2014 AUDIT PROTOCOL REPORT | JOINT ROADMAP DELIVERABLE

Ø ZDHC

ZERO DISCHARGE OF HAZARDOUS CHEMICALS PROGRAMME

adidas GROUP   BURBERRY   C&A   ESPRIT   Gap Inc.   G-STAR RAW   H&M   INDITEX

Jack Wolfskin   Lbrands   LEVI STRAUSS & CO.   LI-NING   YOUR M&S   NB   Nike   PUMA   PVH   UNITED COLORS OF BENETTON.

IN ASSOCIATION WITH

BSI Bundesverband der Deutschen Sportartikel-Industrie e.V.   EUROPEAN OUTDOOR GROUP   GermanFashion Modeverband Deutschland e.V.

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In 2013, the Zero Discharge of Hazardous Chemicals (ZDHC) Audits and Assessment team developed a comprehensive environmental audit tool, version 1.0, with an emphasis on chemicals management. The audit tool's intended use is to serve as a tool when conducting dyehouse or printer audits, but it can also be used to audit a cut-and-sew facility. The audit was designed with the hope of scaled adoption and to become the apparel and footwear industry's standard environmental audit protocol. While this tool was pilot tested as an audit, it was our goal to make this tool user-friendly so that it could also serve as a self-assessment tool.

In order to evaluate the efficacy of the ZDHC audit tool and in accordance with the commitment the ZDHC group made in the Joint Roadmap, Version 2, member brands participated in a pilot audit study, the results of which are being reported herein. Included in this report is an analysis of the pilot audit results, benchmarking of the pilot audit questions and feedback from suppliers and auditors captured when the audits were conducted.

By conducting the pilot audits, the ZDHC Group recognized many opportunities for improving this tool and consequently will wait until version 2.0 is completed before releasing the generic environmental audit tool for public use. The group believes that to release version 1.0 publicly at this time would cause significant confusion among our suppliers and instead are working towards a public release of an improved version, 2.0, expected later this year.

This report communicates next steps for the Assessments and Audits team, such as the publication of a short form chemical specific audit tool, a self-assessment version of the full environmental audit protocol, and considerations of various facility sizes. The tool will be designed to be more intuitive and user friendly. Future versions will deal with software compatibility as the Assessment and Audits team provides a data schema to improve data sharing among various stakeholders.

In an effort to maximize industry transparency and collaboration, the Assessments and Audits team worked with Sustainable Textile Services, Hohenstein Institute and OEKO-TEX® to create the audit tool. Feedback was solicited from the Sustainable Apparel Coalition (SAC), Outdoor Industry Association (OIA), Leather Working Group (LWG) and the Global Social Compliance Programme (GCSP) that will be integrated into version 2.0 of the tool. Our vision for this tool is to serve as a basis both for audits and as a standalone self-assessment tool to aid facilities of any size in self-education and calibration to industry norms.

Pilot Audit Information

In the ZDHC Joint Roadmap, Version 2, the ZDHC Group committed to conducting 20 pilot audits across regions, mills and dyehouses by the end of 2013. The group is elated to report that we exceeded our commitment and conducted 25 audits with participation by a majority of ZDHC member brands in facilities in Bangladesh, China, El Salvador, India, Taiwan, Turkey, South Korea and the United States. The wet-processing facilities in which the audits were conducted were mostly dyehouses and finishing facilities (23 facilities) and washing facilities (2 facilities).

Key Findings

Based on the distributions shown in Figures 1 through 4, a consolidation and comparison of the grand total scores indicate a need for environmental and chemicals management training for facilities. There are three levels scored, specifically level 1 – awareness and compliance, level 2 – proactive management and performance improvement and level 3 – leading practice. The results reveal an opportunity to educate facilities to achieve minimum compliance and more.
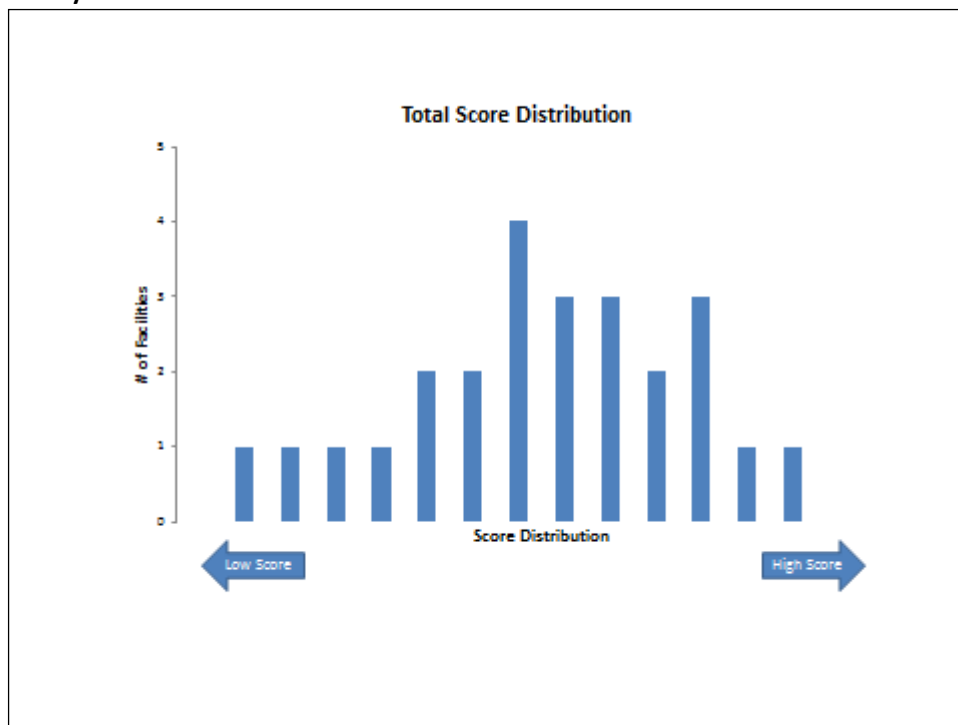
FIGURE 1
Facility Total Score Distribution

Total Score Distribution

Figure 2 indicates the varying levels of baseline knowledge among ZDHC brand member's suppliers.

FIGURE 2
Facility Scores for Level 1
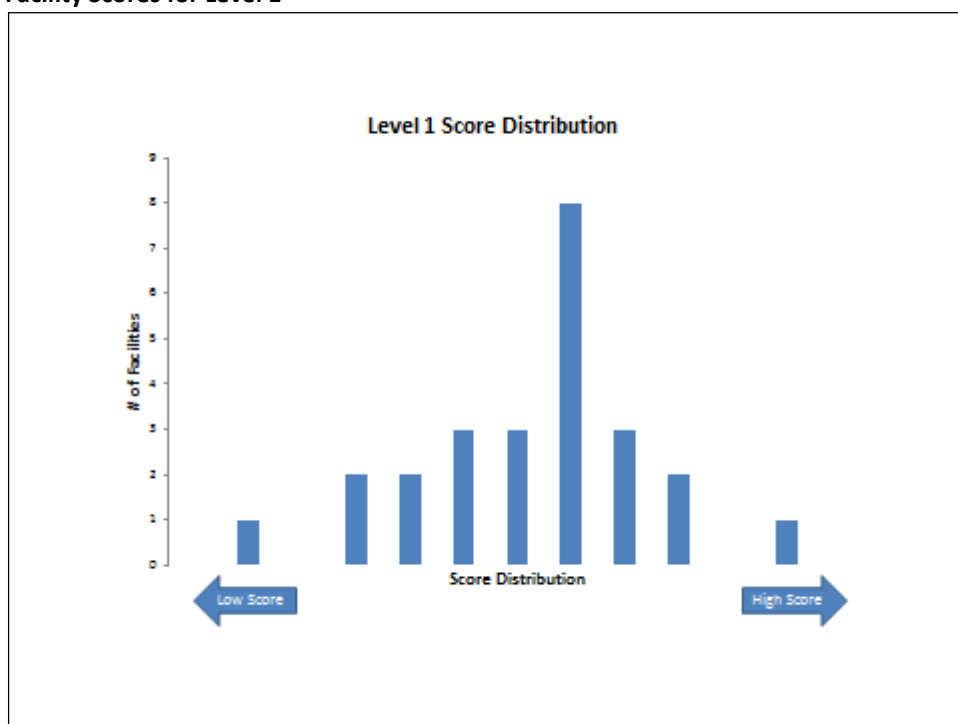

Level 1 Score Distribution

Figure 3 shows the score distribution for Level 2 questions from all 25 facilities that participated in the pilot audits. Results indicate intermediate environmental achievements.

FIGURE 3
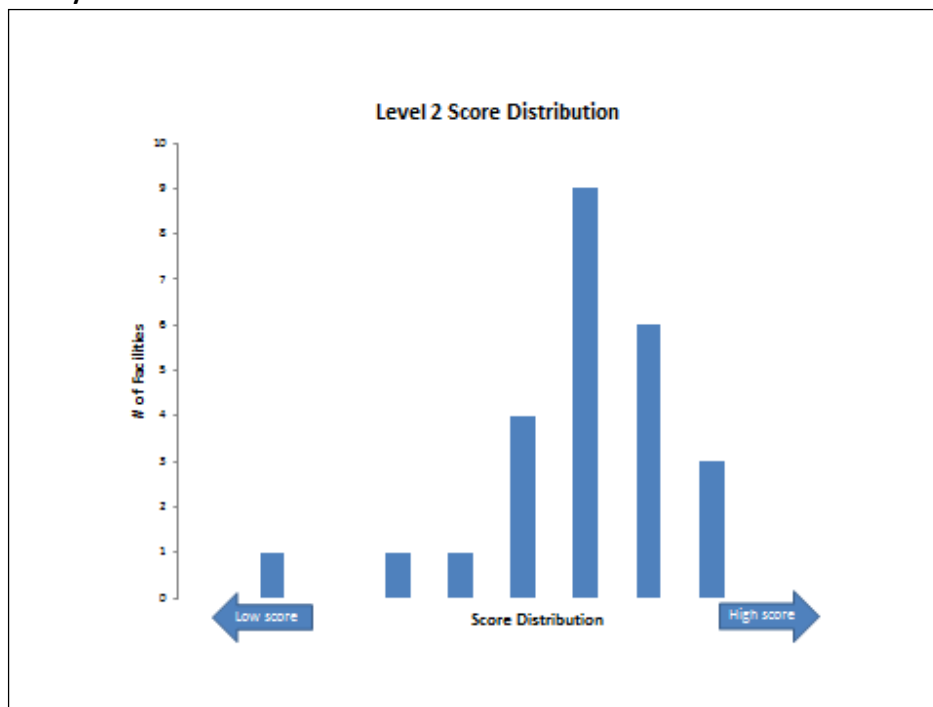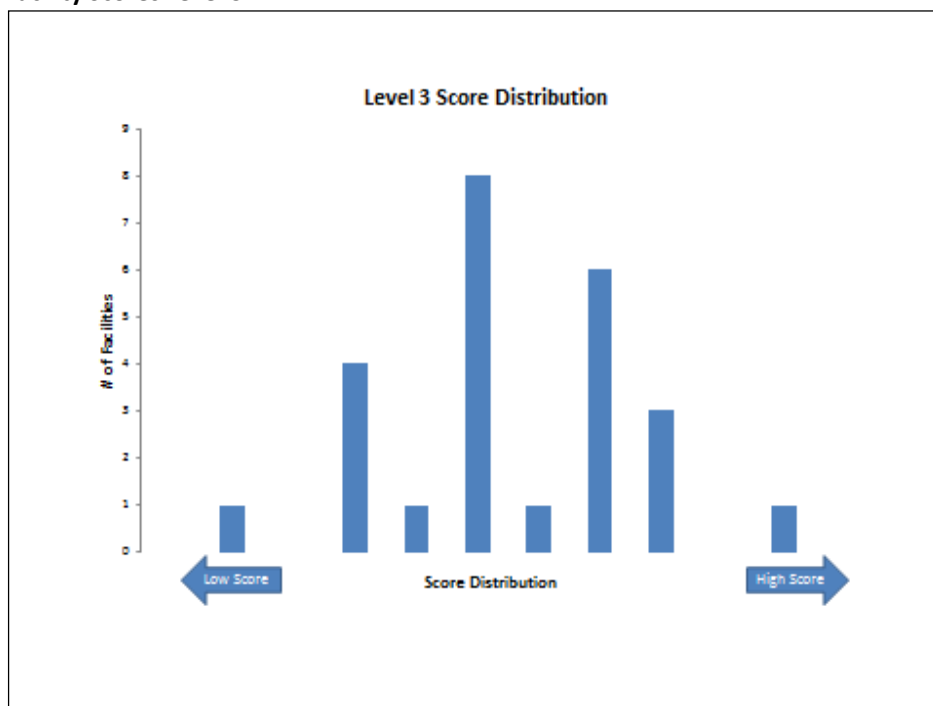**Facility Scores for Level 2**

Level 2 Score Distribution

Figure 4 indicates that all 25 facilities score some achievements at advanced levels in environmental controls (Level 3).

FIGURE 4
Facility Scores Level 3

Level 3 Score Distribution

Feedback and Recommendations

The pilot audits provided the opportunity to gain feedback from participating facilities.

Supplier Pilot Audit Feedback

Version 1.0 of the generic environmental audit protocol contained six areas of concentration and more than 300 questions. Concentration areas included: environmental management systems, permits, emissions, hazards, resources and health and safety.

Once facility audits were completed, suppliers reported the following:

- The audit tool is very detailed (in fact, more so than expected).
- More days need to be allocated to complete the audit.
- The outcome of the audits seems fair and accurate.
- It was very helpful to have the pre-audit materials (documents that they needed to prepare) well in advance of the audit.

Auditor and Brand Pilot Audit Feedback

Pilot audit feedback received from auditors and brands included the following comments.

- Auditors need additional training on the tool to conduct the audit efficiently and expeditiously.
- Several of the questions need clarification or in the case of sub-questions, need to be unbundled.
- The audit seemed specifically designed for large facilities and does not account for nuances that may exist for small to medium facilities.
- Excel version incompatibility complicated data sharing among auditors, brands and ZDHC programme team.

Next Steps

By conducting the pilot audit study and receiving supplier, auditor and brand feedback, the ZDHC Group Assessments and Audits team was able to identify and define future actions and immediate next steps. As a result, version 2.0 will include a stand-alone, chemicals-specific audit that could serve as a short-form audit protocol. Many ZDHC member brands expressed a desire to increase the robustness of their chemicals management program, and the flexibility of the stand-alone chemicals module in version 2.0 will fulfil this need. This tool will include necessary guidance to ensure that any facility can use the tool as a self-assessment if desired. Scoring also will be revised to be more consistent across all audit concentration areas.

For version 2.0, zero score questions will be replaced unless they require a text answer. This will:

- Aid in understanding baseline compliance.
- Aid in question score, level (1, 2 and 3) score and overall facility score.
- Aid in auditor ability to score (auditor feedback).
- Establish a higher degree of trust in facility scores.
- Make the scoring more intuitive for auditors, requiring less ZDHC auditor training.

The Assessments and Audits team will also change scoring criteria from 0 to 4 for all questions except text responses. Score breakdowns include:

- **Score 4:** The requirement is fully established, documented where necessary and well implemented. Requirements are invariably met. There is a high level of awareness and understanding of the quality system and the importance of meeting requirements. Control of all processes is clearly evidenced. (Minimal risk)

- **Score 3:** The requirement is well established, documented where needed, and adequately implemented. Requirements are consistently met. (Low risk)

- **Score 2:** (Area of concern) – The requirement is established and documented where necessary. Requirements are generally met. There are some isolated gaps in implementation or lapses in control. (Moderate risk)

- **Score 1:** (Nonconformity) – The requirement is not formally established or documented. Implementation and/or control relating to the requirement is not adequately evidenced. There are several deviations from requirements. (High risk)

- **Score 0:** (Critical nonconformity) – The requirement is not established, documented or implemented. Requirements are routinely not met. (Potential critical risk)

- **N/A:** Not applicable.

  Note: It is expected that any score of 2, 1 or 0 will be reviewed by the organization and processed through a formal corrective action process that will identify the root causes, identify any necessary containment/correction, determine and implement appropriate corrective actions and subsequently verify the effectiveness of the actions taken.

In the short term, the group's intention is for auditors to use this tool to verify suppliers' baseline programs and to determine a facility's existing capability for successful management of an environmental program. The ZDHC Group has identified an opportunity to educate suppliers at various levels of awareness and competency. As such, the Assessments and Audits team will begin to work with the ZDHC Chemical Management Systems Approach, Structure and Documentation team to create foundational materials that will provide suppliers with guidance to assist them in developing a chemical management system. The Assessments and Audits team also will work with the ZDHC Training team to develop targeted supplier training to improve supplier understanding of ZDHC audit requirements. The training also will be more user-friendly to facilities of all sizes.

Long term, the intention is to have multiple stakeholders adopt this tool as industry standard for use as their generic environmental audit and/or self-assessment tool. It is the ZDHC Group's hope that this tool will be endorsed and included in the suite of tools currently in use by SAC, OIA, GSCP, LWG, Better Work, Fair Labor Association and more, towards scaled adoption and a new approach in the apparel and footwear industry for chemical and environmental management.

The ZDHC Group is committed to publishing audit protocol updates as needed, based on regulatory updates. Version 2.0 of the environmental audit protocol will be published by the end of 2014.