

The purpose of this policy and check list is to have an agreed ACT process for responsible factory exits to be followed by all ACT member brands. Brands should ensure that their internal policies and processes on responsible exit meet these standards at minimum. A responsible exit from factories begins with a responsible entry and the development of longterm partnerships with suppliers. This policy and check-list is applicable when exiting a factory for business reasons (including ramping down with a view to exit).

When a decision to exit a factory is due to a Red rating, final warning letter, or Accord Article 21 escalation, most of the required steps would have been performed already. Nevertheless, an escalation period is required for all exits with the necessary paper work reviewed through the appropriate management structure within each of the ACT member brands. The exit strategy applies to all exits from factories whether the production unit has a direct relationship with the brand, is a subcontractor or contracted by an agent. Exits from factories as a consequence of suppliers' or agents' decisions to relocate the relevant ACT brands orders to a different production facility should also follow the requirements outlined in this policy.

When exiting a factory, all sourcing divisions must go through the responsible exit process outlined below in order to alleviate any adverse impact on workers. A well thought-out exit strategy and management of supplier expectations can also help mitigate morale and productivity issues and reduce legal and reputational risks. CSR/sustainability departments and sourcing counterparts should collaboratively conduct an impact assessment associated with the exit and advise on additional engagement with the vendor, factory, trade union, workers and other stakeholders as required.

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## **PRIOR TO EXITING – INTERNAL COMMUNICATION AND INITIAL RISK ASSESSMENT**

The relevant divisions<sup>1</sup> must take appropriate steps to engage internal teams and show that measures were taken to try and address reasons for exiting. A brands engagement with the supplier/factory needs to be appropriate to the type of orders they were placing. The following information should be collected:

1. Factory details (including name, country of production, teams using the factory).
2. Reason for exiting.
3. Information on the history with the supplier including discussions on improvement plans.
4. The exiting order volume as a percentage of factory capacity (based on the previous 12 months of production) and whether this percentage has varied significantly in recent months.
5. Have other divisions sourcing in the factory, if known, other companies producing within the factory and the percentage of factory capacity that their order volume represents.
6. The anticipated final order placement and final shipment dates for all goods manufactured in the factory.
7. Duration of the business relationship with the factory.
8. If relevant, other factories within the vendor group doing business with the brand's sourcing division or business relationship with third parties.
9. Any other relevant information.

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<sup>1</sup> Relevant divisions are those who are or need to be involved in the process of a potential or actual exit. The main aim is to collaboratively decide, plan and take action.



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## **EXITING FACTORIES – COMMUNICATION WITH SUPPLIERS AND ONGOING RISK ASSESSMENT**

Intention to exit factories should be clearly communicated by the brand to their business partner, and where applicable by the supplier to the factory, in a comprehensive manner and in writing and should be accompanied by a clear timeline. The timeline for exiting a factory should be proportional to the percentage volume the brand or sourcing division has within the factory. As the potential risk for negative outcomes for workers is higher when a large percentage of capacity is withdrawn from the factory it is important to allow for more time for the supplier to find new clients or, if absolutely necessary, reduce the number of workers in the facility in an appropriate manner. The proposed timeline and volume should be included in the information collected prior to exiting.

Throughout the process relevant teams should also:

1. Inform the factory in writing that the relevant divisions will discontinue the business relationship.
2. Inform the factory in writing on the relevant divisions' production order forecast demonstrating intent to reduce business over a specific timeframe.
3. Inform the factory in writing that where absolutely unavoidable terminations of worker employment have to be done in accordance with local law and the Fair Labor Association's Retrenchment Guidance as follows.

Brands should further engage their supplier regarding the impact of the withdrawal on workers. Where possible the brand should engage in conversations on possible negative impacts with the trade unions in the factories. In a first instance the brand/sourcing division should assess if their exit timeline allowed the factory to "use best efforts to maintain factory capacity". If capacity cannot be maintained the brand should engage the supplier specifically on the following:

1. The employer should provide, at the earliest possible opportunity, written notice to the workers of the possibility of employment termination and the reasons therefore.
2. The employer should consult with worker(s) and their representatives before a final decision to dismiss is taken.
3. The employer should ensure that all possible alternatives to employment termination are explored and that workers who are to be dismissed are treated fairly.
4. The employer should ensure that worker(s) whose employment will be terminated are selected objectively.
5. The employer should allow worker(s) whose employment will be terminated time off during the notice period to apply for other jobs.
6. The employer should also ensure that all wages, severance pay and other benefits are paid according to law.
7. Acknowledgment by supplier that workers were paid (show payment documentation).

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## **IMMEDIATELY AFTER EXITING - ASSESSING ADVERSE IMPACT ON WORKERS**

Where negative impacts to workers as a consequence of a brand exit are brought to the attention of the brand or IndustriALL, the relevant brand and IndustriALL will engage in a process of mediation and where applicable agree on remediation. This may include, amongst other options, the brand using its remaining leverage to work with the supplier or corporate group in order to ensure that all benefits and severance payments due and owing are made.

In circumstances where brands or IndustriALL have been made aware of these issues prior to the final payment being made, a solution should be found, where possible, before the final payment is made. If final payment has already been made, IndustriALL and brand will work with all relevant stakeholders to find an appropriate resolution.

**RESPONSIBLE EXIT CHECKLIST**

**Prior to Exiting – Internal Communications and Initial Risk Assessment**

All relevant information as outlined in the responsible exit policy was shared with the sustainability/ CSR team responsible.	
A joint assessment of the impact associated with the exit was performed with all relevant teams based on the information provided by the sourcing division.	

**Exiting the Factory – Communication with Suppliers and Ongoing Risk Assessment**

A timeline appropriate for the exiting percentage of factory capacity was determined and shared with the supplier in writing.	
The timeline allowed the suppliers to maintain capacity of the factory after exit.	
All relevant paperwork has been received by the supplier.	
Where it is apparent that capacity cannot be filled, the brand has engaged with the supplier to ensure that any terminations are done according to the law and the principles outlined in the responsible exit policy.	
Where possible the brand engaged with trade union(s) in the factory to assess the possible negative impact on workers of the exit.	

**Immediately After Exiting – Assessing Adverse Impact on Workers**

In the event that suppliers could not maintain capacity in the factory, all reasonable measures were taken to ensure that all wages and legally entitled severance payments were made.	
Where negative impacts to workers as a consequence of a brand exit were brought to the attention of the brand, they engaged with IndustriALL in a process of mediation and where applicable agreed on remediation.	