



## **adidas Group's Response to Recent Allegations Regarding Working Conditions in Indonesia**

On April 14, 2012, *The Independent* newspaper in the UK ran a series of articles on working conditions in Indonesia, labeling the LOCOG<sup>1</sup> suppliers "sweatshops" and asking whether these factories breached the adidas Group's Workplace Standards and the aspirations for an ethical and sustainable supply chain for the London 2012 Olympic Games. We take such allegations very seriously and we immediately launched an investigation to verify the issues and, most importantly, to safeguard worker interests. We have now concluded our preliminary investigations and set out below a response to those allegations and actions we have taken to address breaches to our Workplace Standards.

### **Our general approach**

The adidas Group is committed to ensuring fair labour practices, fair wages and safe working conditions in factories throughout our global supply chain. These active efforts are guided by our core values as a company. Importantly, the adidas Group is confident that we are adhering to and, in fact, exceeding standards our stakeholders expect from us on these matters, including our LOCOG obligations.

We use a collaborative, transparent and industry-leading approach to enforce our Workplace Standards, providing guidance and training materials to our suppliers. In Indonesia we employ a dedicated team of five labour and health and safety specialists, who work daily toward more sustainable business practices. Our social compliance programme is independently accredited by the Fair Labor Association, which conducts unannounced audits to verify working conditions in our suppliers' factories.

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<sup>1</sup> The London Organising Committee of the Olympic and Paralympic Games (LOCOG) is responsible for preparing and staging the 2012 Games. LOCOG has granted the adidas Group a license to produce apparel and footwear for the London Olympic Games.

**Specific response to allegations and claims**

<b>Allegation</b>	<b>adidas Group's response</b>
<p>... an investigation by <i>The Independent</i> has uncovered widespread violations of workers' rights in Indonesia, where nine locally owned and managed factories have been contracted to produce Olympic shoes and clothing for adidas.</p>	<p>We disagree with this characterisation of the supply chain in Indonesia which produces no Team GB competition kit and only a minimal amount of Olympic product. We do not believe that there are "widespread" violations. We do however accept that there may be individual incidences of non-compliance with our Workplace Standards in a supply chain that employs over 140,000 workers.</p>
<p>They also endure verbal and physical abuse, they allege, are forced to work overtime, and are punished for not reaching production targets.</p>	<p>Again there may be isolated incidences of verbal abuse, which we have found through our own monitoring activities and have immediately addressed directly with the factory, but we have seen no evidence of systematic harassment or punishment of workers as has been alleged here. We would ask the trade union official who spoke to the journalist to provide specific evidence to support these claims of physical abuse in our business partners' factories.</p>
<p>... mainly young, female factory employees work up to 65 hours (25 hours more than the standard working week), for desperately low pay.</p>	<p>Wage earnings in the adidas Group's supply chain are some of the best in the industry and we strictly enforce our working hour's limit of 60 hours. We require all overtime to be voluntary. Average working weeks do not normally exceed 50 hours per week and all of our major suppliers have to complete tracking charts on working hours and overtime which are regularly cross-checked against factory timesheets, pay slips and worker interviews.</p>
<p>None of the nine factories pays its employees a living wage – about 20 per cent higher than the official minimum wage – one of the cornerstones of the Ethical Trading Initiative (ETI) base code, an internationally-recognised labour code adopted by the Olympics</p>	<p>The international trade union movement has for many years called for a living wage to be paid to workers in global supply chains. Although this is a shared aspiration, we know of no Indonesian factory making for the adidas Group or any other brand which is able to meet</p>

<p>organising committee, LOCOG.</p>	<p>this requirement today, based on their current operating margins. Like the ETI code, the adidas Group's Workplace Standards call on factories to work progressively towards improved wages. One way this can be achieved is through collective bargaining processes. The recent 31 per cent in minimum wages in Tangerang is evidence of the power of the Indonesian trade union movement and their ability to secure significant economic gains for workers.</p>
<p>Workers struggle to survive on pay as low as 5,000 rupiah (34p) an hour, skipping meals to save money, and sending their children away to be looked after by grandparents.</p>	<p>The stated wage level is not accurate. With the current sectorial wage of 1.68 m rupiah, the hourly pay is almost double that stated by <i>The Independent</i> at around 9,710 rupiah/hour or 62p/hour. In addition, almost all factories provide a meal allowance for workers and some also provide a cash transportation allowance. To maximise potential earnings it is not uncommon for workers to leave their children in the care of the grandparents in the village. Without the help of their extended family, child care can be prohibitively expensive.</p>
<p>The ETI base code – which LOCOG says must be complied with by all companies supplying goods to Olympic licences – also stipulates freedom of association. Yet workers allege that some unions are not given bargaining rights by adidas's Indonesian suppliers.</p>	<p>The adidas Group was the only LOCOG licensee to fully disclose its supply chain and that disclosure detailed the trade union status of our suppliers. All of the nine factories making for the London 2012 Olympic Games in Indonesia are unionised and several of these suppliers have more than one union. All but one of the factories supplying LOCOG products have collective bargaining agreements in place. The exception is PT Shyang Yao Fung where a CBA is currently being negotiated. We would add that the adidas Group has led the sporting goods industry in Indonesia in negotiating a landmark agreement with local trade unions to foster greater freedoms, through an FOA Protocol.</p>

<p>At PT Shyang Yao Fung, in the industrial city of Tangerang, west of Jakarta, 10 workers were suspended a month ago – and face being laid off – because of their union activism, they believe.</p>	<p>We have investigated this case. The factory’s actions are in breach of our Workplace Standards and our guidelines for managing redundancies. We have asked for the immediate reinstatement of the trade union officials who were affected. The factory has committed to reinstate the workers and undertake a complete review of its layoff procedures.</p>
<p>Even for those with jobs, conditions at Taiwanese-owned Shyang Yao Fung – which produces women’s sports shoes – are poor, according to workers. While business has been slow lately, employees – whose basic pay is 1.53m rupiah (£105) a month – have in the past been asked to work five hours of overtime a day, they claim.</p>	<p>We would not characterise working conditions at Shyang Yao Fung as being poor. Whilst £105 per month may appear to be low, as an absolute number to a UK reader, pay levels are also relative to the country in which they are earned, due to differences in cost of living and inflation. Typically, the average monthly take home pay in our contract suppliers’ footwear plants is 2.0m rupiah (£136.60), with regular overtime.</p>
<p>"The management says that overtime is compulsory," said Sobirin, 32, wolfing down a plate of nasi goreng in a Tangerang café. "And there are many times when workers are working without payment on overtime, or are not paid properly. Every day there’s a worker who passes out because they’re exhausted or unwell."</p>	<p>We have no findings on excessive working hours from our recent audits and have received no worker complaints about unpaid overtime or improper wage payment. In the matters of pay and working hours the factory trade unions are very vocal and yet they have not raised such issues directly with the adidas Group’s compliance team.</p>
<p>At another Tangerang factory, PT Panarub Industry – adidas’s main global supplier of football boots, and outfitter of some of Britain’s Olympic footballers – workers are proud to have shod David Beckham, Frank Lampard, Lionel Messi and Zinedine Zidane. However, in common with workers at other factories, they say they face intense pressure to meet production targets.</p>	<p>We acknowledge that since January 2012, when minimum wages in Tangerang rose 31 per cent, factories have been challenged by the need to increase productivity levels, to offset higher operating costs. To help, the adidas Group has put in place a Manufacturing Excellence initiative which seeks to identify opportunities for increased automation, modification of manufacturing process to reduce unnecessary activities and simplification of working processes, etc.</p>

	Such efforts to improve productivity are not delivered through pressuring workers.
<p>"It's hard to get permission even to go to the bathroom; we're tied to our seats," said Yuliani, a 23-year-old seamstress, speaking metaphorically. "If you're forced to go, the pile of work becomes so high that you get shouted at by the production line leader. They call you a dog, brainless, uneducated. Sometimes we have to sacrifice our lunchbreak to reach the target."</p>	<p>Any situation in which a worker is deprived of their freedom of movement or subject to abusive behaviour from a supervisor or line leader is a clear breach of our Workplace Standards and we encourage workers to use our 24-hour hotline to contact us if they are unable to resolve such issues through the factory's normal grievance channels. The adidas Group's worker' hotline numbers are posted in every factory which makes our product.</p>
<p>Her colleague, Ratna, added: "If the leader gets really angry, they throw the shoes in front of the workers. Once on my line I saw a worker get hit by a shoe."</p> <p>Some workers described being slapped in the face and having their ears pinched by managers. At PT Pancaprima, in Tangerang, supervisors use a loudspeaker to berate production lines hourly for failing to meet targets. "It's humiliating," said Margi Wibowo, 41, who works in the warehouse.</p>	<p>Such behaviour needs to be reported by workers to the factory management through their existing grievance channels. If the factory fails to take disciplinary action against supervisors who behave in the way reported then individuals can contact the adidas Group to register a complaint and we will independently investigate.</p> <p>Often factories use display electronic boards to indicate production targets and their achievement. The use of audible devices to track or alert workers to the fulfilment of production targets is prohibited and has been for many years. We will investigate this case and if loudspeakers are being used they will be banned.</p>
<p>At PT Golden Continental, which is not an Olympic contractor, workers who fail to reach targets are locked in a room and made to stand for hours on end, according to Jamiatun, a union leader. "In the past, the whole production line was locked up," she said. "Now it's just the slow individuals."</p>	<p>As we previously disclosed to the journalist, we have investigated this allegation in the past and could find no evidence (through worker interviews) of such a practice. We have asked that the individual making these allegations contact our compliance staff directly with specifics, i.e. the names of the workers who have been subject to such treatment.</p>

<p>None of the Indonesian employees had heard of the ETI base code, and none knew about LOCOG's complaints mechanism, set up to enable workers to report labour violations. This is hardly surprising – as recently as February, LOCOG had yet to disseminate its information material in factories, and had translated it only into Mandarin.</p>	<p>Independent of LOCOG's own complaint mechanism, the adidas Group has operated a 24-hour worker hotline in our supplier factories for more than 6 years. Workers are familiar with the hotline numbers which is manned by our compliance team in Jakarta. Our compliance team is also in regular contact with the trade unions in each of our supplier factories. If unions are unable to satisfactorily resolve a worker's right issue with the employer, they will often bring issues to the adidas Group's attention and seek our support to independently investigate and recommend corrective actions.</p>
<p><i>The Independent</i> was told that four of adidas's Indonesian suppliers pay less than the minimum wage for the garment industry. adidas said in a statement yesterday that only one company paid less.</p>	<p>In our original response to <i>The Independent</i> we confirmed that, except for one factory which had joined a legal appeal against the governments wage setting process, all of our suppliers in Indonesia have implemented the new sectorial wage, which has increased minimum wages by up to 31% this year. We now understand that the Footwear Manufacturers Association in Indonesia has withdrawn its appeal, and the factory concerned has committed to meet the new sectorial wage, with immediate effect.</p>
<p>Tangerang city hosts four factories – PT Panarub, PT Pancaprima, PT Shyang Yao Fung and PT Tuntex – which supply adidas with Olympics-branded goods. PT Golden Castle in north Jakarta, the capital, pays the equivalent of 55p an hour.</p>	<p>The newspaper article focused very much on basic pay, which has been understated, but the average take home pay for workers is higher still and in our footwear plants can exceed 2m rupiah/month (£136.60 per month).</p>

Protecting the interests of global workers involved in producing our footwear and apparel is an ongoing priority for the adidas Group because it is critical to our business. It is also the right thing to do. It is consistent with our values and the trust of our stakeholders that we work hard to earn every day. We will update the above response when we complete our full investigations and have confirmed that remedial actions have been completed to our and LOCOG's satisfaction.