject. For the past several years, we've been focused on monitoring our factories, and getting them to improve. In 2006, we recognized a need to forge a common set of values and better engage with members on this important subject.

FORGING A COMMON SET OF VALUES

Our mission is to provide our members with quality, reasonably priced gear, so they can pursue an active life outdoors. We fulfill this mission while striving for social and environmental justice. This declaration is simple and clear, and generates very little debate. However, it's not very helpful when we apply it to our everyday sourcing realities such as conducting business in totalitarian regimes, or buying from factories that pay their workers 60 cents per hour.

Forging a common set of values is about developing a deeper understanding of human rights and factory conditions throughout the world, and what we, as citizens of the world, ought to do to improve working conditions. It's not about agreeing on every issue.

These are the top concerns of members who contacted us in the past year:

- Sourcing from factories in totalitarian regimes only perpetuates those dictatorships.
- Sourcing from factories with weak human rights or safety records betrays MEC's core values.
- Canadian factories have stronger human rights and safety records, and we should be sourcing more from them.



Photo: Bruce Kirkby

These concerns are valid, and reflect passion and conviction. We don't provide perfect responses to them in this report. We're not sure if we ever will. In our view, it's more important to communicate the reality of sourcing as we know it, and provide members with ways to engage us in deeper conversations. We believe this exchange will lead to a more informed mutual understanding of the issues. It will forge a more articulated set of values that go beyond our Mission Statement. Most importantly, member feedback will give us greater guidance in our everyday sourcing practices. To those ends, it's important to note the following:

FUNCTIONING IN A MARKET ECONOMY

MEC is a co-operative retailer operating in a market economy. We're constrained by the same laws of supply and demand as commercially driven retailers. This means we're required to be a strong retailer in a highly competitive market. We must be service-oriented, have the right products, and be financially sound. This also means we need to source products from all over the world. Having this solid business grounding enables us to meet our mission while pursuing social and environmental initiatives. Being strong and disciplined, and finding the right balance between market realities and our values, are at the core of sustainability.

NAVIGATING AN IMPERFECT WORLD

Sadly, we live and conduct our affairs in a world that is flawed. There are human rights issues in every country and factory throughout the world, even here in Canada.

Ethical sourcing is about how we navigate through this imperfect world in our search for gear. We will never buy from a country that is sanctioned by the United Nations or the Canadian government. We will not source from a factory with child labour, forced labour, or egregious conditions that immediately threaten the life or well-being of workers. All of this is non-negotiable. We actively enforce this with internal policies and mechanisms.

However, we do buy from countries and factories that have troublesome human rights records. Emotionally, we don't agree with this. But from a business perspective, our choices are limited. Otherwise it would be impossible for us to find products that meet members' needs. Having said this, ethical sourcing is neither penitence for conducting business in unfavourable places, nor a tactic for placating the anti-sweatshop movement.

It's an avenue for addressing inequities. It's a series of activities that police factories, empower people, and improve the human condition of workers. We strongly believe in this, as we do our commitment to the environment. Engagement and involvement fosters both hope and positive change.

ESTABLISHING A CONSENSUS

It's easy to have a high-level Mission Statement that everyone agrees to. It's tougher to forge a common set of values that frame our everyday decisions. With this in mind, we launched a Member Engagement Strategy in 2006 to better dialogue with our members on this critical subject. The Strategy focuses on deepening our collective understanding of ethical sourcing, human rights and the world, and how MEC, a mission-driven co-operative, functions in this reality. We unpack these complex issues and connect them to the everyday concerns of our members. We also provide a number of avenues for members to articulate their thoughts to MEC. The Member Engagement Strategy helps us directly foster a more informed and realistic set of common values.

The Strategy has three phases. Phase 1, completed at the end of 2006, was essentially a public disclosure of our position on a number of highly charged topics such as living wage, and sourcing from factories and countries with poor human rights records. We decided to tackle these and other challenging issues simply because they are fundamental to building consensus. Members can access this revised ethical sourcing content at mec.ca/belief. They can also communicate their thoughts directly with MEC via email at harveychan@mec.ca.

Phases 2 and 3 will focus on developing a virtual community in which a healthy debate on this subject can take place. Our goal is to move the conversation away from the current and often simple debate of "every factory is a sweat shop" to a more nuanced understanding of the world. We will do this in 2007 with our Ethical Sourcing Blog and other initiatives (see page 10).

Building consensus, and not losing sight of our core values, is ongoing. We believe this is a required fundamental step to preparing MEC to handle the bigger challenges ahead – namely, improving human conditions in factories.



INFRASTRUCTURE

BUILDING THE FOUNDATION FOR EXECUTION

In 2006, we completed our first full year of operating our Ethical Sourcing Program as its own department. For the previous six years, our merchandisers directed the program and monitored our contract factories. We needed to fully separate the auditing role from buying. Our merchandisers no longer audit factories, but are key to helping those factories move to a higher human rights plain.

In 2006, we went a long way toward improving our infrastructure, integral to effectively operating an ethical sourcing program. Some of our key initiatives included:

Revision of Ethical Sourcing Policies

Our Board of Directors and Senior Management Team ratified a number of key policies, entrenching ethical sourcing to our overall sourcing and merchandising practices. Most importantly, they committed MEC to the following:

- Consulting and working with a broad range of Canadian and overseas NGOs
- Dedicating financial resources to develop remediation programs

We also circulated our policies to the Maquila Solidarity Network (an anti-sweatshop NGO) and solicited input from SHARE (an NGO promoting ethical investments). We incorporated their key recommendations. We believe input from a variety of stakeholders balances our view of the world and, most importantly, our supply chain conduct.

Reporting and Data Management

In 2006, we developed a data management system to better monitor audit results. This has two benefits. First, it allows us to benchmark the incremental improvement of factories over time. Second, it allows members to view a factory's detailed results by specific human rights indicators. The system also prepares us for disclosing factory names in 2008.

Outsourcing Audits

Our lack of global presence made partnering with a third party service provider a necessary and logical choice. In 2006, we teamed up with Social Compliance Services Asia, which has on-the-ground representation in the countries where our factories are located.

Communications and Education

It's very easy to be insular. In striving to excel in our field, we often lose sight of the broader world. We wanted to initiate a more meaningful conversation on the human conditions of factory workers. In Canada, we (industry and civil society) spend considerable energy debating the merit of auditing factories and having codes of conduct. Our peers in the US and Europe have already settled this issue and are now looking beyond this and toward improving conditions.

To state our position and solicit feedback, we:

- Revamped our ethical sourcing website content to better explain the complexities and challenges of factory working conditions, and to encourage feedback. Engaging in a dialogue with our members and the broader audience can provide important insight to this pressing topic.
- Presented our position and solicited feedback at a number of forums hosted by NGOs (i.e., Amnesty International, Maquila Solidarity Network).
- Rolled out internal training programs (classroom and web-based) for our merchandisers, store managers, and store sustainability coordinators.
- Ramped up our participation with the Fair Labor Association (FLA), a non-profit consortium of NGOs, organized labour, universities, and brands working to improve factory conditions. In 2006, we adopted the FLA audit methodology and Code of Conduct.



FACTORY WORKERS

Ultimately, factory workers are the focus of our efforts. After all, our Ethical Sourcing Program is about improving human conditions in factories.

OUR SUPPLY CHAIN IN 2006

In 2006, we purchased CAD\$134 million worth of inventory from suppliers throughout the world. This included MEC-brand products (tents, apparel, bike accessories, etc.) and national brands in all product groups.

Altogether, 56 factories, from 17 countries, made MEC-brand products in 2006. We've had long-term relationships (over five years) with approximately 30 of those factories. Our relationships with the remaining factories have been more fluid, typically last less than a few years, and are subject to a more transient product shelf life.

Where MEC-brand products are made

| | | |
|---------|-------------------|-----------|
| Canada | Italy | Sri Lanka |
| China | Japan | Taiwan |
| France | Republic of Korea | Thailand |
| Germany | New Zealand | USA |
| Greece | Poland | Vietnam |
| India | Portugal | |

Our product involvement with factories varies. With some factories we get deeply involved from the early stages of design, to final shipment of product. Our merchandising team works closely with their counterparts to complete the order. At the other end of the spectrum, we have factories that supply product largely unmodified by MEC, with the exception of affixing an MEC label. In this latter scenario, our relationship with the factory generally occurs between our Product Manager (buyer) and factory managers.

The more we're involved in factories and the longer we've known them, the more we can positively influence workers' rights. However, an even more decisive factor is the volume of business we do with a particular supplier.

In 2006, \$52 million in MEC-brand inventory came from 56 factories, 14 of which had MEC orders of over \$1 million. This seems large, but as a percentage of a factory's total sales, it's comparatively modest. For the majority of contract factories, we bought less than \$500,000 worth of goods.

Contract factories by purchases

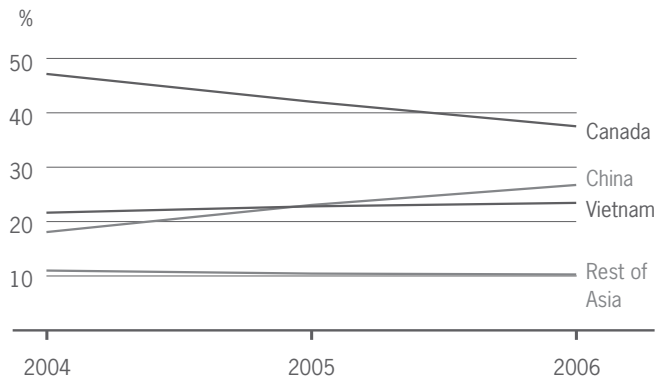
| Volume of Purchases | Number of factories | Total purchases | % of purchases |
|---------------------|---------------------|-----------------|----------------|
| Over \$5 million | 2 | \$14,030,584 | 27.0 |
| Over \$1 million | 12 | \$26,453,110 | 51.0 |
| Over \$500,000 | 6 | \$5,346,759 | 10.3 |
| Over \$100,000 | 18 | \$5,435,269 | 10.5 |
| Under \$100,000 | 18 | \$612,909 | 1.2 |
| Total | 56 | \$51,878,631 | |

These numbers reflect the limited "punch" we have in flexing economic power to change a global supply chain. Unfortunately, for many of our factories we're a small (but important) customer, with a list of demands that are prioritized against the needs of much larger customers. Happily, in many of our Canadian factories, where we're a major buyer, we have considerable economic clout and can motivate change.

In Canada, being a big kid on a small block has mixed blessings, especially when the neighbourhood is shrinking. In 1960, according to Statistics Canada, Canadian factories supplied almost all of the country's apparel needs. By 2005, they supplied just 35%. A host of factors drove this shrinkage, including the liberalization of trade and cheaper prices.



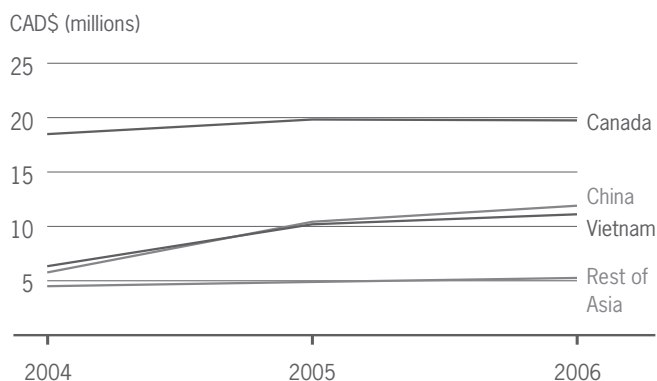
MEC-brand purchases by country (as % of total orders)



Note: Europe and USA represent less than 2% of purchases

We're familiar with this trend. In spite of our policies and efforts to prioritize Canadian suppliers, we've seen the proportion of MEC-brand products made by Canadian suppliers drop from 47% (2004) to 37.5% (2006). At the same time, the volume of MEC-brand products moving through our stores has increased by 43%. As a percentage of total purchases, less merchandise is being made in Canada, but in absolute dollars, our purchases have increased slightly. In short, we're selling more merchandise, but less of it is coming from Canada.

MEC-brand purchases by country (in total dollars)

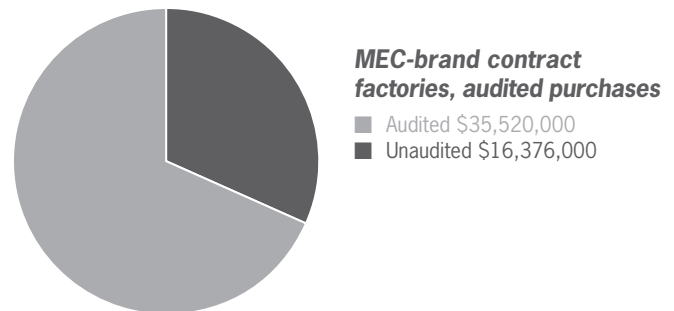


For a full discussion of the forces that shape our supply chain and an opportunity to express your thoughts, visit mec.ca/belief.

OUR FACTORY AUDIT FINDINGS

The fundamental rights of factory workers should always be upheld. These include rights such as working in a safe facility, having reasonable work hours, and getting paid fairly. Regrettably, our factory audits have found this isn't always the case.

In 2006, we audited 18 of our 56 contract factories. These factories supply nearly 70% of MEC-brand gear. Another six prospective factories were audited. Four were approved and will become active suppliers in 2007. Two were suspended because of child labour issues (discussed below). We audited a total of 24 factories in 2006.



We found non-compliance issues in all our factories, including those in Canada. Altogether there were 238 infractions. The majority of these violations were Health and Safety (40%), Wages and Benefits (30%), and General Principle (17%). The table on page eight charts the performance of 24 factories along 11 human rights categories representing 44 indicators.

Health and Safety infractions are typically violations such as blocked fire exits or exposed machinery. Wages and Benefits tend to refer to excessive work hours, and under-payment of legally entitled benefits and wages. General Principle indicates a lack of formal grievance procedures and other mechanisms to safeguard the rights of workers.

In 2006, MEC audited two factories that employed child labour. Both were located in China. The first factory was a joint venture with a Canadian factory that was a long-time supplier. This Chinese factory had already met all of MEC's technical requirements. Our first purchase orders were to be issued subject to an audit. We found child workers and immediately suspended all orders. That factory never made any products for MEC. The second factory manufactured bike armour. In



Non-compliance incidents (based on 24 audited factories)

| Factories (Number Audited) | Canada (6) | China (13) | India (2) | Vietnam (2) | Taiwan (1) | Total Incidents | MEC Frequency % | FLA Frequency % |
|-------------------------------|---------------|---------------|--------------|----------------|---------------|--------------------|--------------------|--------------------|
| General Principle | 5 | 29 | 4 | 0 | 0 | 38 | 16.2 | 9.1 |
| Forced Labour | 0 | 1 | 0 | 0 | 0 | 1 | 0.4 | 2.5 |
| Child Labour | 0 | 4 | 0 | 0 | 0 | 4 | 1.7 | 1.5 |
| Juvenile Workers | 0 | 4 | 0 | 1 | 0 | 5 | 2.1 | * |
| Harrassment & Abuse | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5.1 |
| Discrimination | 0 | 3 | 0 | 2 | 0 | 5 | 2.1 | 2.9 |
| Health & Safety | 27 | 49 | 11 | 6 | 4 | 97 | 40.8 | 44 |
| Freedom of Association | 0 | 1 | 0 | 0 | 0 | 1 | 0.4 | 4 |
| Wages & Benefits | 6 | 48 | 8 | 8 | 2 | 72 | 30 | 27.4 |
| Documentation | 5 | 4 | 2 | 1 | 0 | 12 | 5 | * |
| Other | 0 | 3 | 0 | 0 | 0 | 3 | 1.3 | 3.5 |
| Total | 43 | 146 | 25 | 18 | 6 | 238 | 100 | 100 |

* The FLA captures these categories within the General Principle category.

our audit we uncovered child labour and forced labour. We also detected egregious conditions such as locked fire exits, a life-threatening violation. We suspended the factory and recalled all their products from our members and stores. We incurred a loss above \$100,000 in product and related costs.

Leaving the factories was easy. Unfortunately, there is little to gain for the children and other workers who remain. Our goal is to engage the facilities. We invited the factories to find a middle ground with MEC and phase out the child labour and other infractions. The first factory was uninterested. The second factory indicated a desire, which has yet to materialize in action. We remain hopeful.

THE NATURE OF MANUFACTURING

Our findings are both disappointing and sobering. However, we're not surprised. By its nature, manufacturing challenges the rights of workers. It's an occupational sector that draws from the disenfranchised (poorly educated, low skilled, women, and migrant or immigrant groups). It's an extremely price-driven industry. Under these circumstances, it's not surprising to find human rights infractions in factories throughout the world, including those in Canada.

Canadian contract factories have similar infractions to those in the developing world. The marked difference is the severity. For example, local factories often have more minor issues such as poorly posted evacuation plans or partially blocked exits. Their overseas peers have more serious infractions like non-functioning extinguishers or the absence of fire exits.

Before we take comfort in the lighter infractions of local facilities, it's important to note that jobs in Canadian apparel factories are typically low in status, with limited pay or opportunity. They are occupations that the vast majority of Canadians shun, and thus tend to recruit from the most marginalized groups in Canadian society in terms of political and economic power. Given this, it's not surprising to find local apparel factories dominated by Asian immigrant women. Sourcing locally has positive economic benefits, but also perpetuates occupational ghettos based on gender and ethnicity.

We examined the audits of our industry peers, and found similar results. As the table above indicates, our contract factories have similar infractions as those in factories of other FLA members. Again, wages and benefits, and health and safety infractions, are recurring issues.

Non-compliance incidents per MEC-brand factory (based on 24 audited factories)

| INFRACTION | T = Taiwan | | | | | | Canada | | | | | | China | | | | | | | | | | India | | Vietnam | | T |
|---|------------|---|---|---|---|---|--------|---|---|----|----|----|-------|----|----|----|----|----|----|----|----|----|-------|----|---------|--|---|
| Factory Number | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | | | |
| General Principle | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Not fully compliant with local laws | | | | | | | • | • | | • | • | • | • | | | | | | | • | • | | | | | | |
| Restricted access of MEC auditors | | | | | | | • | | | | | | | | | | | | | | | | | | | | |
| Misrepresented conditions to MEC auditors | | | | • | | | • | | | | | | | | | | | | | | • | | | | | | |
| Lack policy/process on grievances | | | | • | • | • | • | | | | | • | | | | • | | • | • | • | | | | | | | |
| Codes, labour laws not posted | | | | | | • | • | | • | | | • | • | • | | • | | • | • | | • | | | | | | |
| No policies on abuse, juvenile workers, etc. | | | | | | | | • | • | | | • | • | | • | • | | | | | | | | | | | |
| Forced Labour | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Use of involuntary labour | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mandatory overtime | | | | | | | | | | | | • | | | | | | | | | | | | | | | |
| Restriction of movement during off-work time | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Child Labour | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Workers not of minimum age | | | | | | | • | | | | | • | | | | | | | | | | | | | | | |
| Not compliant with child labour laws | | | | | | | • | | | | | • | | | | | | | | | | | | | | | |
| Juvenile Workers | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Not compliant with laws protecting juvenile workers | | | | | | | | | | | | • | | | | | | • | | | | • | | | | | |
| Poor age documentation | | | | | | | | | | | | • | | | • | | | | | | | | | | | | |
| Harrassment & Abuse | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Workers subjected to abuse or threats | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discrimination | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Workers discriminated against | | | | | | | | • | | • | | • | | | | | | | | | | | | | | | |
| Pregnant workers discriminated against | | | | | | | | | | | | | | | | | | | | | | • | • | | | | |
| Health & Safety | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Violation of local laws on working conditions | | | | | | | | | | • | | • | | | | | | • | | • | | • | | • | | | |
| Insufficient ventilation | | | | | | | | | | | | | | | | • | | • | | | | • | | | | | |
| Inadequate lighting | | | | | | | | | | | | | | | | | | | | | | • | | | | | |
| Poorly marked fire exits/no emergency lighting | | | | | | | | | • | | | • | | • | • | | | • | | | | • | | | | | |
| Obstructed aisles or exits | • | • | • | • | • | | | | • | | | | | | | • | • | • | | • | • | | | • | | | |
| Inadequate fire extinguishers/safety equipment | • | | • | • | • | • | • | • | • | | | • | | | • | | • | • | • | • | • | • | | • | | | |
| Inadequate evacuation plans or drills | • | • | • | • | • | • | • | • | • | | | • | | | | | • | • | | • | • | | • | • | | | |
| Machinery lacks protective devices | • | • | • | • | • | • | | | | | • | • | | | | | | • | | • | • | | | | | | |
| Inadequate personal protective devices | | | • | | | • | | | • | • | • | • | | | | • | | • | | • | | | | | | | |
| Inadequate first-aid personnel or equipment | | • | • | | | • | | | • | | • | • | | | | • | • | • | | | | | • | | | | |
| Poor handling of dangerous chemicals | | | | | | | | • | | | | • | | | | • | | | | | | | | | | | |
| Unfit toilets, dorms or canteens | | | | | | | | • | • | | | | | | | | | | | | | | | | | | |
| Exposed wires/dangerous work environment | | | | | | | | | | | | | | | | • | | | | • | | | | | | | |
| Freedom of Association | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Freedom of assoc. not recognized | | | | | | | | | | | • | | | | | | | | | | | | | | | | |
| Lawful efforts to organize are impeded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Wages & Benefits | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pay is below minimum wage | | | | • | | | | | • | | | • | | | | | • | | | | | • | | | | | |
| Overtime pay is below legal minimum | | | • | • | | | | | • | | | • | | | | | | | | | | | | • | | | |
| Excessive overtime | | | | | | | | • | | | • | • | | • | | • | | | • | • | | | | | | | |
| One day off in seven is not practiced | | | | | | | | • | | | | • | | | | | | | • | | | | • | | | | |
| Violation of local laws on annual leave | | | | | | | | | • | | | • | | | | | | | | | | | | | | | |
| Missing/unclear payroll records | | | | | | | • | | • | | | | • | • | • | • | • | • | | • | • | | • | | | | |
| Falsified payroll documentation | | | | | | | • | | • | | | | • | • | • | • | • | | • | • | • | • | | | | | |
| Missing employment permits, files or contracts | • | • | • | | | | • | • | | | | • | | | | | | • | | | • | | • | | | | |
| Wages not paid | | | | | | | | | | | | • | | | | | | | | | • | | | | | | |
| Benefits not paid | | | | | | | • | | • | | | • | | | • | | • | • | | | • | | • | • | | | |
| Unreasonable fines imposed | | | | | | | • | | | | • | • | | | | | • | • | | | | | • | | | | |
| Documentation | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Missing documents, permits, etc. | • | • | • | • | • | | | • | | | | • | | • | | | | | • | • | • | | • | | | | |
| Other | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | | | | | | | | • | | • | • | | | | | | | | | | | | | | | | |
| Grade | B | B | C | C | B | B | F | C | D | B | D | F | D | D | D | D | D | D | D | D | D | C | D | D | | | |



ADVANCING THE HUMAN CONDITION IN FACTORIES

The root causes of human rights violations in factories are multifaceted. We discuss these origins in detail at mec.ca/belief. With this complexity in mind, we pursued a number of initiatives in 2006 to advance human rights in our supply chain.

EMPOWERING WORKERS

Empowering workers, the individuals most affected by poor factory conditions, is both a moral imperative and a practical approach to achieve lasting improvements. If factories are to truly meet our Code of Conduct and global labour standards, workers must have the opportunity to articulate their demands. In their 2006 Transparency Report Card, the Ethical Trading Action Group (ETAG), an anti-sweatshop NGO, lamented a lack of worker involvement in ethical sourcing programs. MEC was not exempted. We need to do better. In 2006 we rolled out three initiatives to better connect with workers:

The FLA Methodology

We adopted the FLA audit methodology, which emphasizes worker and manager interviews in their native languages. These interviews are conducted separately so participants can respond openly and without fear. In many cases, respondents on the assembly line and those in management have provided more detailed insight to the factory conditions. This has been invaluable.

Workers in three audited factories were less forthcoming. Randomly selected to be interviewed, these workers disagreed with the auditors' findings, despite being shown irrefutable evidence (i.e., documents with their signature, eyewitness accounts). We concluded these workers were coached, and/or terrified of being frank. Nonetheless, we need to be more effective in how we connect with workers.

Confidential Worker Hotline

It's extremely difficult to gain the confidence of a worker in a 15–30 minute interview, even away from the watchful eyes of a manager. A typical overseas factory worker is young, inexperienced, and vulnerable. It may take time for them to feel confident about opening up.

To assist workers, we've rolled out multi-channel access points for reporting factory conditions. These channels are not under the auspices of factory managers. Workers can choose to remain anonymous. Workers anywhere in our supply chain can directly email MEC at worker.rights@mec.ca. We also now have a toll-free help line for Chinese-speaking workers. Through this help line, workers can contact a trained specialist (in Cantonese or Mandarin) and report an issue. A docket is opened, leading to a potential investigation by our auditors. Finally, Chinese-speaking workers in Asia can text message our Worker Hotline to report a matter.

Workers' Rights Training

We began this phase in the final quarter of 2006. Our auditors distributed MEC business cards to workers in eight factories, advertising the Worker Hotline, and the pay and benefit rights to which they are entitled. In addition, these factories were required to post MEC's Code of Conduct and Worker Hotline advertisements on the factory floor. These posters are in the workers' native language.

MEC has also had discussions with two local NGOs to implement workers' rights training. We met with Asia Monitor Resource Centre and Labour Action China, both situated in Hong Kong. Twenty-five percent of our Ethical Sourcing Program budget was earmarked for workers' rights initiatives.

MEC has held exploratory meetings with a government agency to potentially co-launch a broader workers' rights initiative. This is a strategic option for MEC as it leverages our finite budget and combines our respective expertise. Furthermore, it aligns with our priority to expand our program to other stakeholders, to achieve both economies of scale and a more balanced understanding of the world.

2006 has helped prepare us to launch more targeted and thought-out workers' rights initiatives with local NGOs and other vested stakeholders.



CONCLUSION

This past year has been about articulating our values, and creating policies and processes. These are the foundation of a sound and balanced ethical sourcing program. Having the right footing helps us to better embrace the challenges ahead.

Looking forward, we are excited about 2007 and we are continuing with four major initiatives:

ONGOING FACTORY AUDITS

We will continue to keep an eye on factory working conditions by auditing our supply chain and measuring progress. We will report on these audits.

FACTORY AND WORKER EMPOWERMENT

Our goal is to pilot one worker and manager empowerment initiative in 2007, in addition to what we are currently doing. The goal of the pilot is to equip incumbents with the technical means and resources to improve the work environment themselves, instead of pressuring or badgering from external parties. Self-sufficiency is integral to sustainability.

MEMBER ENGAGEMENT STRATEGY

In June 2007, we will be launching an Ethical Sourcing Blog to foster dialogue on this subject. Via the web, members can initiate conversations or respond to key issues on this pressing topic. The Blog will be hosted and chaired by MEC.

To better prepare members to participate, MEC will be hosting two live web conferences on factory conditions, retailing, and social justice. These sessions will connect members to the everyday life of factory workers and inform them as to how western consumption practices contribute to poor factory conditions. We hope to help members make more informed buying decisions and to more deeply understand this subject.

ETHICAL CONSUMERISM

We live in an extremely wealthy and privileged society. Ethical consumerism is about connecting consumers to workers; in particular, making us aware that our consumption practices have a direct impact on factory workers.

In 2007, we will be launching a number of advocacy campaigns that link consumerism to factory conditions. We'll also provide members and consumers with practical tools to make a difference in factories, through more informed purchasing. Some of our tools will include:

- Fair Trade Day in MEC stores
- Gear Swap and gear rentals at mec.ca
- Ethical Consumer Tool Kit – Make Each Dollar Count
- MEC Post Secondary Scholarship Fund – Awarded to under-privileged high school graduates who are entering post-secondary institutions and have an interest in global social justice.

GET INVOLVED

We are keen to hear your thoughts. To engage with us directly, please email Harvey Chan, our Director of Ethical Sourcing, at harveychan@mec.ca, or blog us at mec.ca (available June 2007).

You're also invited to participate in a live MEC-hosted web seminar – Factory Conditions, Retailers and Consumers: The Pursuit of Social Justice. Members can participate on Friday, May 4, 2007, at 9am Pacific Time or Thursday, June 14, at 4pm PT.

Simply email harveychan@mec.ca to register (open to MEC members only; requires the use of a computer and telephone). To review ETAG's Transparency Report Card, visit www.maquilasolidarity.org.