

Oxfam Australia
New South Wales Office
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Attention: Ms. Daisy Gardener,
CC: Ms. Kelly Dent, Ms. Sarah Rennie, Mr. Chris Wangkay, Ms. Mimmy Kowel

April 30, 2010

Dear Daisy,

Response to your recent letters and emails - labour issues in Indonesia

It was a pleasure to meet with you and your colleagues at our Jakarta office on March 26, 2010 and again in PT Ching Luh Indonesia ("CLI") on March 31st and April 21st, 2010. We believe the meetings were constructive and provided us all with an opportunity to openly discuss various labour-related issues and topics. It was also a positive step to have the CLI management team engage directly with you. We believe this will lead to better communications and understanding of the issues facing CLI in their hiring process.

This letter is to formally respond to your recent letter and emails dated 12th February, 8th April and 10th April, 2010, respectively, related to your concerns over recruitment practices at CLI and what you believe to be anti-union discrimination. Please note that in order to fully address your questions we have attached to this letter a detailed response prepared by CLI's HR team (see **Annex 1**) and additional documents relating to CLI's recruitment system for your reference (**Annex 2**).

Please find below our response to the specific points raised in your letter and emails:

I. OXFAM letter dated February 12, 2010.

1.1. CLI Applications from former Union officials of PT Panarub

In our email to OXFAM dated December 14, 2009, and in several follow-up discussions with OXFAM, we have reiterated our position and approach regarding the job search by the former union officials from PT Panarub. We have not disclosed to CLI the names of the former union officials nor asked CLI to prioritize their employment, as we had with

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the ex-Spotec workers. We do not believe it is CLI responsibility to deal preferentially with these applications. Given that the trade union status of these ex-Panarub workers has not been disclosed to CLI, it is hard to level a charge against CLI that they have deliberately discriminated against them.

On our part we have continued to check and independently validate the progress of former Panarub union leaders' applications in CLI data base. Below is the status of the applications for individuals named in your email of April 8, 2010 in CLI recruitment data base:

Name	Receipt date	Experience	Status
Suparjo	December 23, 2009	Assembling	Failed in documentation
Hamdani	December 24, 2009	Warehouse	Waiting List (not processed)
Suwandi Hekindo	January 1, 2010	Warehouse	Waiting List (not processed)

As a follow-up, we have contacted **Suparjo** about the status of his application and shared with him CLI's documentation requirements, so that he can re-submits his application with the correct and complete information required by the factory. To place this in context, at any given time there are hundreds of applications listed in the CLI data base which have also failed the documentation requirements. So this is not something exceptional and can not be taken to be an act of discrimination.

1.2. CLI Applications from former Union officials of PT Spotec

As we mentioned several times in our past communications, even though adidas is not able to direct any of our contract supplier to preferentially hire any specific individual, including former trade union officials, we still stand by our commitment to monitor the application status of former union officials who are brought to attention to ensure there are no deliberate acts of discrimination by our suppliers.

In our meeting at the adidas office on March 26, 2010 we shared with you, the steps we had followed in monitoring the application status of **Agus Santosa** and other ex-Spotec union officials. Their applications were duly processed by CLI when there was a new hiring round in the Chemical Department in early March, 2010. We took immediate action when we learned that **Agus's** application has failed and conducted an investigation. At that time, CLI had agreed to re-call **Agus** and other former union officials in a make-up session. However, we then learned that a group of former Spotec workers had lodged a petition letter with CLI opposing Agus's employment. The workers were allegedly disgruntled with their former union representatives, due to deductions that were made from severance payouts during the 2007 PT Spotec factory closure.

On our instruction, CLI carried out investigation to verify the authenticity of the petition and subsequently concluded that the workers concerns were valid. Understandably management was hesitant in proceeding further with the job application, fearing a backlash from their employees. After further discussion with adidas, CLI agreed to the following:

1. CLI to facilitate a meeting between **Agus** (and other former Perbupas officials) with the petitioners, in order to address their concerns.
2. Once the issue is resolved and the petition withdrawn, CLI will proceed to process **Agus** and other applications, as per CLI standard hiring procedure.
3. adidas will continue monitor to ensure that the recruitment is conducted in a fair and transparent manner.

1.3. Information and Online Notification regarding Job Vacancies in adidas' suppliers

We have looked careful into the prospect of having our suppliers post job vacancies on-line and have concluded that it is not practical course of action if the quality and accuracy of the information demands constant monitoring by adidas - something for which we do not have the necessary resources- or if it requires us to mandate such an approach to all suppliers. We would be happy to encourage them to consider this as an optional channel for communication, but we know that a good number of suppliers are tied to the more localized and time-honored practice of posting job vacancies at the factory gate, or seeking referrals for job applicants from their existing employees.

To give you an understanding of the scale of current recruitment, given the economic upturn we estimate that there are over 3,200 job openings in the footwear and apparel sector (see **Annex 3**)

1.4. CLI's Recruitment Procedure

We have discussed, at length, the subject of CLI's recruitment practices in our recent meetings and we have attached a detailed explanation of their procedure in Annex 1.

1.5. Transparency in aptitude tests at CLI

We have reported our findings from the **Ari Maryati's ('Ari')** investigation in our letter of 30 April, 2009. The investigation concluded that there is no strong evidence to support **Ari's** claim that she had failed the probation period due to her union affiliation. Ari was given a right of appeal to a bipartite meeting and SBKU union was involved in that process. We had recommended previously that if she feels she has been treated unfairly or discriminated against, then she should bring the case for industrial dispute

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settlement, but we have not heard from her and do not know whether she has acted on our recommendation.

We do not believe Ari's situation is comparable to the case you raised in the letter (i.e. **TS'** case). In **TS'** case we found clear evidence from the test record that there was tampering by a supervisor – in order to help his preferred candidates pass the test. It is important to note that in terms of the factory recruitment procedures we can only act where there is clear evidence to support our intervention. If Ari has new evidence to offer (aside from the record of her probation appraisal result) which points to a similar unfair or biased treatment, then we can re-open her case.

1.6. Allegation of discrimination against applicants without local identity cards (KTP)

As you have acknowledged, adidas have already provided a response on the question of ID cards at CLI, but you have added a request that we confirm the exact number of CLI employees who hold local ID card compared those who do not. We are not inclined to spend the time in the factory, utilizing our already stretched resources, checking and verifying this level data. You will be aware that most, if not all, companies in Indonesia require the submission of ID information with their applications; hence we do not have strong grounds to ask CLI to do otherwise. Also, CLI has committed to improve their recruitment system and practice as detailed in the attachment to this letter, including clear criteria and requirements for job applications.

We trust this satisfies your request.

1.7. Allegation of bribery at PT Nikomas

We have addressed this case several times in the past communication with OXFAM, in letters and in our direct discussions. Your colleague, Mr. Chris Wangkay, did pass to us a note from Neneng stating that she had paid a bribe to secure employment at PT Nikomas. However, she was unable to furnish any specific information, such as the name of the person who received the bribe, etc. It is not possible for us to launch investigation into a case as serious as bribery without adequate and detailed information.

1.8. Investigation into Suparjo ("Parjo") at PT Alaska

We have shared with OXFAM the findings from our past investigations and there is very little more we can add. We remain in contact with Parjo and have responded to his query about the status of his applications in CLI. We also urged him to send applications to other adidas suppliers, where there are current openings.

1.9. Violations of the FLA Code and adidas Workplace Standard

As a founding member we are fully aware of our obligations to the FLA. Our compliance programme is reviewed annually by the FLA to confirm that our practices accord with their requirements, including investigations into any breach of the FLA code provisions by our suppliers.

1.10. Re-instatement of Kosnan, SBGTS union leader at PT Panarub

We also very much welcome the Industrial Court ruling which instructed Panarub to reinstate Kosnan. Panarub has duly reinstated him to full employment. Contrary to your claim that we did not take a pro-active role in the case, we were in fact very active 'behind the scenes'; we spent a considerable amount of time and effort to monitor and investigate, but as is our policy we did not directly intervene, or interfere, given that there were legal proceedings. We did however secure an undertaking from Panarub not to contest the ruling, if the outcome was not in their favour.

II. OXFAM email dated April 8, 2010

2.1 Ex Spotec and ex Panarub Union leaders

Please see our response in Sections 1.1 and 1.2 above.

2.2 Mapping out next steps to ensure a fair process

When we meet on 26 March, 2010 we openly discussed the specific cases which OXFAM had raised regarding employment opportunities for former trade union officials from PT Spotec and PT Panarub. We acknowledge that CLI hiring procedures had flaws and to date had been poorly implemented. We also shared with you our incredulity at decision taken by CLI to screen workers for job positions based on their height, which was clearly discriminatory in the case of Agus. However, we do not share the notion, nor do we see evidence (as described earlier), of any discrimination directed against the applications lodged by former union officials from PT Panarub.

The following are our respond to the below points raised in your letter:

Clear steps for how the individual cases of discrimination will be brought forward to CLI and then followed up through a fair and transparent process

Despite hesitancy from CLI to process the applications of the former Spotec union officials, who are the subject of a petition from their workers, we have convinced CLI that they should provide an opportunity for Agus and other former SBGTS officials to resolve

these concerns by the meeting with the petitioners. If we can overcome this hurdle, then the applications can proceed in a fair and transparent way.

A clear process for how those union leaders who are already in the database will be contacted about new positions

CLI recent internal assessment found that the FIFO system in their database was not always consistently being followed. Therefore, as part of their efforts to improve the overall recruitment system and practice, CLI had agreed to 'clean up' their database from January 2009 (as cut off date), where all applications which yet to be processed will be prioritized in next hiring round.

We have checked and located the applications of the individuals listed in your email dated April 8, 2010 in CLI database. If CLI implement their commitment above, we are hopeful that those individuals will be called for interview in the coming hiring rounds (although not necessarily the first one). Please note that CLI plans to start a new hiring round in the second week of May 2010.

We will closely monitor their applications to ensure FIFO principles will be strictly followed by CLI.

Clearly articulate changes to the recruitment process at CLI to ensure that applicants are processed in a fair and transparent manner

CLI has reviewed, revised and improved their recruitment process, as detailed in an Annex to this letter.

New job openings in adidas suppliers in the area will be distributed by adidas to the unions SBGTS and SBKU. A copy of applications submitted to other adidas suppliers will be given to adidas. We expect adidas will then ensure that these applications are handled in a fair and transparent manner.

We enclosed with this letter the most update vacancies in adidas suppliers (Annex 3). Please be informed that we have shared the list in advance to SBGTS (via Agus) and later to SBKU as per OXFAM request above.

Given the size and scope of our compliance work in Indonesia, which extends to over 50 factories, and our recent loss two of key team members - one due to resignation and the other, tragically, due to illness - we are severely constrained in our resources. It is therefore important for OXFAM to understand that we can not mirror the process that has taken place in recent years at CLI. In other words, we will not be able track individual job applications across all of our suppliers. We will however respond to

specific cases raised by applicants, where there is clear evidence of discrimination or unfair treatment.

2.3 Claims of intimidation and harassment by local groups

In our recent meeting in CLI factory, CLI management team explained to OXFAM how they have tried their best to balance the interests of different stakeholders in their recruitment process. Despite being a new investor, without a past history or relationship with the former Spotec management, CLI committed to adidas to prioritize former Spotec workers in their hiring process. In parallel with this, CLI also made undertakings to the local villagers to offer them employment opportunities.

CLI's engagement with the local villagers has been a difficult one, and the villagers have continued to demand more local *quota* in terms of jobs. To back their demands there have been at least 3 occasions where the local villagers have held demonstration in the factory, causing property damage. Moreover, there were numerous reports from CLI employees (such as skill testers and line leaders) who have been the subject of threats and intimidation from local villagers.

In order to better manage the situation, CLI has involved the local authorities in their negotiations with the villagers. We understand that in their most recent agreement, CLI has committed to allow roughly 20 % of new hiring to come from the local community.

You mentioned in the letter that OXFAM is at loss to understand why this happen to CLI, and did not happen in Spotec previously. To put this perspective, we believe there is huge difference between the past operations and a newly opened factory. We seen similar situations in other places when there have been new start-ups.

We concur with you that CLI needs to improve their hiring practices, and CLI is duly committed to do so. Needless to say, it is in CLI best interest to find the most qualified applicants, however they also need to strike a balance with other interests which might affect or disrupt their operation. As part of their improvement efforts, CLI has tried to streamline the hiring process through different channels (open/public applications, referrals and local villagers) and set out clear criteria and steps for each. This will help to create a more fair and transparent process for everyone.

For further information please see Annex 1.

2.4 FOA Protocol

We are committed to continue our role (as brands representative) in the negotiation process with the Trade Union in the development of FOA protocol. Despite recent

setbacks, we are glad to know that the trade unions had responded positively to our request to continue the process, albeit over a longer time frame.

We believe it will take time before we reach a level of trust and agreement to conclude the negotiations. Direct engagement is therefore important to achieve a better level of understanding and cooperation between the parties involved.

2.5 Training Centers

Recently we have learned that the Indonesian Employers Association (Apprisindo) has taken the initiative to establish a training and education center for footwear industry in Indonesia. We understand that this was designed as a public private partnership project, wherein there will be some support from Indonesia government.

This initiative is still at a very early stage, and we do not know how quickly it will progress. We will update you when we know more.

III. OXFAM email dated April 10, 2010

We have attached in Annex 1 information prepared by CLI which we hope addresses the questions you have raised on their recruitment process.

We hope the explanations given above sufficiently address your concerns. Please do not hesitate to contact us again if you have further questions. We look forward to our continued engagement.

Sincerely,



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William Anderson
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