

adidas-Salomon China Stakeholder Dialogue, Hong Kong

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Report of Meeting

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Introduction

This report summarises the proceeds of a meeting held in Hong Kong on 15 November 2004 between representatives from the adidas-Salomon (hereafter adidas) Standards of Engagement (SOE) team based in Hong Kong and Hong Kong and China-based stakeholders. The meeting was facilitated by Stephen Frost.

The names of all participants are listed in Appendix 1.

Prior to the meeting, William Anderson, the head of the SOE team, informed participants by way of email that adidas would find it more useful if the meeting focused on two major themes: 1) the effects of the cessation of the Multi-fibre Arrangement (MFA) in China the resulting abolition of quotas at the end of 2004; and 2) the issue of freedom of association (FOA) in China. This emphasis did not preclude the discussion of other topics or indeed other countries, but flagged these as major issues of concern for adidas.

All participants agreed at the start of proceedings to append their names and the organisations they represented to this document, and that the document would be made public. No comments are attributed to specific individuals in this report, and participants agreed not to quote individuals in subsequent texts.

This document has been circulated to all participants and they have agreed that this final and public version is an accurate record of proceedings.

adidas' introduction

– Start –

William Anderson started the meeting by providing a brief overview of the Stakeholder Dialogue process.

The Stakeholder Dialogues, he said, are a means by which adidas builds on previous Social and Environmental Reports (of which there have been three). At the time of the meeting, the fourth report (for 2004) was in preparation. He acknowledged that the dialogue would inform the 2004 Report.

adidas has engaged with stakeholders for three years and the company perceives the dialogues as central to changing the emphasis of the reports from mostly reactive to more specific. One of the issues, for instance, of particular interest to adidas has been how the reports can capture the views of workers more accurately.

adidas' sourcing strategies were outlined in the context of the Standards of Engagement (SOE), the adidas code of conduct, along with a reminder that the adidas code is based on the ILO's Core Conventions. The code consists of 8 major areas (such as labour, environment, occupational health and safety [OHS], etc), and is supplemented by a wealth of in-house material.

The key point about the SOE and sourcing was posed as a question: *how are they related?* Anderson suggested that key performance indicators include the usual (i.e., quality, price, delivery and productivity), along with a fifth indicator: SOE compliance.

SOE compliance involves pre-production audits during which adidas vets factories. It was suggested that there are no perfect factories, but that adidas aims to find facilities that possess management systems best suited to meet SOE standards. During the past year in China, adidas has rejected 50% of companies during the pre-production audit stage.

adidas is looking at finding business partners and building business partnerships.

Factories that pass pre-production audits are then regularly assessed. adidas has adopted a three-strikes-and-your-out system for non-compliant facilities. Warning letters are dispatched; with factories losing contracts after the third. Two factories lost contracts in this manner during 2004.

adidas' sourcing base is stable, but the company is now reducing the total number of suppliers (though not necessarily the total number of factories). It is seeking more long-term relationships with fewer suppliers.

With regard to a quota-free environment after the cessation of the MFA at the end of 2004, adidas believes that it is useful to look at the footwear sector (for which there are no quotas). Footwear has seen a migration of production from the US and Europe, to Taiwan and Korea, and then to China and Indonesia. The last 3-5 years have witnessed a move to Vietnam. Outside of Asia, footwear production also takes place in Brazil. The largest suppliers of footwear to adidas now are – in order – China, Indonesia, Vietnam and Brazil.

Apparel, however, is rather different. The sourcing base is much broader, and covers all of Asia and the Pacific – rather than three countries as with footwear. Local production for specific adidas offices is still significant (e.g., adidas-Japan still

manages around 60 factories in Japan). Despite these differences, adidas is in the process of reducing apparel sourcing to half a dozen countries (in order): 1) primary tier – China, Vietnam, Indonesia and Thailand; and 2) secondary tier – Cambodia, Sri Lanka and the Philippines. India is a potentially strategic partner, but it will be some time before it has the capacity to meet adidas' requirements.

The cessation of the MFA is, of course, on everyone's mind, with some analysts predicting that China will attract 50% of global apparel production once quotas are lifted. From adidas' perspective the move to China is not based solely on wages. In fact, there are places with significantly lower wages (i.e., Bangladesh). Moreover, the end of quota will make China cheaper (bringing FOB prices down 25-30%). Factoring in \$55 billion of foreign direct investment (much of it vertical) per annum and good infrastructure also tilts the balance in China's favour. There are, however, counter balances. Anti-dumping measures initiated by the US are one factor that prevents adidas from putting all its eggs in one basket.

Looking forward, adidas expects to increase apparel sourcing by 10% in China (up to 30% of total production), and to cap footwear production at around 35%. The increase in apparel sourcing is partly the result of expectation of adidas sales in local markets.

– End –

There were several questions and suggestions from around the table relating to adidas posters (adidas had positioned several large posters of the company's 'code of conduct' in English and Chinese around the meeting room. The three items below refer to these posters).

- adidas should scrap the use of the term "business partner" and instead use the term "employer" because the term "business partner" is confusing to the workers, while they will more easily understand that the code of conduct applies to their "employer". (The term "business partner" is used through the 2003 Report.)
- For whom are the SOE (as displayed on the 'code of conduct' posters) written? The SOE should be written with workers in mind rather than management.
- It was commented upon that the Chinese version was in full form characters (no simplified). adidas responded that the posters were chosen from a bundle that was available and that all posters used in the mainland used simplified characters.

Staying focused: Social and Environment Report 2003

Several participants indicated to the facilitator prior to the meeting that they wished to discuss aspects of the 2003 report before moving onto the key issue of MFA and FOA. Anticipating that this would be the shortest discussion, the dialogue began by asking for comments on the report.

1. Is there continuity between reports? Do findings from Stakeholder Dialogues from previous years inform more recent reports? Although adidas representatives said that yes, previous reports and dialogues inform more recent reports, stakeholders suggested that they'd like to see the reports show how problems identified in previous reports have been acted upon in the interim. E.g., previous reports have identified working hours as a key issue in China, but improvements have not been quantified in later reports, and nor is there an indication of a timetable for remedial action. adidas representatives mentioned that working hours have been the subject of internal reports; stakeholders wondered if such reports were or should be made available in some form.
2. On p. 25, the 2003 Report represents Fair Labor Association (FLA)-accredited monitors as external and independent monitors. It was suggested that FLA-accredited monitors are not truly independent, inasmuch as they are paid by the FLA, a corporate-funded and managed organization. It was further suggested that adidas should also disclose factory locations so that truly independent organisations could check on workplace conditions.
3. It was suggested that the 37% of Chinese factories monitored during 2003 was low; it should be higher.
4. The link between monitoring, training and capacity building was a positive one.
5. On the financial side, it was noted that the report does not contain enough relevant information about the financial impact of compliance with the SOE for activist investors. Enquires of this nature from the sustainable and responsible investment (SRI) sector are growing, and the SRI sector is asking more difficult questions; it wants more corporate and relevant investor relation demands.
6. It was suggested that the focus on social concerns has resulted in environmental concerns taking a back seat. The "environmental" in the *Social and Environmental Report 2003* is minimal. Moreover, the environmental reporting that does exist tends towards the traditional (i.e., local site reports) and technical. This approach does not allow adidas to comment on global problems such as climate change – an issue in which any large company should play a role (rather than leaving it to a government to government dialogue that is failing).
7. The issue of training and capacity building was raised in the context of the question *for whom*: workers or management? Of particular concern was *who does the training*? It was suggested that organisations like Verité (listed on p. 35) are not appropriate organisations to train workers on FOA or collective bargaining (they are viewed as alien by workers and although non-profit are doing the work for money).
8. The mention of lean manufacturing on p. 26 elicited a question regarding in what ways hours of work were linked to such management systems. Are hour of work measured under such a system? And if so, why aren't the results published in the Report? What is the impact of lean manufacturing on workplace practices? adidas representatives indicated that several academics have conducted or are in the process of conducting studies on these links, and findings should be public soon (February 2005). It was hoped that there was benchmarking of pre- and post-lean conditions to understand the effect on hours of work, levels of stress, etc.
9. There was a general question about *how much is reported*. This point here was that public reports tend to focus on what companies are *trying* to achieve, rather

than on what they have *actually* achieved. For example, the adidas report talks a lot about the company's attempt to improve health and safety conditions, but does not report on the actual health and safety records of their suppliers. The report mentions adidas' attempt to promote FOA, but there are no figures to show the impact, which has been minimal. Therefore, could future reports measure more and report on those measurement (i.e., how many collective bargaining agreements [CBAs] were signed?; what are the average wages in factories?; etc).

10. On the issue of standards beyond the production line, one participant noted that the hygiene standards in dormitories can be very poor. It was indicated that they are often noisy, and are infested with insects and rodents (it should be noted that this was not a specific claim about adidas suppliers but dormitory conditions in general). It was suggested that it is important to note that general living conditions are directly related to wage levels.
11. There was some interest in how adidas implemented its code of conduct in licensee plants and whether that process could be outlined and commented upon (such as the problems faced) in future reports (this question was elicited by the table on p. 19 of the 2003 Report).

Although participants raised many issues, the discussion on the 2003 Report was of only about 45 minutes duration. There was a great deal of interaction between the adidas representatives and the stakeholder, with adidas responding to many of the issues raised. adidas responses are not included here unless they formed the basis for further discussion. The rest of the day was devoted to MFA and FOA.

The MFA

The second part of the proceedings consisted of a dialogue about the end of the MFA and possible consequences for China when quotas are abolished at the end of 2004. Predicting the impact of a quota-free environment is difficult, but there were some strong views presented. It would be untrue to say that consensus was reached on all of these issues, but nor was there strong disagreement over any of them.

Although this session focused on the MFA, it led to many other issues. adidas had agreed at a pre-dialogue meeting with the facilitator that it was not the aim of the meeting to simply concentrate on MFA and FOA to the exclusion of other issues. Although much of the discussion was about MFA, many other issues arose, which are reported here.

It's also worth noting that the facilitator had mistakenly referred to the MFA as the *Multi-Fibre Agreement* (it should be *Arrangement*) in my introductory remarks. This slip was commented upon; as was rightly pointed out, the MFA was an arrangement because none of the producing countries had agreed to it. It was on that note that the dialogue began.

1. It was thought that the end of the MFA would lead to consolidation with clear winners and losers. China and Vietnam seem to be well placed to win, as do perhaps Mexico and Turkey to some extent. Other countries in Asia are in more precarious positions.
2. There was some disagreement expressed over this. It was thought that while the end of the MFA would see fewer and bigger factories, it was not a foregone conclusion that China would attract as much apparel production as previously suggested (i.e., 50%). Was it true, for instance, that the end of the MFA really meant the end of quotas? The US may – as it demonstrated during 2003 and 2004 – simply enact different quotas and barriers that would restrict certain apparel categories. It was also pointed out that countries such as Bangladesh and India do have lower wage costs.
3. There was some disagreement on the issue of the US implementing quotas on apparel from China. It was noted that President Bush was burned on Steel quotas [which he enacted to protect US steel jobs in March 2002 but dropped in December 2003, despite disappointment from domestic steel makers and unions].
4. Talks and possible negotiation of bilateral trade agreements (BTAs) between the US and countries such as Bangladesh and Cambodia might also lead to a new set of trading relationships. Taken in combination with the fear that the US is likely to restrict apparel imports from China in various ways, BTAs have the potential to restrict the rapid move of apparel production to China.
5. The issue of accountability was raised early on. It was noted that most – if not all – talk about the end of the MFA is conducted in a way that suggests nobody is responsible for the abolition of quotas. However, it was pointed out that humans are responsible for the decisions leading to the end of the MFA, and people who make those decisions need to be held accountable for the consequences. *People* are making decisions that affect workers' lives; this is not a natural process; it is the result of human decisions.
6. It was noted that in Africa and Latin America, unions have vowed to hold brands and producers responsible for the relocation of orders or factories. Labour solidarity campaigns will be used to bring pressure to bear on those buyers and producers.
7. The flip side of international solidarity is the level of fear over what the abolition of quotas might mean in various countries. In Honduras and El Salvador, for

example, there is a great deal of speculation in the media centring on fears of Asia. It is a widespread perception that the media and business are generating this fear and that the end of the MFA is a stick with which to beat workers into accepting even greater flexibility, lower wages, longer hours, etc. Losing jobs to East Asian (Chinese) workers is a key concern of workers in Latin America. Chinese workers are seen by many as competition or even as enemies.

8. It is understood that there are a variety of responses in various countries:
 - Taiwan: fear that textiles in particular are moving to China, factories closing.
 - Bangladesh: “We’re cheaper than China.”
 - Philippines: Abolished minimum wage, greater flexibility to compete against China.
 - Hong Kong: retained the “no minimum wage – no maximum hours” policy to remain competitive.
 - Thailand: government implemented the Thai-based code [TSL (Thai Labour Standard) 8001], to which brands have not signed on; and the development of Thailand’s own, unique brands.
 - Cambodia: an exception, with high labour standards (although use of “high” was questioned), and using this as an argument to attract apparel investment in Cambodia.
 - Sri Lanka: considering using the Cambodian model (although whether this would work was questioned).
9. It was noted that investors and those within the financial community following these issues had focused more on the impact of the abolition of quotas on “losing” countries than China (which is perceived as a “winning” country).
10. There was a sense that producers are blaming buyers for what might occur once quotas are lifted, buyers are blaming producers, and they are both passing the buck to consumers as the groups wanting cheap apparel. Are consumers really the problem here?
11. It was thought that with regard to the point immediately above that adidas should not just be an exception in this area (adidas representatives had pointed out that adidas was seeking more long-term relationships with fewer suppliers [as mentioned above on p. 3], but should be a leader.
12. The discussion on consolidation and the issue of quotas (mentioned above) led to dialogue on corporate social responsibility (CSR), and in particular SA8000. It was noted that CSR is regarded in China (in some quarters) as a protectionist barrier.
13. It was suggested that in places where the State is not held fully accountable by civil society for the implementation of laws relating to workplace conditions (and instead focuses on creating jobs), resistance to CSR tends to be stronger.
14. The focus on SA8000 in China was the result of stories circulating both verbally and then in the Chinese press that it would become mandatory for companies exporting to the US and Europe. This was untrue, and the reasons for the rumour weren’t discussed, but it was noted that during this time CSR (and SA8000) was seen in a similar light as other US barriers such as anti-dumping measures.
15. Various Chinese department and the National Accreditation Board released their findings in late 2004 on CSR and SA8000, saying that SA8000 is just one of many standards and is neither compulsory or like an ISO standard. They accepted that CSR could be a good approach.
16. It was noted that there have been reports on government departments undertaking CSR training (including topics such as CSR, stakeholders, labour, environment, etc), and that they see it as useful and have called for more. Training seems to have been focused in the south (in the Pearl River Delta).
17. One of the questions that several participants had fielded in China from suppliers was whether and how is CSR related to SA8000. It was noted that there has

- been a lot of talk about this in China, and the general assessment is that CSR and SA8000 are confined to the factory level and not at the government level (i.e., if factories want to push CSR initiatives that is fine, but the government as of now doesn't seem to see the need for high-level involvement).
18. It has been observed that German buyers and aid agencies have also noted that some Chinese officials or companies were worried that CSR could be used (along with environmental standards) to erect new non-tariff trade barriers after the end of the MFA.
 19. The question arising out of this comment was whether companies are equipped to actually deal with CSR and related social standards issues.
 20. It was also noted that SA8000 should not be seen as the solution. Although it has input from the ITGLWF, it is also funded by the US government and the ILO. It was thought that it would be better to combat the notion that one standard could solve workplace problems. In this context it was stated that unions and only unions – albeit under another name sometimes – that will provide a sustainable solution.
 21. The most important issue is FOA. Certification is not the answer, as a look at ISO 14001 shows. It was suggested that certification has no meaning. It is neither the solution nor enforceable.
 22. One of the problems with certification revolves around internal factory competence; i.e., do factories have systems in place to ensure that a certification program actually has the desired outcome? The general consensus was no.
 23. On top of this, China has seen the rise of firms and individuals providing false information about SA8000. Such false information includes consultants informing companies (wrongly) that SA8000 is mandatory. It is also possible to purchase false certificates for many standards in China (such as ISO 9000, etc), and thus SA8000 is no exception.
 24. CSR has been on the agenda in China since about 2000, when a meeting in Beijing between NGOs and the brands discussed the issue. Interest has grown and there are serious projects underway, such as a pilot run by the Shanghai Labour Department.
 25. However, despite all this, CSR is still only an issue for *some* suppliers, *some* brands, and was not sustainable. At best, several stakeholders thought we might see a convergence of codes (as may be underway in Europe).
 26. The final theme raised in the MFA section revolved around the question of whether China could actually account, as some have suggested, 50% of global apparel production (which would entail China doubling current production).
 27. There was general consensus that the answer in the short term is *no*. However, although it might not be able to ramp up production to double the current output, some participants suggested that in five years time it might be possible.
 28. There were a number of dissenting views on China's ability to do that.
 - Rising wages may prevent investment in China.
 - We need to assess the entire Chinese economy – not just the apparel sector – to determine whether China is able to double production.
 - There are doubts about China's boom.
 - There are doubts about overheating.
 - Labour disputes appear to be on the rise.
 - Energy shortages limit expansion.
 - A US Government study recently concluded that China cannot absorb all the demand (a point supported by some participants who suggested that supply chain management companies say the same thing).
 29. The ramification of the points listed immediately above is that we may start to see a move inland. The migrant labour shortage in Guangdong, for instance, is partly the result of ten years of stagnant wages, which have seen production move from

- Shenzhen, to Shenzhen's outer zone, Dongguan, and then further north to Hunan and North West to Sichuan (where wages are lower).
30. It was noted, however, that despite this, China still has enormous rural labour force from which to draw workers, and that for the foreseeable future (5-10 years) China will have a labour force advantage.
 31. One observation on this point is that migrant workers are now better informed and moving around more, which provides them more work options.
 32. It was thought that from the buyers' side, China still possesses major advantages over countries like Cambodia and even Vietnam (in which footwear and apparel are growing rapidly).
 33. In the final analysis, it is hard to determine all the factors causing the migrant labour shortage (or indeed to what extent it exists).
 34. One of the positive aspects of the migrant labour shortage is worker protests over wages and hours. The question now is whether protests will inflate wages and lead to higher prices for goods or removal of investment to other locations.
 35. It was deemed worthwhile to compare China's current status on rising wages to the case of Mexico, which mirrors the kind of move from high wage to lower wage inland areas we are starting to see in China. In Mexico, most initial investments made in *maquiladoras* on the Mexican-US border. Wages rose quickly and investors moved inland to take advantage of cheaper labour costs. However, moving inland was not successful; many investments failed for a variety of reasons. Will investors in China's central or western provinces fare any better?
 36. Another reason that might give pause to consider whether China can double apparel production is that prices for apparel ex-factory have fallen substantially over the last 3 years, but the price of compliance with standards such the SOE have risen. Added to this is the fact that cost of material is outstripping costs elsewhere, mainly as a result of the rise in oil prices.
 37. The issue of oil prices led to comments on the deterioration of the Chinese natural environment in general. Although wages and housing are still the main concerns for employees, people *are* now turning their attention to the environment and issues of public health. Recent water shortages, air pollution and a massive growth in waste generation all have an impact on general health and infectious diseases. These are also areas in which adidas needs to engage.
 38. It was noted that buyers tend to fix prices and show little or no leeway (despite higher manufacturing costs), with power concentrated in the hands of the buyers at the expense of the suppliers.
 39. If retail prices go up, participants suggested that the squeeze should be absorbed to some degree by the brands (thus lowering profit margins).
 40. There was general consensus on the claim that many Chinese companies overstate their capacity, and the end of the MFA may see a rise in this behaviour.
 41. Supply chain management companies don't see this as such a big issue at the high end of the market, but have indicated to stakeholders that the low end is not delivering.
 42. The question arising from this is whether an overstatement of capacity under the cessation of the MFA could see an increase in sub-contracting. In Mexico, a similar process occurred: firms moved inland for cheaper wages, they overstated their capacity, took large orders, but failed to deliver. The government's response was to simply put pressure on companies to fix their own problems.
 43. In Asia, we're seeing government-to-government interaction and the shoring up of local industry by lowering wages or allowing greater employer flexibility.
 44. Will China seek to provide investors with even more incentives to invest in manufacturing? Perhaps, but it was noted that there is a general lack of sophistication in supply chains and even though the MFA is about to end (a little over a month at the time of the meeting), there had been little planning at any level.

45. And perhaps more importantly, what will workers do?
46. The NGO role in this dynamic is to raise awareness of labour rights.
47. It was suggested that there needs to be more micro-level studies and further research on workers and government policies.

FOA

The final issue discussed was FOA, and it took up the afternoon. It is clearly the issue on which there is the most debate among stakeholders and the one most troubling companies seeking to improve workplace standards.

1. The first question, a rhetorical one, was whether there is an alternative to FOA. Clearly the answer for most around the table was no. It was suggested that it was the most difficult issue for companies to resolve because it is the issue with the potential to make the most difference. It was further suggested that adidas and other companies stop talking about alternative means by which to improve workplace conditions. FOA is the sustainable only way.
2. It was noted that under SA8000 – for instance – FOA in China has been a complete failure. Alternatives to FOA will not work, are not sustainable, and do not benefit workers.
3. In response to a question, the current status of FOA in China was outlined thus:
 - There is no right for workers to form a trade union of their own choosing.
 - The law guarantees associational rights
4. It was suggested that the current legal framework is inadequate to support FOA, and the fact is that that law has to be changed. Associational rights under law should be pushed harder.
5. It is believed that workers are responsible and know how to negotiate, and it should to a large extent be left in their hands. The *Trade Union Law* provides for the election of trade union representatives in the work place. (This comment should not be taken to mean that there is no role for outside actors, but that Chinese workers have agency and can act on the basis of their own knowledge and under the rights stipulated in Chinese law.)
6. None of this is a substitute for FOA, particularly programs that lead to the formation of clubs, and so on. But it was also pointed out that FOA does not necessarily imply the need for trade unions. There may be other alternatives that could be explored.
7. The question was asked, is CSR a potential tool for change with regard to FOA?
8. It was thought that CSR has a limited role. Even if buyers push for elections in the supply chain, they are still left at the end of the day with an ACFTU branch in a factory, which means that it will or cannot play the role of a freely independent body.
9. One of the problems with using CSR as a tool to develop FOA is that organisations using this strategy tend to improve conditions in a limited number of factories and then conclude that because conditions are better, FOA is no longer an urgent issue (or not required at all).
10. In answer to a question, adidas outlined that it took a neutral role on the issue (see p. 24 of the 2003 Report). It is neither pro- nor anti-union. In response to this, it was stated that being neutral means nothing happens. And this is even more so in China (e.g., adidas has been more proactive in Indonesia where FOA exists in reality).
11. This raised the complex issue of whether China is different, and there was some disagreement over this. One view is that it's impossible to organise in China, but others dissented and suggested that it was "impossible" in places like Guatemala, Columbia and El Salvador as well, but people still struggle for the right to FOA (despite a high possibility of death for doing so).
12. It was suggested that Chinese laws allow for some kinds of organising, and they should be used and pushed aggressively. Others disagreed. There was no consensus on this issue.
13. It was noted that one of the serious impediments to FOA was buyers' purchasing practices, which keeps a lid on organising for the sake of keeping prices down.

- adidas responded by saying that they would not mind late delivery if it helped resolve labour problems, and indicated that they often tell suppliers to 'be late'.
14. Freedom of association should be seen as a human right, across the board (instead it tends to be perceived as a labour right, perhaps diminishing its fundamental importance).
 15. Even if there was agreement on whether the boundaries of FOA can be pushed harder and further in China, the ensuing question would revolve around building capacity, training, and other buyers to take up the issue.
 16. Capacity building and training around FOA, it was noted, can lead to unintended consequences. In a recent dispute, for instance, protests by workers initially led to negotiations and a final settlement, but later led to owner resistance, violence and jail terms for protesters. The irony in this case was that the facility in question had been involved in CSR training, and management blamed that training for teaching workers to make trouble. (It should be noted that the factory in question does not supply to adidas.)
 17. It is believed that the brands should push suppliers harder to negotiate when problems arise with workers. The three major points are:
 - Suppliers should not involve the police or other security forces
 - Suppliers should negotiate.
 - Protestors should not be dismissed.

These three non-negotiable points should be written into contracts with suppliers and enforced: i.e., adidas will cut contracts with all factories owned by a large supplier if they violate these principles. This is potentially very complex, especially if physical force is used by either side.
 18. adidas stated that it did not have a mandate to challenge Chinese authorities on FOA. One participant asked whether that could change if the mandate itself changed. adidas responded that that it doesn't lobby, and that its greatest leverage was with management. Some stakeholders argued that this was not a viable way to promote FOA; the buyers (or any company) should not organise the union.
 19. Setting up OHS or welfare committees was regarded as unsustainable. Buyers' attempts to organise workers *anywhere* are doomed to failure simply because they are top down.
 20. adidas might be better advised to withdraw from taking an active role in developing committees and support authentic groups who can do the work (training on workers' rights, etc).
 21. One strategy mentioned was to push bottom-up elections where the ACFTU had a presence.
 22. It is thought that the Chinese government wants the ACFTU to take a more active role in doing something on poor workplace conditions. If so, it was deemed worthwhile knowing whether conditions are better in workplaces where the ACFTU has a presence. There was no definitive answer on this, but it is generally conceded that conditions in state-owned enterprises are better. However, it also noted that the ACFTU presence was more related to general welfare rather than workers' rights.
 23. The idea that if the ACFTU grew larger (and perhaps more powerful) and acquired more skills, then it might also be better, was regarded as something of a chicken and egg statement.
 24. It also raised the issue of whether the ACFTU as "better than nothing". On the other hand some suggested that it is possible to create structures better than the ACFTU.
 25. It was suggested that although the ACFTU may not conform to notions of what an effective trade union might be, but there is a need to set up a dialogue.
 26. It was noted that the ACFTU is not a monolith.

27. The ACFTU has itself been pushing to some extent the notion of trade union elections. It was noted that the *Hangzhou Daily* published an interesting story in 2003 arguing that trade union direct elections were a labour rights reform promoted by foreigners, and concluded that such elections were “the future of trade union elections.” It was suggested that this provided a positive view and thus more room to move than is generally considered to be the case.
28. It was reiterated again, however, that companies shouldn't be the ones organising unions; it has to come from below. Moreover, returning to a theme from earlier in the day, CSR is pointless without the right to strike being protected by law.
29. One of the aims adidas outlined in the 2003 Report (see p. 24) was to develop “individual country strategies for promoting management-worker-union collaboration that will resolve workplace issues and problems in a sustainable manner.”
30. One response to this was that adidas shouldn't be using outside groups to train mainland workers, but using such groups to train trainers in China who can then adapt and localise programs to be of best use. It was felt that a training of trainers programme should be further explored by adidas.
31. There was some agreement on this, but disagreement over whether the political environment actually allowed it.
32. There was a belief expressed, however, that the ACFTU is ready to learn from overseas examples (although those examples would be quite specific). It has a position on the Governing Body of the ILO, and there have been a number of relationships between foreign trade union organisations and the ACFTU.
33. In this environment, it's possible that the ACFTU is reconsidering its role. The question arising from this belief is if that's true, then does the ACFTU know how to reform? This is not a facetious question: wanting to reform and knowing how to are not necessarily the same thing. Once again, Mexico was referred to as an illustrative example: when the Mexican trade unions were finally able to reform they just didn't know how to go about it (how to negotiate, bargain, etc).
34. If the ACFTU is ready to learn some new lessons, the issue is – once again – who is best suited to do it. It was suggested that the ILO does not have the capacity to do this. Who then? It was noted that adidas is a German company, so perhaps there is a role for German trade unions to take up the challenge of initiating some trade union training for the ACFTU.
35. Some thoughts about engagement with the ACFTU:
 - Don't use human rights as a club to beat the ACFTU; it's counterproductive because they are sensitive to what's perceived as “China bashing”. Criticisms of the ACFTU should not be made in the same spirit as some right wing critics, who criticise the lack of FOA in China yet vehemently support anti-union policies in their own country. It was noted that there is nothing wrong with talking to the ACFTU about human rights and their failure to uphold them.
 - In light of this, look more towards the ACFTU's own work and reports on union work, workplace practices, etc. There's lots of it on its website.
 - Talk more about unions as organisations to help workers, or more as organisations of workers.
 - Aim comments about unions to workers as well.
36. It was noted that although the most Congress and Trade Union Law revisions provided no official evidence that the ACFTU was changing, what is happening on the ground is. The terms “strike”, for instance, is being used in the *Worker's Daily*, which wasn't the case before. There are many reports on labour disputes in provincial papers.

37. There are many reports on labour disputes in provincial papers. What potential was there, asked another participant, for partnerships between global trade unions and businesses on these issues, and particularly in relation to training of the trainers programs?
38. It was noted that US companies have shown a willingness to engage with trade unions, so perhaps there is some potential here. It is also noted that public-private dialogue initiatives between governments and corporations have increased in the past few years.
39. Training of trainers is regarded as a crucial element of moving forward on FOA; rather than offering training programs in the supply chain, it was recommended that adidas could “grow groups” elsewhere so that they could do the training.
40. To make this sustainable, however, it was also noted that high rates of turnover in factories must be dealt with, possibly by offering longer contracts and improving general working conditions.
41. There was some dissent over this, giving rise the comment that it was putting the cart before the horse – it would be more useful to deal with the turnover of trainers first.
42. It was also noted that the SRI community orients well to standards, but are not so good at dealing with complexity. Any move towards clarity of purpose from the ACFTU, it as thought, would be welcomes by at least some sectors of the SRI community; i.e., union-linked pension funds.

Appendix 1

Participant List

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Jeff Hermanson, Solidarity Center, Washington DC
Tim Pringle, Hong Kong Confederation of Trade Unions
Billy Hung, Oxfam Hong Kong
Kalina Tsang, Oxfam Hong Kong
Chang Dae-oup, Asia Monitor Resource Centre, Hong Kong
Tony Fung, Hong Kong Christian Industrial Committee
Melissa Brown, ASrIA, Hong Kong
Zhou Weidong, PDA Network, Guangdong, China
Jenny Wai-ling Chan, The Chinese Working Women Network, Hong Kong

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