

July 24th, 2007

Mr. Martin Hearson
Campaigns Coordinator
Labour Behind the Label
38 Exchange Street
Norwich NR2 1AX
United Kingdom

RE: LS&CO. Response to Let's Clean Up Fashion 2007

Dear Martin,

Thank you for your opportunity to review the Levi Strauss & Co. profile for the 2007 update of Let's Clean Up Fashion. Attached please find our detailed response to the profile. In addition to the attached, I encourage you to review our corporate citizenship website (<http://www.levistrauss.com/Citizenship/>) and 2006 Annual Report (http://www.levistrauss.com/Downloads/AR_2006.pdf).

I hope the this information and our July 26th meeting will provide you a good overview of LS&CO.'s commitment to strengthening respect for workers' rights and improving working conditions in the suppliers where we source. I have some questions and concerns about how the survey is produced and publicized and look forward to getting a better understanding of the process.

In the interim, if you have any questions, please do not hesitate to contact me.

Sincerely,

Manuel Baigorri
Director, Codes of Conduct Levi Strauss Europe

**Levi Strauss & Co. Response to 2007 “Let’s Clean Up Fashion” Update
July 23, 2007**

WAGES

Levi Strauss & Co. (LS&CO.) believes in the principle that wages and benefits for a standard work week should be sufficient to meet workers’ basic needs and provide some discretionary income. Markets set wage rates. Where wages fail to keep workers above the poverty line, governments should set minimum wages consistent with the cost of living.

Through the implementation of our Global Terms of Engagement (TOE), we require suppliers to “provide wages and benefits that comply with any applicable law and match the prevailing local manufacturing or finishing industry practices.” Suppliers must be in compliance with local laws in terms of paying appropriate overtime, providing benefits, method and/or manner of payment of wages. Further details regarding our wages and benefits requirements can be found on page 19 of our TOE Guidebook (<http://www.levistrauss.com/Downloads/TOEGuidebook2005.pdf>).

LS&CO. monitors factories annually for compliance with our TOE. The monitoring process involves a careful inspection of factory payroll records to ensure compliance with the wages and benefits provisions of our TOE. When failures to meet our TOE are identified, we work with the factory to remediate to ensure workers are compensated appropriately. A list of these suppliers can be found at <http://www.levistrauss.com/Downloads/FactoryList.pdf>.

FREEDOM OF ASSOCIATION

LS&CO. strongly supports a worker’s right to establish and join organizations of his or her own choosing, including unions. We view freedom of association as a fundamental right of all workers, and consider violations of the freedom of association provisions of our TOE as “zero-tolerance violations” (described below).

In a number of countries, regardless of local labor law requirements, the right to freely associate is not widely observed. In recent years, we have seen the right to freedom of association challenged by management in factories in countries such as Bangladesh, Cambodia, the Dominican Republic, Haiti and Mexico. In those instances, we worked with stakeholders, including nongovernmental organizations (NGOs) and trade unions, to address the issues with factory management. In most cases, we were able to achieve successful resolution, but in exceptional cases, we ended our business relationship with suppliers who would not meet the freedom of association provisions of our TOE.

The Haiti case study provides an example of where our work with local stakeholders resulted in the first freely negotiated collective-bargaining agreement in the country outside of Port-au-Prince. Cases studies, including Haiti, outlining LS&CO.’s approach to addressing freedom of association with suppliers can be found at:

<http://www.levistrauss.com/Citizenship/CaseStudies.aspx>.

In 2005, we strengthened our guidance to suppliers on freedom of association using the Ethical Trading Initiative’s guidelines as a baseline and incorporating the advice of leading labor and human rights organizations (see p. 22, TOE Guidebook). We included language requiring suppliers to allow for lawful “parallel means” for independent free association and bargaining in jurisdictions where free association and collective bargaining are restricted by law.

Cornell University's School of Industrial and Labor Relations provided training to our TOE managers. Based on that training, LS&CO. developed locally-tailored freedom of association training and educational presentations for internal management, TOE assessors, external monitors and suppliers around the world on our strengthened guidance and our expectations of suppliers in this area.

To further support freedom of association in our contract factories, the Levi Strauss Foundation (LSF) makes grants to strengthen workers' rights in communities where our products are made. For example, since 1999, LSF has funded the Asia Foundation to support local NGOs to develop education and advocacy programs that have assisted hundreds of thousands of migrant women workers with workplace rights and health and safety issues. To date, the project has educated more than 250,000 migrant women workers in China on their workplace rights, financial literacy and basic health care. With LSF funding, the Asia Foundation also launched the first legal aid organization focused solely on migrant workers in the Pearl River Delta, where most of the manufacturing in China occurs.

For more information, please visit <http://www.asiafoundation.org/pdf/china.improve.women.pdf/>

We understand that the right to freely associate and organize is an issue where there remain significant historical, social and legal obstacles. We are committed to working with our suppliers, governments, other companies and interested stakeholders to uphold these rights for all workers

METHODS OF MONITORING AND VERIFICATION

Monitoring for compliance with our TOE:

LS&CO. employs 20 full-time factory assessors worldwide, spread out across all regions. These individuals are experts on labor standards and familiar with the languages, cultures, laws and business contexts of the countries in which they work. They conduct annual assessments of all contract factories using the TOE Guidebook (a copy of which is provided to all contractors approved for LS&CO. production) and skills they learn through our rigorous assessor training program to determine if a factory meets the requirements of our TOE and, where applicable, develop a corrective action plan. Regional assessors and directors report to LS&CO.'s vice president for global code of conduct, a position only two reporting levels away from the company's board of directors.

The formal assessment consists of:

- Interviews with the facility management;
- A review of personnel, wage and working hour records;
- A physical walk-through and inspection of health, safety and environmental conditions in the factory and dormitories if they exist; and
- Informal discussions with workers in the local language both on and off site.

Facility conditions are also informally monitored by field assessors and other LS&CO. employees who visit the facilities on a regular basis as part of their sourcing responsibilities.

An important aspect of the assessment process involves assessors gathering information from workers (GIFW) to identify potential TOE violations and gauge their understanding of the TOE requirements. The GIFW process was developed for LS&CO. by Verité. Discussions with workers are conducted in the workers' language and are carried out both on factory premises and off site. Where discussions with workers yield information that may indicate violations of the TOE, assessors will verify the information through other sources. Workers are provided the assessor's contact information and invited to contact the assessor free-of-charge to report additional relevant information including any actual or perceived retaliation by the supplier.

Non-compliance and remediation:

Violations of our Terms of Engagement (TOE) are classified in three categories: zero tolerance, immediate action, and continuous improvement.

- Zero-tolerance violations typically involve a serious infringement on individual rights or a threat to life safety and include child labor, prison/forced labor, infringement on workers' freedom to associate or organize, prohibiting freedom of association, unethical or illegal practices, use of corporal punishment, and failure to comply with agreed upon action items.
- Immediate-action violations involve negative impact to individual rights or life safety and include, among other subjects, excessive working hours, non-payment of overtime premiums, and discrimination.
- Continuous-improvement items are less serious in nature and involve labor, health and safety, and environmental issues that can be improved in the factory for the well being of workers and/or betterment of its reputation or management practice.

Once assessed, suppliers receive an overall annual rating based on all available information, including: current assessment results, change in results from the previous year, repeat violations, and level of follow up on corrective action plans. The rating and information derived during the assessment process is entered into a sourcing database. TOE ratings are a key consideration in determining where we place production and in what volumes (see section on business integration, below).

If an inspection reveals that corrective actions are required, a corrective action plan is developed in cooperation with the contractor and in accordance with the guidance provided in the TOE guidebook including specific actions required and suggested timeframes. Follow-up visits between annual assessments occur to verify implementation of any agreed-upon action items that are part of the corrective action plan.

If not addressed in the appropriate timeframe, an immediate-action violation can become a zero-tolerance violation, and a continuous-improvement violation can become an immediate-action violation for purposes of placing future orders and future corrective action plans.

We work to continually improve our monitoring program. At the same time, we recognize that the key to long-term sustainability of improved working conditions is to move beyond monitoring. To that end, while we work to strengthen our TOE policies and procedures, we are simultaneously testing models of increased supplier ownership, including factory-based management systems.

Use of third-party/independent monitors:

To support the work of our internal staff and free them up to focus on remediation, LS&CO created a monitoring process standards and training program to approve external monitors to monitor LS&CO. suppliers in alignment with our TOE and established methods of monitoring and verification. Seventy individual monitors, who are either self-employed or belong to an NGO or private monitoring firm, perform 40 percent of our TOE assessments annually. Currently, the following not-for-profit organizations have individual monitors approved by LS&CO: Verité (globally), Opportunities Associates (Romania), Balkan Institute for Labour and Social Policy (Bulgaria), Africa Now (Egypt), and Akut (Turkey).

LS&CO. developed a week-long core training for potential third-party, external monitors, which is based on a globally standardized curriculum and is delivered by the regional TOE managers. It includes the following modules:

- LS&CO. Values;
- Tools to establish country situation context, including labor laws;
- TOE standards as defined in the TOE Guidebook;
- How to conduct an assessment;
- TOE database and documentation;
- How to conduct productive discussions with workers; and
- Hands-on factory assessment training.

Tools such as group exercises, role playing, written testing, one-on-one interviews (assessor and trainer) and factory visits are employed throughout the training to enhance understanding. Participant feedback and coaching are also an important part of the training. At the conclusion of the training, an experienced assessor accompanies the trainee in conducting actual contractor assessors.

Transparency and brand collaboration:

In 2005, we published on our Web site that names and locations of all contract factories producing our products. We did this to be more transparent with our stakeholders and because we believed it would foster collaboration with other brands and lead to sector-wide improvements on code-of-conduct performance.

As part of the undertaking, we reached out to several other apparel companies and NGOs and made brand collaboration a priority. LS&CO. has taken the lead in initiating brand collaboration activities with 20 brands and retailers in 100 shared suppliers, leveraging our collective resources to create positive change and enable suppliers to focus on remediating issues rather than the administrative burdens associated with multiple results and remediation plans, conducting joint monitoring and coordinating training on capacity building. We have hosted collaboration meetings in China, Vietnam, Bangladesh, Thailand, India, Turkey and Egypt, which had lead to supplier-level collaboration and information sharing.

The project is based on the following collaboration goals:

- 1) Improve factory performance on code-of-conduct standards through consistent communication from brands;

- 2) Create a more sustainable monitoring model through reduction of resources and duplication by brands on monitoring, follow up, factory training and capacity building programs;
- 3) Reduce resource load of factory management by reducing monitoring, follow up, factory training and capacity building programs duplication.

In addition, LS&CO has joined Sedex and Fair Factories Clearinghouse, in an effort to reach more shared suppliers worldwide to improve working conditions through collaboration.

Beyond monitoring – supporting sustainable change:

Supplier ownership:

Knowing the limitations of monitoring and verification, LS&CO. developed and began the rollout of our “supplier ownership program,” which is focused on building suppliers’ management systems and capabilities so they can maintain our TOE standards in the normal course of operations and not simply as a requirement for doing business with LS&CO.

We piloted the program with a supplier in Turkey in 2005. Based on findings from the pilot, we refined the management systems training component and developed tools and a program design that we have been to implement with 12 key suppliers in India, Vietnam, Cambodia, Turkey, Egypt, Portugal, Morocco, and Mexico. In each case we are training supplier management, identifying key TOE focus areas, developing a supplier ownership work plan and assessing initial results. We believe that supplier ownership is a “win-win” initiative and a key component in our efforts to go beyond monitoring.

We have created a detailed [Supplier Ownership Guidebook](http://www.levistrauss.com/Downloads/SupplierOwnershipGuidebook.pdf) that articulates the management systems approach and how it can be applied to our code of conduct (<http://www.levistrauss.com/Downloads/SupplierOwnershipGuidebook.pdf>). We have developed an assessment tool that identifies the areas where factories may need to improve their code of conduct management systems. A two-day training program has been established for factory executives and managers, designed as an introduction to management systems and how to apply them to our code of conduct.

In addition, LS&CO. is actively supporting and participating in the ILO Better Factories Cambodia and ILO Factory Improvement Project in Viet Nam which include capacity building programs at supplier level.

Business integration:

We seek to more deeply integrate TOE and our business. We have found that when a supplier’s performance on our TOE has business consequences – as their performance on delivery, quality and other business requirements do – they have greater incentive to meet our guidelines. Integrating TOE performance into our business has become a key factor in the effectiveness of our program. Every LS&CO. supplier is assigned a TOE rating based on their overall performance, change in performance over previous years, timeliness in completing corrective action plans and number of repeat violations.

Weighted with other key factors, including delivery time, quality and price, TOE performance ratings are used by our manufacturing operations team in considering which suppliers to use and how much production to give them. Poorly performing suppliers who are not completing their corrective action plans on time will be given formal warning that they are in danger of having their production orders reduced unless they improve their TOE performance. In most cases, such notification motivates the supplier to quickly improve.

If the supplier does not improve, we may reduce production orders. If TOE performance still does not improve after the order reduction, we may exit the supplier and end our business with them. Such a situation rarely occurs, as most suppliers are interested in retaining our business and will typically bring their performance to acceptable levels when future business is at stake.

As part of business integration program, our brand merchandisers and designers are trained on our code of conduct so that they are able to understand the impact of their requirements on suppliers ability to maintain compliance and to spot potential issues before they arise at the factory level.

Worker education and empowerment:

Levi Strauss & Co. and Levi Strauss Foundation (LSF) support monitoring and verification work by making grants to innovative local, regional or global nonprofit organizations that focus on, among other things, strengthening worker's rights and improving working and living conditions for apparel workers in the communities where our products are made. Recent grantmaking focused on:

- Educating workers and managers about labor rights and responsibilities;
- Addressing sexual harassment in the workplace
- Increasing access to health services and information about reproductive health and HIV/AIDS prevention.
- Promoting financial literacy and providing access to financial services, including microcredit
- Supporting public policy change and legal aid to promote labor and human rights protections.

Public policy advocacy:

LS&CO. works closely with governments, nongovernmental organizations, industry associations and other stakeholders to strengthen implementation and enforcement of labor laws in countries where we have a business presence.

LS&CO. consistently advocates for inclusion of worker rights provisions and enforcement measures in all bilateral, regional and multilateral trade agreements and has been doing so since 2000. Additionally, when necessary, we will leverage our trade relationship and the power of our brand with governments of countries from which we source to encourage them to strengthen and enforce their own labor laws.

To support this work, we have been increasing our participation in multi-stakeholder initiatives. We are actively engaged in:

- MFA Forum, an open network of organizations, including representatives of brands/retailers, trade unions, nongovernmental organizations and international institutions committed to working collaboratively to address workers' rights and apparel industry competitiveness;

- ILO Better Factories Cambodia project, which addresses capacity building, monitoring and remediation, and workers' rights education in Cambodian apparel factories; and
- United Nations Global Compact, an initiative that organizes global, multi-stakeholder dialogues on corporate citizenship issues.

Our work in the public policy arena and at the government level enhances our overall responsible sourcing work in that it seeks to lay foundations for and improve upon local policies that directly affect workplace standards and workers' rights in countries where we source.