

adidas Group response to SÜDWIND report on Ching Luh

Comments in Report	Response by adidas
1. Ching Luh (CLU) Shoes	
<p>Factory B, located at the Aojiang Investment Zone in Lianjiang and funded solely by Taiwanese capital, specialises in the production of sports footwear for Adidas. With an 18,000-strong workforce, Factory B is a well-known major plant in its locality. Its workforce reached a peak of 23,000 before the onset of the global financial crisis, meaning it has sustained a net reduction of some 5000 positions ever since. Most of Factory B's workers are female. Hence whether the rights and entitlements of the female workers are properly safeguarded is an important reference point of our assessments.</p>	<p>To confirm, Ching Luh did not formally lay-off workers. Natural attrition was used as the means to reduce the number of workers employed during the economic crisis. In other words, where workers left, they were not replaced.</p>
<p>During the period of our study, it came to our knowledge that workers' turnover at Factory B was very high, with many workers being recruited by the factory a second time round after having left it earlier, the detailed reasons for which will be discussed later in this report.</p>	<p>We do not know the basis for the statement that Ching Luh has "very high" turnover rates. This is regularly monitored as measure of supplier performance. The average turnover rate for 2009 was 3.87% per month which is no higher than the average rate in the footwear industry.</p>
2. Recruitment, Labour Contracts, Resignation, Meals and Accommodation	
Labour contracts	
<p>Both factories signed employment contracts with their workers. Factory B renews its contracts with workers once in three years, also granting workers a photocopy of the contract. However, both factories do not comply with the provision on open-ended employments of the Labour Contract Law of 2008. According to this law, two successive temporary employments must be followed by permanent employments. Workers generally wouldn't scrutinise the details of the contract carefully before signing. Some even authorise a proxy to do the signing on their behalf. Many of them couldn't see the point of having a photocopy of the contract. Workers do not feel that the 2008 Labour Contract Law has brought them greater protection or that their conditions would improve as a result.</p>	<p>Yes, the contract is renewed every three years and workers are progressively moving over to open-ended contracts as their existing contracts expire.</p> <p>In 2008 when the new Labour Contract Law took effect, 197 workers had signed open-ended contracts. Another 551 workers will be signing open-ended Contracts when their current contracts are due for renewal in the coming months.</p> <p>New workers sign their open labour contracts with the factory right after the Orientation Training is completed. This is done in the presence of HR and other workers in the training room. We have found no evidence of any contract that has been signed by a proxy during our previous compliance audits.</p>
<p>Neither Factory A nor B demanded workers to pay a deposit upon recruitment. Nor did they withhold workers' identity papers either, being quite happy with just a photocopy of the ID. In the case of Factory B, however, it demands its workers to submit a health certificate as well as a permit for temporary residence. Workers revealed that Factory B did levy an enrolment fee of 30 renminbi (RMB) previously but had waived the charge since 2007. Neither Factory A nor B demand a fee from its workers now. Both factories recruited their workers mainly through the personal connections of their existing workforces, and called on the service of an</p>	<p>Please note that the rmb30 collected before 2007 was a requirement set by Lian Jiang local government. In fulfilment of that obligation the enrolment fee was collected by the factory and paid to the government. The government withdrew this requirement for a fee in 2007.</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>employment agency only very sparingly.</p>	
<p>When the number of its workers fell short of demand, Factory B would go on a major recruitment drive in the inland provinces. It also employs a big number of workers from the Hui ethnic minority group because hiring Hui workers qualifies the boss to special government entitlements.</p> <p>Factory B even issued a quilt to each of the 1000-strong Hui workers that it employs, and has provided them assistance in building a mosque. It had once offered workers a reward of RMB 200 for every worker they've helped recruit and who had never been on its payroll previously. But some workers complained that they were only paid RMB 100 for the service at the end.</p> <p>Factory B workers need to pay for their own work uniforms, generally at RMB 15-20 per piece and must obtain them from suppliers who are on good terms with the company's senior management. Even though it isn't mandatory for the workers in Factory B to put on a uniform for work, it's hard for workers to avoid staining their clothing from paint in the workplace, prompting many workers to opt for a uniform anyhow.</p>	<p>It is not clear to us what is meant by "special government entitlements" and we would request SÜDWIND to clarify this point.</p> <p>The referral fee for recruitment was set at RMB 200 in the past and is now increased to RMB 300. The fee is not paid in cash but is transferred to the bank account of the worker as part of their wage payment. Having inspected documentation in the HR system, it clearly shows payment of either RMB 200 or RMB 300 for referrals. There was no evidence of rmb100 payments. The way the system is set up, there is no means by which the floor supervisor can deduct the referral fee.</p> <p>On April 1, 2008 the factory withdrew its policy which required workers to wear a uniform and subsequently stopped purchasing uniforms for its workers. The factory does however provide workers free aprons, 'arm sleeves' and other appropriate PPE, according to the nature of their work.</p> <p>To comply with government regulations the factory is currently in the process of replacing the security guards' old uniforms with new ones. These are supplied free of charge.</p>
<p>Factory B, however, does require its workers to have a health check at the point of enrolment at their own expense because a health certificate must be presented to pass the factory gate. Factory B further imposes subsequent health checks on a yearly basis on its workers. Any of them who were found to have contracted Hepatitis B would sometimes be dismissed based on the fear that they might infect their co-workers.</p>	<p>When a new worker is recruited, the applicant need only provide the Health Certificate which is issued by the local authority. The payment by workers of such pre-employment health certificates is the normal practice in China. Once a worker has secured employment, the annual health checks are at the cost of the supplier.</p> <p>Ching Luh's Recruitment Policy clearly states "No discrimination on HBV carriers".</p> <p>The Health Certificate which is submitted by the workers offers no specific information on medical conditions and so there is no means by which this could be used to screen out HBV workers.</p> <p>Orientation Training and Compliance Training includes information and awareness raising on HBV and the company's policy which states that it does not accept discrimination against workers with HBV. We have found no evidence</p>

adidas Group response to SÜDWIND report on Ching Luh

	to support the allegation that the factory has dismissed a worker because of HBV.
Both factories instituted a probation requirement, with workers at Factory B tested out over three months. Workers at the sewing department of Factory B were subjected to a probation requirement of six months in 2009. Wages at the sewing department during the probation period were similar to the regular wages at both factories as most new comers are experienced and work at piece rate.	In Ching Luh sewing workers are the subject of a group based piece-rate wage system. Following the equal pay for equal work principle probationary workers receive the same general pay and benefits as other workers. The factory has agreed however to change the probation period for sewers to be in line with all other departments. It will be reduced to 3 months only.
Whether a resignation request would be accepted or not at Factory B hinges mainly on the immediate management or floor supervisors. The senior management would treat the request more favourably if they put in a good word. Otherwise, and especially when the worker concerned isn't on good terms with them, they are more than likely to make things difficult when a worker puts in a resignation request. In such a circumstance, a worker would probably have no choice but to opt for a "departure on one's own accord" (in which case he or she would be docked 10 days' pay). It's been mentioned earlier that workers at Factory B had been resigning or departing on their own accord in considerable frequency. The reason, upon our investigation, being that wages there were too pitiful and that the workers were unfairly treated. These problems seemed to be worst at the sewing department, with workers finding it hard to obtain a transfer to other departments of the plant where the conditions might be better. This prompted many Factory B workers to opt for a termination from the plant altogether, only to seek re-admission into other sections of the factory in a bid to improve their working conditions. Re-admission following a resignation generally takes just over a month anyway, according to Factory B workers, adding that this was a path well trodden by many workers.	<p>The factory has a policy which states if a worker resignation is not accepted by his supervisor, he can approach the Union representative. The Union representative will then communicate with the supervisor. If the communication fails, the Union has the authority to approve the resignation out rightly.</p> <p>Ching Luh has committed to change this practice so that a worker will only need to submit, in writing, their resignation. The service will be ended 30 days later without the need to go through any approval process. The Worker Handbook will be revised to reflect such a change.</p> <p>Factory policy indicates that if a worker resigns less than a month into his employment he can only rejoin the unit he/she previously worked for. He/She can be assigned to other units based on the production needs only when the resigning worker has completed 3 months of full employment.</p> <p>Where workers' leave the factory without going through a formal notice/resignation process, the pending wage can be paid out so long as the former worker returns all accessories owned by factory. A worker has 30 days to present himself, before forfeiting his pay.</p> <p>Ching Luh who has confirmed to change this practice and it will no longer withhold earnings where workers have "departed of their own accord". Worker Handbook will be revised to reflect such change.</p>
Factory B charges its workers for the meals, at RMB 0.5 per meal,	Nominal deduction of wages for food is a

adidas Group response to SÜDWIND report on Ching Luh

<p>implying there's a subsidy of RMB 2.5 per meal. Factory B deducted the meal charge as a matter of course, whether the workers actually make use of the meal facility or not. Workers are highly unimpressed by Factory B's meal facility, which is run by a subcontractor. They found the meal standard appalling, the food hardly edible and it is often infested with worms. The size of the meal serve there is also often inadequate. Yet they couldn't supplement it with their own supplies since Factory B banned workers bringing food into the factory complex. Nor can they obtain extra food by eating out because they are generally not allowed to go beyond the factory gate during lunch hours (unless they have obtained a written permission from their floor supervisors to do so and such permission must be sought in advance).</p>	<p>standard and widely accepted practice in China factories. Also complaints about the quality of food that is served in canteens is a common occurrence; it reflects in part the institutional nature of the food and the individual food preferences of workers. For those from Northern Provinces often find the food bland.</p> <p>There is no policy forbids workers from going out of the factory during lunch time. It requires the workers to clock out and in when they leave the factory gate.</p> <p>The factory has a mini-shop adjacent to the canteen, which sells food and daily commodities. Worker can buy food there.</p> <p>Workers are allowed to bring food, however they are not allowed to eat on production line when production is running.</p>
<p>Many of them ended up having to soldier on after lunch with a rumbling stomach, craving for food, craving for the fulfilment of a good dinner at the end of the day after work.</p>	<p>Please refer to above comment.</p>
<p>The dormitory cost at Factory B is RMB 40 per head per month, yet no visitors are allowed. Such restrictions and the ban of cooking in the dormitory have driven a lot of workers away from this option, with roughly only 10% choosing to use the dormitory. The great majority would rather fork out RMB 100 a month for a shelter elsewhere.</p>	<p>Food preparation and cooking in dormitory rooms can present hygiene and a fire safety hazard and is therefore restricted. A survey conducted by Ching Luh about dormitory life confirms that the top 3 reasons why workers move out of the factory dormitories are: 1) no independent living space 2) ban on cooking; and 3) lack of convenience for workers who have family members they wish to live with.</p> <p>The only restriction placed on visitors is that they must first registers with the dormitory housekeeper.</p>
<p>3. Wages and Work Hours</p>	
<p>Factory B employs a rather complicated method to derive a worker's wage. While it's nominally time based, yet wages will be docked if a worker fails to meet the required production quota. Some workers were paid on a piece rate, but workers pointed out that while a worker might have produced an impressive quantity of work, he or she might still be paid a pathetic wage. Furthermore, the basis of wage calculation changes all the time such that even with a pay slip on hand, a worker might still have difficulties working out how his/her overall wage was derived. For example, previously the overall wage was the aggregate of the merits bonuses, overtime loadings, base wage and bonus for perfect attendance (with long-service bonus applicable for those who have been in the factory's service for more than a year). But this has</p>	<p>We agree that the factory's wage structure is difficult for workers to understand, especially where this relates to a group-based calculation of the piece-rate. Ching Luh's HR team is currently working on simplifying the wage structure, to make it easier for workers to understand and track.</p> <p>Currently the wage difference between workers relates mainly to the overtime hours worked.</p> <p>Regarding the bonus allocation, 70% is based</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>changed, such that even though a worker might have worked a lot of overtime, the merits bonuses that he or she receives might not measure up. The average monthly wage of a Factory B worker is around RMB 1500, with the appearance that the base wage has been improved. But the fact is the management used all sorts of excuses to justify deductions, underpaid merits bonuses or didn't pay workers fully for the overtime worked. On balance and in reality, workers sustained a pay cut as a result.</p>	<p>on productivity of the worker, while the supervisor views and evaluation of the general performance of the worker can only impact on the remaining 30%.</p> <p>Ching Luh acknowledged inconsistency in practices when the floor supervisors allocate the performance bonus. Ching Luh has committed to revise and simplify the standards as well as provide adequate training for the supervisor.</p>
<p>The payday for both factories happens to be on the 10th of every month. Only minor delays for a day or two had been reported for Factory B during festival periods with major delays unheard of.</p>	<p>We view this as a positive statement that accords with good practice.</p>
<p>In terms of the issuance of pay slips, Factory B's records weren't impressive at all, with delays happening fairly often in some departments. The final assembly department and sewing department are notorious on this, with their floor supervisors often issuing the payslips only with a very long delay. It is believed the delay is a tactic in seeking to cover up the fact that many workers weren't paid their full entitlements. Worried that a prompt issuance of the pay slip would be an invitation for trouble, the supervisors opted for a delay to gain extra wriggle room. It must be pointed out that the handwork department and soles department do have a good record in providing workers with their pay slips promptly, doing so usually on payday.</p>	<p>The factory has confirmed that they have seen problems with some floor supervisors failing to deliver worker pay slips in a timely manner. They now require the floor supervisors to return the pay slip receipt to HR within 3 days of the date of wage payment.</p> <p>There is no evidence to support the reports claim that delays in the issuance in pay slips are "a tactic in seeking to cover up the fact that many workers weren't paid their full entitlements." We see no evidence of the factory failing to pay the correct entitlements to workers.</p> <p>With a factory of this size the process and progress in the wage payment is lengthy. It comprises five stages:</p> <ol style="list-style-type: none"> 1. 1st day of each month, HR Department gets all attendance data ready 2. 2nd-4th day of each month, IE Department finishes calculation of the bonuses 3. Accounting Department finishes the wage calculation on/before the 9th day of each month. 4. A copy of pay slips are given to each Department chief on 9th 5. Floor supervisors deliver the pay slip to each worker on 10th when the wage has been deposited into the worker's bank account.
<p>While the lean months for Factory B usually fall in March, April and September, the lean periods for 2009 had been more stretched out than previously, with the wage loss in a lean month to be as big as RMB 500-600 as compared to the peak times.</p>	<p>The main reason for reduced wages in the lean or low season months is tied to the loss of potential earnings through overtime. Typical wage ranges are given below:</p> <p>In March 2009, the average wage of the workers was RMB 1,141 with an overtime</p>

adidas Group response to SÜDWIND report on Ching Luh

	<p>wage of RMB 181.90.</p> <p>In April 2009, the average wage of the workers was RMB 1,462.81 with overtime wage of RMB 359.</p> <p>In March 2010, the average wage of the workers was RMB 1,715.37 with an overtime wage of RMB 414.35.</p> <p>In April 2010, the average wage of the workers was RMB 1,877.37 with an overtime wage RMB 495.92.</p>
<p>Both factories instituted a system of fines. At Factory B, team supervisors call the shots when it comes to hitting workers with a penalty or not. Say if a team supervisor has rostered a worker in for an overtime shift and the worker didn't show, he or she would be slapped with a fine, of not a negligible amount. The first to go would be the RMB 30 worth of bonus for perfect attendance, with the merits bonuses up for a cut as well. If a team supervisor decides to give the worker a hard time, a no-show for one night of overtime work could cost the worker more than RMB 100 worth of deductions. For not obliging on an overtime roster once, a worker would get an "extraordinary demerit point". Three such demerit points would land the worker with an official reprimand, thus threatening his or her entitlement for the year-end bonus. For those who really don't want to do an overtime shift, they must report their intentions to the team supervisor by 10 in the morning. For playing by this rule, a worker wouldn't be hit with any "extraordinary demerit points", and any docking of the pay would be less than it would otherwise be.</p>	<p>"Perfect attendance bonus" will only be docked where unpaid or partly paid leave is applied for, in writing, by a worker. In the case of overtime, workers are requested to verbally notify his/her supervisor by 12pm that they are not available to work overtime, so they can assess and roster the correct resources for any overtime work. A decision by a worker to decline overtime opportunities does not affect the perfect attendance bonus. We found no evidence that workers need to ask for leave if they decide not to work overtime.</p>
<p>While a workweek at Factory B also comprises five days, a standard workday there is one hour shorter, for eight hours instead. Overtime shifts on Saturdays are a regular feature. A Sunday shift rarely happens though, except when production deadlines are pressing.</p>	<p>This is a factual statement. We have no additional comments.</p>
<p>Workers have no idea how the overtime pay is actually derived, except for their nominal entitlements of RMB 5.61 per hour for overtime on a normal workday and of RMB 7.48 per hour for overtime over the weekends as well as over holiday periods. Factory B punished its workers for not working overtime by docking their pay or slapping them with demerit points, making it very hard for workers not to oblige. While the rules entitle Factory B's workers to a one-hour lunch break, they were rarely able to realise this entitlement in full, with workers being pressured to report back to the shop floor as soon as their lunch is over, with "late" returns attracting disapproval, an abusive scold, or even a docking of their pay. Overtime work would usually stretch the workday to 7pm. But the team supervisors usually coerced the workers to punch their time card at 5pm, hence short-changing workers for two hours of overtime pay per day. Scrambling for a justification, the team supervisors would claim that the extra two hours were to</p>	<p>Based on the local minimum wage which is currently RMB 650/month, Ching Luh has paid a 150% or a 200% overtime multiplier, according to the law. This is the basis for the RMB 5.61 per hour for overtime on a normal workday and RMB 7.48 per hour for overtime over a weekend, as stated in the SÜDWIND report.</p> <p>Since March 1, 2010, the local minimum wage increased to RMB 800/month. Ching Luh has therefore adjusted the overtime pay rate to be in line with the new minimum wage.</p> <p>Ching Luh has acknowledged inconsistency among floor supervisors in implementing the</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>make up for the shortfall in the workers' production in relation to the production target. Such a practice has prompted six to seven workers of Hui ethnic minority background to walk out on one occasion, for precisely the fact that they were to work overtime till 7pm but had to punch their time card at 5pm. In that particular instance, the workers would put up with this practice no more.</p>	<p>company policy of reporting all working hours. The view of the management is to consider this practice zero tolerance and new regulations are now being put in place.</p> <p>In order to avoid any supervisor extending the working hour without having workers record those hours, the factory will centrally control the power supply. The power will be switched on 15 minutes before the shift begins to warm up machines and will be switched off 5 minutes after the assigned shift time.</p>
<p>What's more, workers were even coerced to work a normal day without pay. Workers revealed that there were occasions when they have to work but the team supervisors reported otherwise to the management, resulting in the workers working for the whole day for nothing, as their time cards were never punched. Nobody knows exactly why this happened, prompting some workers to speculate that the senior supervisors would pocket the gain or they were actually forcing workers to slave for the supervisors' own private orders. What is clear, though, is that the team supervisors would emerge as the winner as they would be up for a fat bonus.</p>	<p>Ching Luh Management strongly denies such an allegation and do not believe it to be credible. They point out that if multiple workers were entering the production areas without swiping their cards they would come to the notice of the security personnel who man the area where the swipe machines are located.</p> <p>Ching Luh produces exclusively for adidas. It is impossible for workers to be producing private orders for their supervisors without being detected by the factory management or by the adidas production staff who are employed at the site. If workers have reported to work but not clocked in at the instruction of their supervisors then they need to come forward and lodge a formal complaint to the HR department.</p>
<p>As for other entitlements, Factory B issued a flat rate with no loading for seniority: RMB 420 for the year-end bonus, RMB 50 for "mooncakes" during the Mid-Autumn Festival, and a RMB 200 award for each of the outstanding workers. Outstanding workers would be chosen at the rate of two out of every 70 workers. There is a nominal selection process but it is widely believed that those who are on good terms with the leadership cadres would be guaranteed a spot.</p>	<p>All reward systems should be transparent, open and fair. Ching Luh is in the process of revising its policy to eliminate any personal bias by supervisors in the selection or nomination of "Outstanding Workers" for additional year-end bonuses.</p>
<p>4. Discrimination and Injustices</p>	
<p>The Rights of Female Workers - The rights of married female workers and pregnant workers</p>	
<p>The workers at Factory B are a lot more informed on this question. Workers here are entitled to maternity leave and only have to present to the management the permit authorising them to have a baby to access that entitlement. The maternity leave is three months long, with workers being paid the base wage during the period and the right to return to one's previous position guaranteed after giving birth. While Factory B has a rule to exempt pregnant workers from having to work overtime, the actual practice on the ground varied, largely at the discretion of the team supervisors or the department heads concerned. Some departments observed the</p>	<p>Factory has a policy to protect pregnant workers and juveniles from working overtime. Ching Luh accepts however that some floor supervisors may not be strictly adhering to this policy and they have proposed to strengthen the training, awareness and monitoring. They will</p> <p>1) Run further awareness training for workers on the rights of pregnant and juvenile workers.</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>exemption while others did not, especially when the production deadlines got pressing. Factory B hadn't taken out reproductive insurance coverage for its workers. The workers aren't entitled to maternity checkups during paid hours either, forcing them to have checkups only at the weekends in their own time. We were told that pregnant workers do get some special considerations, say in situations like being given the first spots at a lunch queue. According to workers, there had once been a nursing room at Factory B especially devoted for breastfeeding infants over lunchtime. It has now gone. Workers now can only breastfeed outside the canteen. It is a common scene over lunch hours that the canteen perimeters are dotted with many breastfeeding mothers.</p>	<p>2) Ask pregnant workers to register with the clinic. A list of those registered will be given to HR who will cross-check to ensure pregnant workers' rights are protected and that there are paid maternity check ups and no overtime. 3) HR will input the relative data in the HRMS. 4) A special remark will appear on the Overtime Application Sheet for all pregnant and juvenile workers so floor supervisors know that certain individuals should not be involved in working overtime.</p> <p>The nursing room is located near the factory gate and has been running continuously since its establishment. There is therefore no need for workers to breastfeed in other locations within the factory premises.</p>
<p>Factory B had been ruling out any recruitment from Henan Province, based on the perception that those of Henan origin are more easily provoked into a fight. However, generally speaking Factory B imposes special restrictions on neither the age of its workers nor on their places of origin. It has even hired workers who are 50 years of age or older. It does have a special protocol though, which is that it refuses to rehire male workers who had resigned from its ranks previously, not even when it is short of workers.</p>	<p>This statement in the SÜDWIND report seems to contradict the facts. Workers from Henan are actually in the majority in the factory and number over 1,200.</p> <p>The factory has a policy which prohibits the rehiring of a worker where that worker has previously been dismissed by Ching Luh. There are no other restrictions (gender or otherwise) in place on rehiring.</p>
<p>Neither factory pays its workers differently on the basis of gender.</p>	<p>This is a factual statement. We have no additional comments.</p>
<p>Yet in Factory B there is a major issue of injustices in relation to wages and other treatment. "You may have produced a lot but still get paid less than others in the same team", said a Factory B worker who said that the pay of a worker in that factory has no necessary relation to the amount and standard of work one does, adding that it hinges on his/her relations with the supervisors instead. This has been a source of major resentment. According to workers from the sewing department, workers from the same team in the same department could work exactly the same shift every day but still have some being paid RMB 900-1000 less than the others. Workers performing the same duties got paid the same irrespective of gender. But the relatives of the team supervisor could be paid significantly more and have much greater access to bonuses. Some workers may be fast with their hands and produce more than others, yet their production achievements went to the tally of the supervisors' cronies or their pet workers instead. Many in the final assembly department and sewing department were paid very generously for doing very little. There were even cases of individuals who weren't part of the team but came under the team's payroll. It means not only the genuine team members have to work harder, their share of the team's wage entitlements were also diluted by the fictional team members. While the competent</p>	<p>Ching Luh believe the only cases where workers may end up with differential pay levels is where they are employed to serve more than one production line. A material distributor may for example serve 2 separate production lines. They will be paid a production bonus taken from the performance of both lines.</p> <p>In order to make the bonus evaluation system more objective and balanced, Ching Luh will introduce a new evaluation system which will take effect from November 1, 2010. The evaluation will include measurements of efficiency (depending on the productivity of the individual worker), quality (depending on rating from QC), service year (data from HR) and then the supervisor's assessment.</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>workers could apply to be a team supervisor, only those who are on good terms with the more senior management stand a real chance of succeeding.</p>	
<p>5. Child and Juvenile Labour</p>	
<p>Two to three years ago, workers less than 16 years of age did surface in Factory B.</p>	<p>We can find no evidence to support this statement. Certainly no underage workers have been found through extensive record checks conducted in past audits.</p>
<p>They are not visible anymore. Yet it's still viable for the under aged to pass as someone meeting the age requirement with a borrowed ID if they looked mature enough. There are under age workers in Factory B and they worked the same hours as everybody else. A stricter regime was in place some two years ago, banning the under aged to take part in overtime shifts. But now, the under aged are also on the overtime rosters regularly so long as no one alerts the authorities of the practice. One special consideration for the under aged is that the factory would pay for the initial health check that a worker must undertake upon enrolment while the adult workers have to do it at their own expense. Once on the payroll, the under aged workers don't necessarily have to undertake an annual health check.</p>	<p>The adidas Group encourages its suppliers to employ workers of 16 years and above, so long as those that are under 18 years of age are not permitted to work overtime or are involved in heavy or hazardous work. Workers between the ages of 16 and 18 are termed "juvenile workers".</p> <p>Ching Luh does employ juvenile workers and has a policy to protect them from working overtime. As noted above Ching Luh is taking additional steps to ensure that its overtime restrictions is fully met, including additional awareness raising, training and monitoring by its HR Team.</p> <p>It is correct that the factory pays for the initial health check when the juvenile takes up employment, but are subject to annual health checks only after they reach 18. The factory will modify its policy to ensure 6 monthly check-up are conducted for juveniles.</p>
<p>6. Social Insurance</p>	
<p>Factory A takes out social insurance coverage for all its workers, funded by a mandatory deduction of RMB 66 a month from a worker's pay check. Most workers don't have a clue on the extent of protection it delivers, knowing merely that there's an age pension component. Factory B takes out a social insurance policy as a matter of course only for those workers younger than 35 (with those older than this missing out). Docking RMB 66 a month a head from the workers' fixed wage similarly funds it. From the pay slips, we gathered that Factory B only obtained old age pension coverage for its workers. As regards to health insurance, Factory B workers said they have medical expenses entitlement of up to about RMB 30 a month, with anything above that to come out of the worker's pocket. They complained that the factory charges an exorbitant price for medicine it issued. If the practice of mandatory deductions of the insurance premium from a worker's wage weren't in place, most Factory B workers wouldn't opt for social insurance. The premium was paid by way of the employer, and workers couldn't access their accumulated premium even if they terminate the policy despite the fact the premium came from their wages. They could access only part of it if they have achieved an accumulation history of 15 years. Yet most workers have absolutely no idea how long</p>	<p>There is no evidence to support the statement that the factory takes out social insurance only for those under 35 years of age. Currently 1799 workers over 35 years old are entitled to social insurance and receive it. The social insurance fee is shared between employer and employee according to the law.</p> <p>Regarding health insurance, the factory bought commercial medical insurance to cover all workers for incident/accident and serious illness. The entitlement of rmb30 per month is an additional benefit for minor complaints and non-prescription medicines that workers can be dispensed by the factory clinic. For any costs over RMB 30 but less than RMB 180, a worker pays 20% of the extra cost. If the cost is over RMB 180, worker pays 50% of the extra cost.</p> <p>It is understandable that some workers would</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>would they be at this particular factory. If they have a choice, they would much prefer having the premium money in their own pockets.</p>	<p>prefer having the premium money in their own pockets, since they migrant from one city to another. And the prospect is there for workers to transfer their social insurance premiums between locations. It is a legal obligation that workers receive social insurance and the factory has to continue to improve the workers' understanding of the benefits of joining the social insurance scheme.</p>
<p>7. Training</p>	
<p>Factory B issues every prospective worker a "Lean" handbook (which outlines the hints to more efficient production). They would be tested on their knowledge of the handbook, failing which employment is ruled out. There is also a once-a-year three hour training session on safety and health protection products. Previously, only workers from the soles processing department stood a chance to access the training, based on a lucky draw from among its ranks.</p>	<p>This is a factual statement. We have no additional comments.</p>
<p>8. Occupational Health and Safety</p>	
<p>At Factory B, while most workers weren't aware of any occupational health issues on the shop floor, some workers whom we interviewed did express concerns on suspicious cases. In the workers' opinion, the soles processing and paint spraying departments involved most risks because workers there often come into contact with chemical solutions and glues. Another reason is that factory management has made it a standard requirement for those handling chemical solutions to undergo an annual health check. Workers said the chemical solutions that they handled smelled strongly, labelled merely by a skull-and-cross-bone and some codes, but with no labelling in Chinese. The management never told workers what these chemicals were. Nor did they warn them that the chemicals might be toxic.</p>	<p>The factory's Occupational Health policies have been posted in the internal webs site and in the public bulletin. It has also been communicated during the orientation of new workers. Additional specific training has been given to those workers who handle chemicals.</p> <p>Through our own audits we are able to confirm that chemical names, warning signs and CSDS are posted on the chemical container and/or near each working station, so we do not understand the basis of this allegation.</p> <p>Occupational health checkups are conducted annually for those workers who handle chemicals and to reduce exposure worker are rotated to other posts every 2 years. To make sure this is understood by all the internal policies are being revised.</p>
<p>Workers often come across notices inside the factory regarding fellow workers suffering from Leukaemia and were called on to make a donation.</p>	<p>There are cases where the factory has called for voluntary donations for workers suffered serious sickness such like Uraemia, Leukaemia or where a worker's family has suffered a loss due to fire or flood.</p>
<p>A case in Factory B: A female who has been handling chemical solutions on a daily basis at work were issued irregular health reports in the last two years, prompting her to check it out at the anti-epidemic station. Doctors there merely told her that her blood has thickened. Last September, that worker developed extensive red spots on her neck, with the doctor treating her suspecting that</p>	<p>We would request that the SÜDWIND disclose to us the name of the worker so that we can properly follow-up and ensure the proper diagnosis of her condition and ensure no repeat of the exposure, if this is indeed the basis for the condition. To our knowledge</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>the chemicals she works with at work were the culprit. Those medical consultations had cost her hundreds of renminbi. For all the medical appointments and consultations, the worker needed to take time off work but her applications for sick leave were rejected. If she took time off on the basis of personal reasons, that would set her pay back big time. The worker couldn't afford it and had to soldier on, getting treatment only at night after work. The doctor at the hospital prescribed her drugs for detoxification and her condition has improved. Yet many of the red marks on her neck still refused to go away. She hence had pleaded her team supervisor for a new duty so as to avoid exposing herself to more harm. But nothing came of it for a long time, with the supervisor blaming his/her inaction on staff shortages. The worker has had enough and blew up into a major row with the team supervisor. It was only then that her request for a change of duties was soon approved.</p>	<p>there is no such thing as a "detoxification" drug. If there was a skin condition there could be something administered to reduce the irritation, or an ointment or cream applied, but if it is a question of exposure she would be continuing to experience the same symptoms. If she has now relocated to a new job in the factory and the symptoms subsided then a proper examination is required of the exposure of the worker who has replaced her at her previous work station.</p>
<p>The factories did issue facemasks for workers at the soles processing and paint spraying departments, but it was done rather irregularly. They might be issued once a week, sometimes only once a month. There were occasions when workers needed a new mask but their requests were turned down. For instance, the masks got smelly quickly from prolonged use in summer, prompting workers to ask for a replacement, and a rejection of the request meant that the workers had to put up with wearing a stinky and a hardly hygienic mask. Having said this, there were times when the workers didn't want to wear the masks and only did so for the show when the "5S" management inspectors came round.</p>	<p>A PPE Management policy is in place. The policy sets out the duration of use for different type of PPE and holds the floor supervisors accountable to monitor the delivery, use and replacement of the workers' PPE. PPE delivery records are available for inspection and have been cross-checked.</p> <p>We can confirm that proper ventilation systems are installed in the places where chemicals are used and that all workers handling chemicals have been trained annually in Chemical Handling.</p> <p>Local authority CDC conducts Air Quality Test each year and the results at all levels are within the necessary legal limits.</p> <p>Occupational health check-ups are conducted annually for those workers who handle chemicals. If abnormal readings are found, medical experts are consulted and workers relocated to reduce exposure levels. As mentioned above, workers who handle chemicals are rotated in their positions every two years.</p>
<p>9. Complaints and Trade Union</p>	
<p>Factory B has a suggestion box as well, but no workers have actually used it.</p>	<p>The Union receives on average 3-5 letters a month from the Suggestion Box, but more often workers choose to raise their issues directly with the Union representatives. The union recorded 142 grievance cases in 2008; 87 cases in 2009 and 67 cases in 2010 (until August).</p> <p>Tracking Records are kept for every single case with the details of follow up and the final result. For cases were the worker has signed</p>

adidas Group response to SÜDWIND report on Ching Luh

	<p>their names, the result will be reported back to the worker. If the worker is satisfied with the result, the case will be closed. If not, it goes to a higher level person for solution. The general complaints will be answered by the relative unit and the result will be posted to the public bulletin.</p>
<p>It also has a trade union presence, but as in the case of Factory A, most workers don't have much of an idea on what does it actually do and what issues could it deal with. All they know is that the union has the right to lop RMB 1.9 a month from each of their pay checks as union dues. They don't have a clue either on where union dues would be directed, or on how the dues money would be spent. Some workers said as all union officials came from the management, it seems to them that the factory owner most probably has a big say on the appointment of union officials. There are workers' representatives on the factory management committee apparently, but those positions are all occupied by either the relatives of management personnel or the servile types who wouldn't give the company any trouble. Workers are of the view that the union hadn't done much for them. Previously the union had dished out to the workers petty goodies such as soap, umbrellas, water bottles and drinking glasses. They do that no more. Workers still have no idea on what issues could they seek help from the union.</p>	<p>The Union has taken the following measures to promote itself:</p> <ol style="list-style-type: none"> 1) An introduction to the union and a contact phone number are printed in the Worker Handbook which is given to each worker. 2) Union makes quarterly working summary in writing and posts this on the public bulletin. 3) Annual working summary is made by Union Chair to the Union Congress. This is also posted on the public bulletin. 4) Union activities are reported in the company magazine. Each worker receives one copy. 5) Union has delivered this year to all workers tea in summer time, quilt to workers with long service. 6) Collect workers' concerns through Union Suggestion Box and Face to Face conversation. <p>The monthly RMB 1.9 union due consists of two parts – RMB 0.5 goes to a welfare pool where the Union spends the money on Mid-Autumn Festival gifts, worker entertainment and special bonus for long-service workers. The balance (RMB 1.4) goes to the Emergency Aid Fund. All the workers who suffer serious sickness or family disaster can apply for financial support from this Fund. Factory has a policy on Emergency Fund Application and Approval Procedure. Ever since the establishment of this Fund, hundreds of workers have benefit from it.</p>
<p>In fact, they aren't convinced that a union would deliver any real help and are worried that it might even lead them into trouble. For example, a female worker has had trouble getting paid and had put her case to the union. Yet absolutely nothing came of it. The case arose when she resigned but the division head refused to issue her wages. She then sought the union's help, only to be told by the union officials that she should head back to the division chief to sort it out herself – i.e., no help whatsoever.</p>	<p>It is fully accepted that unions are operating in 'name' only in China and do not genuinely represent workers in factories.</p> <p>Regarding the female worker referenced in the report, we would request that SÜDWIND provide us with the workers name so that we can investigate further.</p>
<p>Collective Action</p>	
<p>There were some strikes in Factory B, in 2008 and 2009. Several strikes took place over that period, in the sewing and final assembly departments, triggered by poor wages. The strike actions usually</p>	<p>We understand that there have been small scale stoppages with respect to individual production lines or groups of workers but we</p>

adidas Group response to SÜDWIND report on Ching Luh

<p>involved the whole team. Our interviewers happened to run into the strikes by two teams of workers at Factory B. That was a payday. While workers hadn't received their pay slips yet, they had checked their bank balances and realised that despite having worked loads of overtime, they were paid only a pitiful RMB 1300. A strike quickly erupted. The team supervisors immediately rounded up the team members who would be easily intimidated to form a revamped production line to start work while the rest of the workers went to take their case over at the personnel department. At the end, the strike was all over within an hour or so with workers quickly resuming work. The strike actions failed because the workers weren't united. A bit of bluff from the supervisors was enough to intimidate the less confident ones to resume work, leaving the original issues unresolved.</p>	<p>do not believe there had been any large scale strike at the factory since 2008.</p> <p>Certainly in 2009 with order cut backs and low production volumes due to the economic crisis, workers usually had 2 days off per week with also less overtime work from Monday to Friday, while in the previous months they worked 6 days a week as a regular practice. Earning piece-rate wages in such circumstance resulted in substantial reduction of workers pay. On one pay day when the pay slips were received, workers from 2 production lines who are involved in sole attaching stopped work. Managers from Administration and HR together with Union Chair people met the workers immediately. Questions about wage were answered during the meeting and the economic situation was explained as well to the workers. The workers resumed work after approximately one hour.</p>
<p>10. Inspection Mechanism / CSR</p>	
<p>Over at Factory B, many workers have no idea if their factory has applied to qualify for any industry standard. But their shop floors were also frequented regularly by inspecting customers. The management and floor supervisors took such visits very seriously. Before the event they would appoint workers who are more eloquent with their oratorical skills to do the talking with the customers. Those who spoke well and gave the desired answers would be rewarded with a bonus of RMB 200, while those who did poorly would be fined RMB 50-100. Some departments had gone as far as getting some less educated workers to stay in the lavatories for the duration of the inspections, to be let out only after the event. Some departments even prepared the desirable answers for workers in a written note, for them to memorise and recite before the visit. Any one who failed to deliver the company-supplied answers when being questioned by a client would also be fined.</p>	<p>Over the course of a year a factory will be the subject of many different kinds of customer inspections, such as Lean manufacturing audit, QIP audits, C-TPAT audits, SEA social compliance audits and insurance audits. It will also be inspected by local government agencies. We have found no past evidence of Ching Luh coaching workers, at least in compliance terms. All information supplied by management and workers during social compliance audits are cross checked and verified to determine its authenticity and accuracy.</p> <p>Worker chosen for compliance audits are selected at random based on a review of personnel files. Our audit teams never ask a factory to nominate interviewees. All information provided by workers is kept confidential.</p> <p>adidas Group's Chinese language Worker Hotline has received no grievances call from worker's being fired or fined due to not being able to answer auditor's questions "correctly", in line with some predetermined answers from the factory.</p>
<p>11. Workers' Key Grievances</p>	
<p>Factory B counterparts, however, were deeply aggrieved by what they considered as excessive power of the team supervisors. From our interviews with workers, it became evident that the team</p>	<p>It is widely recognised in the industry that the production line supervisors play a powerful role in terms of the condition and treatment of</p>

adidas Group response to SÜDWIND report on Ching Luh

supervisors are in a powerful position to make a big difference to a worker's plight at the workplace. They have a big say on issues like whether a pregnant worker needs to work overtime, on wage allocations, on whether a worker is hit with a fine, and on promotion possibilities. On one occasion, there was an appeal in Factory B for workers to make a donation to help with the treatment of workers suffering from leukaemia. The team supervisors weren't happy with the collection results and decided arbitrarily to deduct RMB 10 a head from all the rest of the workers.

workers in the workplace. They are the immediate first line of contact for the general worker. Ching Luh has obtained ISO9001, ISO14001 and OHSAS18001 certificates and therefore has a comprehensive policy system and management approach but it accepts that there are gaps in the communication and execution of company policies by some of the line supervisors. They believe it is a situation that calls for a continuous improvement and they are taking the following steps to further strengthen internal practices:

- 1) From November 1st 2010 Ching Luh will enact a new wage and bonus structure which will reduce the impact and influence of the supervisor in assessing the line workers performance and bonus payment.
- 2) Improve the policy for the selection and nomination of outstanding workers for special awards.
- 3) Reinforce the internal disciplines procedures and expectation for supervisors' in their communication with and treatment of workers.
- 4) Offer additional management skills trainings to all levels of supervisor.