

adidas Group response on the report

“Clearing the hurdles - Steps to improving wages and working conditions in the global sportswear industry” issued by the ITGLWF, ITUC and CCC

April 21st, 2008

The International Trade Union Confederation (ITUC), The International Textile, Garment, and Leather Workers Federation (ITGLWF) and the Clean Clothes Campaign (CCC) have come together as the Play Fair Alliance to publish a report titled: *‘Clearing the hurdles - Steps to improving wages and working conditions in the global sportswear industry’*. The report was made public on April 21st, 2008.

The report makes various claims about the international sports wear industry’s shortcomings in safeguarding workers rights and is highly critical of the purchasing practices and sourcing strategies adopted by sporting goods companies. The authors of the report call for industry-wide solutions to address these issues. adidas and Reebok have been mentioned in the report several times, in particular in the context of supplier factories where the authors claim to have found new evidence of workers rights violations, or on other cases which were publicised in the past.

Prior to the release of the report the adidas Group was given an opportunity to review the draft contents and to provide the Play Fair Alliance with our comments. During our review we found several instances where the report lacked clarity and accuracy, referred to outdated sources or, based on selective examples, drew erroneous conclusions.

Besides our comprehensive response on specific factory issues which are appended to this statement, we would like to offer the following general comments.

We are pleased that the report recognises the efforts and progress made by the adidas Group in supporting the improvement of working conditions in our supplier factories. Specifically, the authors of the report acknowledge:

- The comprehensive and substantial response and feedback given by the adidas Group on the Play Fair ‘programme of work’ which entailed specific requests related the execution of Codes of Conducts.

- The adidas Group's actions related to the public disclosure of its suppliers list and our collaboration with other buyers on auditing and remediation. This also underlines the adidas Group's ongoing commitment and engagement with local ITGLWF affiliates, regarding the implementation of Freedom of Association and Collective Bargaining in our suppliers' factories.
- The Group's consequent and direct intervention in cases where workers rights were demonstrably violated or ignored (e.g. PT Panarub/Indonesia) or factory closures (PT Daejoo/Indonesia) were poorly managed without prior or insufficient consultations with union members.
- The adidas Group's efforts in building and promoting 'parallel means' of Freedom of Association through worker committees or welfare councils, in particular in countries where Freedom of Association and Collective Bargaining agreements are restricted by law (e.g. China and Vietnam).
- The Group's consistent effort to address and strengthen grievance mechanisms for workers and seek ongoing improvements in our suppliers' disciplinary practices.
- The adidas Group's clear standards regarding the permanent employment status of workers in factories.

The authors of the report raise a number of reasons, or 'hurdles', which they believe prevent workers from exercising their rights.

The sourcing practices of international sporting goods companies are named as one such hurdle, wherein it is claimed that sportswear production has increasingly moved to countries where workers are restricted in fully exercising their right of association, that is, they are not able to join or form a trade union.

On several occasions in the past, the adidas Group has publicly stated that we have implemented a sourcing strategy that seeks to balance security, with flexibility and growth. Our sourcing strategy needs to take into account various factors, such as access to raw materials, technology, infrastructure, a qualified workforce, as well as actual developments in trade and customs systems. Our sourcing strategy is reinforced by regular compliance evaluations of the supplier factories, which rate the effectiveness of actions taken by factory management to remedy non-compliance. The factory compliance ratings are determined

through the monitoring process and are communicated to the Sourcing organisation for inclusion in the decision for production allocation and factory retention.

The existence of laws that allow, or restrict, the formation of trade union is not a material factor in decisions taken by adidas Group as to which countries we source from. Currently, we source from over 69 different countries worldwide. Indeed, the existence of laws that permit and support the right to form or join a trade union, does not in itself guarantee that unions will be widely present within an industry. For example in Thailand, where Freedom of Association is written into the law, less than 4% of the country's workforce are unionised; with State enterprises being the sector with the largest number of active trade unions.

Wages

Wages within an industry, or sector, are normally determined by the prevailing market conditions: the general state of the economy, the base or minimum wages negotiated with, or set, by government, employers and unions and the availability of, or competition for, labour. Where they exist, collective bargaining mechanisms at an enterprise level add a further dimension to the wage setting processes. The Play Fair report argues that the market-driven system which is followed by the sports goods companies, and indeed by all industries, fails the workers because it does not deliver a living wage. The report calls a collaborative effort, whereby the sports goods industry partners with their suppliers to establish wage ladders, which over time fulfil living wage benchmarks set by multi-stakeholder forums, or local trade unions. Such a proposed mechanism which is still in a preparatory phase and lacks the necessary theoretical and empirical findings however faces many hurdles including important anti-trust issues. It also fails to recognise that the sports goods industry is not a self-contained branch but itself a sub-sector of the much broader apparel and footwear industry, with international buyers, agents and retail brands, numbering in the tens of thousands, competitively bidding for goods.

The adidas Group has examined the question of fair wages in the past and has concluded that the best way to secure improvement in the general welfare of the workers is to work with our business partners at the enterprise level to promote wage-setting mechanisms which are transparent and have the direct input by the workers, ideally through negotiation or collective

bargaining, or through alternative legal means, such as a workers council or welfare committee, benchmark basic pay at a level that is higher than the local minimum wage or industry wage, acknowledges and rewards workers for productivity gains and includes and takes into account data on general cost of living and workers' needs. The wage setting mechanisms must be supported by improvements in the factories human resources management system and they must meet, in full, all legally mandated benefits.

Prices and Lean Manufacturing

The authors of the report have raised concerns over the prices paid by sports goods companies and the impact of factory productivity initiatives.

Our factories are paid competitive prices that are the norm within our industry. The long term trend has been for the adidas Group to consolidate its supply chain, partnering with fewer but larger suppliers and forging longer-term and closer relationships. It does not serve the interests of the adidas Group, as a buyer, to undermine the economic viability of our business partners by paying below the established market rates for the goods we purchase.

We acknowledge that the adoption of lean manufacturing techniques within the supply chain presents challenges, as well as opportunities. Given the economic pressures faced by our suppliers, in terms of double-digit inflation and the rising costs of labour and materials, lean manufacturing processes and productivity initiatives will continue to be an essential means of off-setting higher overheads with increased output. We have in the past provided access to academics, to study the change management issues faced by workers and factory managers and supervisors, as they transition to lean production systems. We welcome industry wide dialogue about the benefits and limitations of lean manufacturing techniques.

Contract law

The report acknowledges the positive efforts of the adidas Group to encouraging its suppliers to reduce the use of contract labour in their factories. We remain open to share with other brands our guidance materials and experience in limiting the use of contract or casual labour in our supply chain.

We conclude that many of the issues raised by the Play Fair Alliance report have already been taken into account in the approaches and efforts of the adidas Group. As a company we are committed to safeguarding workers' rights and to improving workplace conditions in our global supply chain. For the past four years we have maintained an open engagement with the Play Fair Alliance and will continue to directly engage with these campaign organisations to address their concerns.

The table below shows the adidas Group's specific comments on claims or allegations that have been raised throughout the report. These comments were sent to the report authors prior to the release of the report.

Report Page	Comment
4	<p><u>Quotes in the report:</u> <i>"It is estimated that winning the prize to become the Beijing Olympics Official Sponsor cost adidas between US\$80 million and \$100 million in cash"</i></p> <p>We view the amounts paid for sponsorships as commercially sensitive information and are unable to comment on the speculated amounts presented in the report. At no point the adidas Group formally reported such an announcement.</p>
5	<p><i>"adidas spent \$200 million to sponsor the 2006 World Cup."</i></p> <p>We view the amounts paid for sponsorships as commercially sensitive information and are unable to comment on the speculated amounts presented in the report. At no point the adidas Group formally reported such an announcement.</p>
8, Table 1	<p>The adidas Group consolidates and formally reports its financial figures in Euros. We are unable to comment on the amounts presented in the table due to missing information on the currency exchange rate which was used for USD calculation.</p>
18	<p><i>"Companies (and many CSR consultants) have continued to focus their efforts on developing a 'business case' for labour standards compliance, emphasizing the potential cost savings inherent in good human resources management. This approach, however, runs the risk of sidelining necessary improvements on workers' wages and other monetary issues that could impact on profits or prices."</i></p> <p>The above statements are incorrect. As one of the chief architects of the Human Resources Management System (HRMS) collaboration between adidas, Nike, Reebok and subsequently Puma, we can confirm that the key objective(s) of HRMS implementation is not to 'save money', but to build effective systems for managing labour legally and fairly, to ensure sustainable compliance with brand codes of conduct, and to develop a platform for improved worker-management</p>

	communications and industrial relations.
18	<p><i>“Lastly, many of the ‘sustainable’ solutions proposed by companies and the FLA have focused on training for factory management on labour rights and Human Resources processes, rather than on creating a positive climate for trade unions and worker organizing or altering sourcing practices and business models at the buyer level.”</i></p> <p>The statement above assumes that training on labour rights and HR processes is mutually exclusive from creating a climate for worker representation. The adidas Group would argue the opposite i.e. that without the necessary management systems in place, worker representation and industrial relations can never be properly realised in the workplace. Such training in itself creates a positive climate for change. Further, our efforts have focused on factory management for two reasons: i) It is with the supplier that we have the legal relationship (as opposed to being in a direct employment relationship with workers) and this is where we can exercise the most influence; and ii) while we are always searching for service providers and NGO’s to provide direct training to workers and/or to establish programmes where workers are the direct beneficiaries (e.g. MSI programmes), even if our compliance teams were doubled or tripled in size it would not be possible for us to provide comprehensive training to workers across the entire supply chain. Additionally, we are constantly reminded that we are not the most appropriate party to deliver Freedom of Association training to workers themselves.</p>
23	The example of PT Panarub does not support the proposition being stated in this section of your report.
23	<p>It is stated that <i>“While it’s unlikely that the reduction in orders was a response to the union’s efforts, it did lessen adidas’ ability to push for compliance in this instance.”</i></p> <p>We can confirm that the order reduction was totally unrelated to the union’s activities. The WRC was provided direct access to the adidas internal KPI scoring system to independently verify that the reduction in orders reflected factory performance issues only.</p>
23	<p><i>Refusal to recognize and negotiate with unions: Even when workers succeed in forming unions and having them legally registered, management often delays or refuses to accept legal recognition and/or to negotiate with elected worker representatives. In 2005, the Textile, Knitting and Clothing Industry Workers’ Union of Turkey (TEKSIF) successfully organized workers at the PAXAR Corporation’s factory, which produced labels, print logos and designs on garments for brands including Nike, adidas and Puma. However, when the union approached PAXAR management to begin collective bargaining, PAXAR refused to negotiate and instead fired 11 union members. It wasn’t until international pressure from several multi-stakeholder initiatives, the ITGLWF, and campaign groups like the Clean Clothes Campaign that the company agreed to sit down and negotiate with the union, which resulted in a much-delayed agreement being achieved in February 2007 – two years after the union’s formation. In the meantime, union membership had declined significantly as a result of anti-union discrimination by the employer.</i></p>

	<p>The Turkish labour legislation requires that a union represents 50% of the workforce in order to obtain bargaining rights which must be officially declared by the Ministry of Labour (MOL). This happened on March 16th, 2005 after the union Teksif applied to the MOL on February 2nd to get the bargaining rights for Paxar, based on 267 workers having become union members. However, Paxar appealed to the court stating their total workforce (covering two premises – factory and office - with the same legal name and therefore one legal entity) was not 426 workers, as stated by the union, but was 563 workers and therefore not more than 50% were union members. The court finally decided on Nov 1st, 2005 that Teksif has got the right to negotiate a Collective Bargaining Agreement (CBA) with Paxar. Paxar started negotiations with Teksif the first time on March 21st, 2006 and then various meetings took place until both parties reached a CBA on January 2007.</p> <p>Once the MOL confirmed the right of Teksif to collectively bargain with Paxar we have communicated to the management the importance to start negotiations with Teksif. Due to the existing tension between both parties we also have proposed that an external observer and the FLA get involved in the negotiations which did happen in various meetings. Additionally, we also have discussed with the management of Paxar to provide Freedom of Association training to its workforce and management which they agreed to (the training was provided by Prof. Centel, representing the Turkish Employers at official meetings with the ILO, delivered the training to all workers in November 2006 and to the management in January 2007).</p> <p>Due to reduction of orders of various customers (adidas did not reduce orders) in 2005, Paxar had to lay off 76 workers in total during the year 2005. In March of that year 22 workers were made redundant, 8 of them were volunteers. Of the remaining 14, 11 turned out to be union members - 5 probationary workers and 6 permanent employees. This means that half of the workers dismissed were non-union members and therefore doesn't show clearly an act of discrimination against the union members.</p>
24	<p><i>“Buyers also choose to source goods from countries where their own codes of conduct cannot be fully implemented because of legal restrictions on freedom of association – as evidenced by the massive amount of orders placed in China, Vietnam and Bangladeshi export processing zones.”</i></p> <p>The statement above is extremely simplistic. By implication, this conclusion, i.e. that buyers prefer countries where FOA is legally restricted, is simply not supportable and ignores the multiple factors that determine from where products are sourced. If we take China as an example, that there are legal restrictions on FOA is simply not a factor in the adidas Group's sourcing strategy. We would also argue that key suppliers choose to invest in China and run their factories there based on a number of reasons, largely to do with cultural experience, language capability, geographic proximity, a large and comparatively well-educated workforce (e.g. literacy rates in China are amongst the highest in Asia), logistical/telecommunications/transport efficiencies, scales of economy, tax incentives and subsidies (some of which have been recently removed) and a robust investment environment.</p>
24	<p>The example of PT Daejoo does not support the proposition being stated in this section of your report. The factory declared bankruptcy. There was no evidence that</p>

	the formation of the union, or negotiations with the union, had any bearing on the closure.
25	As Reebok has been acquired by adidas, information on the completion of the tracking chart should read: <i>“By August, 2007, however, adidas (who had acquired Reebok) noted that the committees still ‘tend[ed] to be one of management’s communication channels to the workers rather than active committees for representing workers to the management.’”</i>
26-29	This section deals with the problem of short-term contracts and contracting agencies, and implicit in the language is that buyers/brands tolerate this, or the Codes of Conducts don’t cover it. There is one comment on page 29 recognising Nike’s public statement about supporting long-term contracts. The adidas Group’s Employment Guidance Note on Contract Workers states that: (1) Factories must not hire workers on a contract basis as a means for depriving such workers of the correct wage and benefits, or other rights and privileges provided to permanent workers; and (2) factories must not hire contract workers on a continuous basis, multiple short-term contracts, or as regular practice, to support normal business needs. The Guidance Notes go on to provide additional instructions on the management of short-term or casual labour. In the newly updated version we also make it clear that using third party agents to manage the entire employment relationship (beyond simply acting as a recruitment agent) is not allowed under the adidas ‘Workplace Standards’. Obviously, this needs to be monitored and ‘enforced’ in the supply chain, but our standard is now quite clear.
26	<i>“At an adidas supplier in Thailand, all members of the Workers’ Welfare Committee are line supervisors. Workers reported that they do not understand the roles and duties of the Welfare Committee. Workers felt too intimidated to make suggestions or raise complaints with the Committee, as one worker was terminated when he asked a simple question, ‘When will we get a raise?’.”</i> As we do not know which factory this refers to, and cannot verify or cross check the information, we are not able to comment on this statement.
26	<i>At one Yue Yuen-owned facility and one Yue Yuen joint venture factory in Dongguan, China producing for adidas and Nike, workers interviewed for this report had no employment contracts whatsoever. At three wholly-owned Yue Yuen factories and two Yue Yuen subcontract factories, workers were hired on successive one-year contracts.</i> There are a number of statements such as the one above which we would contest, but without knowing which facility/ies are referred to, we cannot verify or cross check the information. We would be grateful if you provide us a listing of the factories, their addresses and the corresponding factory number that has been assigned by Play Fair during the course of its research.
27	This information given for PCCS is out of date. We can confirm that since 2006, all

	<p>workers have been employed on permanent contract. This has been independently verified by the ILO Better Factories Monitoring Programme, which is referenced later in your report.</p> <p>Moreover, concern over the use of short term contract labour was identified as an issue by the adidas compliance team in 2003 and a remedial plan was in place and being progressed well before WRC became involved.</p>
27	<p>A small number of contract workers were used by Molten in the adidas production areas, with the majority being employed in Molten's separate brand production area. Since 2005 Molten has actively reduced the use of contract workers.</p>
29	<p><i>"Unfortunately, some international business lobbies – notably the American Chamber of Commerce in Shanghai, the U.S. China Business Council and the European Chamber of Commerce in Beijing (who later reversed its stance after pressure from the European Trade Union Confederation and others) – pressured the Chinese government to minimize the protections afforded to workers in China's new contract law, and threatened that members may leave the country if 'flexibility' was reduced."</i></p> <p>We are unable to comment on the approach taken by the American Chamber of Commerce, however, the Play Fair's representation of the position taken by the EUCCC is wholly incorrect. The EUCCC never pressured the Chinese government in the manner described above. In all communications with government, the key messages were concern over lack of enforcement of existing labour laws, and whether the proposed amendments were: a) practical and implementable; and/or b) would really protect workers as intended by the law makers.</p>
31	<p>In relation to the comments on buyer sourcing decisions, please see our comments with respect to page 24, above.</p>
31	<p><i>"Efforts by adidas to encourage the rehiring of PT Spotec workers at the factory, which is being re-opened by different owners, have not yet resulted in re-employment for the workers."</i></p> <p>To clarify, a small number of ex-Spotec workers have secured employment, but the start up of the new factory has been slow due to a delay in obtaining government approvals and the late arrival of new equipment. Further employment opportunities will present themselves when the factory goes beyond the commissioning phase. adidas compliance staff are monitoring this closely and liaising with the ex-Spotec Union Committee on all matters related to recruitment of former Spotec workers.</p>
32	<p><i>"In subsequent years, however, Yupoong had been steadily disinvesting from the BJ&B factory – so much so that the factory, which stood at 2000 employees in 2001, had only 350 left at the time of announcement of closure. The owners cited its lack of competitiveness with other Yupoong factories in Bangladesh and Vietnam as the reason for the closure. As well, buyers like adidas, had been pulling out of the factory, leaving Nike as the sole remaining major buyer at the time of closure."</i></p>

	<p>adidas was never a buyer at BJ&B but Reebok was. Reebok's reason was that the speciality cap manufactured at BJ&B was no longer the best seller it had been in the past.</p>
34	<p><i>"Workers at one Yue Yuen subcontractor in the area receive only RMB500-600/month (US\$71-86) – less than the legal minimum – despite working 12-13 hours a day."</i></p> <p>As we do not know which factory this refers to and cannot verify or cross check the information, we are unable to comment on this statement.</p>
47	<p><i>"In a Yue Yuen factory producing for adidas, New Balance, Nike, Timberland and Reebok (now owned by adidas), overtime was officially capped at two hours, but at the same time the lunch hour was cut in half to ensure workers could complete their quotas – effectively adding an extra 30 minutes to their day that is not compensated as overtime."</i></p> <p>As we do not know which factory this refers to, and as we are partnered with a number of YY factories in China, we cannot verify or cross check the information. We are therefore unable to comment on this statement.</p>
48	<p><i>"It is true that Nike and Adidas have tried to be strict [on excessive overtime]," one worker told us. According to this worker, who has been making Nike shoes for a number of years, production targets and expected overtime hours for each day are set out in a written Overtime Order at a morning briefing. 'However, there seems to be a catch,' he said. 'For example, when the Overtime Order states that overtime for the day is only 2 hours, then the overtime recorded is only 2 hours – even if, in reality, we worked 3 hours overtime.'"</i></p> <p>As we do not know which factory this refers to and cannot verify or cross check the information, we are unable to comment on this statement.</p>
48	<p><i>"Workers on adidas lines also report working up to four hours overtime a day (up to 70 hours a week). In addition there is what is known as 'loyalty time' where workers are expected to turn up 15 minutes before their shift starts to do exercises and clean and prepare the machines, and to work an extra 15 minutes after their shift end. This half hour in total is unpaid overtime."</i></p> <p>Unpaid 'loyalty' time is not permitted; it is simply another form of off-the-clock working and breaches the adidas Group 'Workplace Standards'. We have requested Yue Yuen to stop such practices, or to fully compensate workers for any extra time spent on the job.</p>
50	<p><i>"At one Yue Yuen subcontract factory producing for Reebok, Timberland, New Balance and Columbia Sportswear, workers are paid entirely by piece rate, which means their wage varies depending on the number of pieces completed. Workers at this factory receive on average RMB500-600/month (US\$71-\$86) – less than the legal minimum wage. From that, RMB155/month (US\$22) is deducted for lodging in the factory's dormitories, where 12 workers occupy each room, with shared showers and toilets on every second floor."</i></p>

	<p>As we do not know which factory this refers to and cannot verify or cross check the information, we are unable to comment on this statement.</p>
58	<p><i>"Wages at Kuan Ho are also better than at Joyful Long...However at neither factory does overtime compensation comply with the law."</i></p> <p>Our compliance team has conducted regularly audits at Kuan Ho. We have checked the payroll and piece rate calculations (which are the basis for payment to the workers) and have found that workers pay complies with the law, including comparable overtime multipliers.</p>
58	<p><i>"At both Joyful Long and Kuan Ho, workers interviewed were seriously concerned about the possible short- and long-term health effects of working with various chemicals in departments like silk-screening, 'leather-sticking' (in which the outer layer of the ball is adhered to the inner layer), and in departments producing plastic balls. Most workers told Play Fair researchers they were not even aware of what substances they are in contact with on a daily basis. Workers reported skin allergies and breathing discomfort."</i></p> <p>Any worker who experiences an allergic reactions to materials used in the production process should consult the factory doctor and re-assigned to other work duties.</p> <p>Kuan Ho has an effective air extraction system in place and tests conducted within the workplace show that the indoor air quality does not exceed international recognised threshold value limits (TLVs). The Kuan Ho factory has obtained certification for its workplace health and safety management system (OHSAS 18.001) and it environmental management system (ISO 14.001).</p>
59	<p><i>"While workers can air grievances with supervisors, there is no formal grievance process. Both factories have a worker committee meant to identify and deal with issues that arise, but neither committee, at Joyful Long or at Kuan Ho, is particularly active or effective."</i></p> <p>We acknowledge that worker committees alone cannot effectively address all worker concerns or grievances. We have called on our suppliers to continually improve their internal human resource management systems and to strengthen their own internal grievance mechanisms and complaints handling systems.</p>
60	<p><i>"The TLC report asserted that Molten provided substantially different wages and benefits for regular and sub-contracted workers. While senior workers employed directly by Molten were paid a salary that met their basic monthly needs (estimated at between THB7,310 and 8,680 a month by TLC), new workers received a basic wage of THB4,500 (US\$144). Sub-contracted workers were the worst off, receiving only the minimum wage, without access to monthly incentives and other bonuses. They were also required to pay out of pocket for their uniforms. Adidas reports that the practice was discontinued after it was exposed by TLC."</i></p> <p>As noted earlier the use of contract labour was primarily within the Molten brand</p>

	<p>production areas. adidas field monitors identified this issue in early 2005 and commissioned an HR consultant to advise and guide the factory on progressively phasing out the use of contract labour (as per our internal policy, cited earlier). By early 2008 the use of contract labour had been reduced by half.</p> <p>Both daily wage earners and contract workers receive the same minimum wage rate as stipulated by law, as well as social security.</p>
60	<p><i>“Responding to the 2006 report, adidas confirmed the wages cited by TLC, but argued that the factory is complying with the minimum wages set by the government. TLC responded that because the minimum wage does not meet workers’ basic needs, workers are forced to rely on long overtime hours to get by.”</i></p> <p>We have seen no evidence of Molten workers, whether permanent or on contract, working longer than the 60 hour maximum permitted under the adidas Group’s ‘Workplace Standards’. The above statement is therefore not supported by the facts.</p>
68	<p><i>“When Yupoong announced the closure of the BJ&B factory in the Dominican Republic (see page ___), intervention by brand buyers, the WRC and the International Textile, Garment and Leather Workers Federation encouraged negotiation with the local union on an agreement providing for three months of severance over and above the legal entitlement, and a sum of 200,000 pesos (US\$6,100) for the union and its federation for organizing and educational programs.”</i></p> <p>While this information is not inaccurate the final resolution was much more complicated than indicated in this paragraph.</p>