



OXFAM Australia
Mr Andrew Hewett
Executive Director
132 Leicester Street
Carlton, VIC 3053
Australia

29.02.2008

Your letter dated January 23, 2008

Dear Mr. Hewett,

Thank you for your letter in which you have asked us to respond to a range of questions related to the adidas Group labour rights programme. We appreciate that OXFAM Australia recognises our efforts and achievements with respect to greater transparency and our active efforts in preventing discrimination against trade union members in particular factories.

You attached to your letter a number of printed copies of standard emails in which people express their concerns about the treatment of workers making sporting goods.

We value the views and feedback of our stakeholders and strive in our engagements to be open and honest about what we have, and have not, achieved. As you know, our staff in Asia has been in very regular contact with your staff, exchanging correspondence and views both by mail and in face-to-face meetings. We believe this has been a positive dialogue with OXFAM Australia. Also, we provide the broader NGO community with regular updates and in-depth information about the Group's sustainability programme through our annual social & environmental reports and other information which we disclose on the Group's website.

On the following pages please see our responses to the questions you raised in your letter. We would like to note that for certain responses we have referred you back to the information we already had provided to OXFAM Australia in earlier correspondences.

We hope that our responses address your concerns.

Sincerely

Frank Henke
Group Social & Environmental Affairs

William Anderson
Group SEA – Region Asia Pacific

Responses to Questions

Question re. confidential and accessible means for workers to report exploitation and abuse

In 2007, the adidas Group made further efforts to mature and strengthen confidential reporting channels for workers in factories.

- The SEA team continues to distribute business cards to workers during interviews. The new adidas Group Open Letter to workers has been posted in factory common areas. The letter not only explains our Workplace Standards, it also provides contact information for workers to communicate directly with SEA staff.
- SEA provided training to suppliers' Human Resource/Compliance staff to further strengthen the internal development of their grievance policies and procedures.
- As a pilot we participated in the roll-out of the Clear Voice Hotline in the Americas, a factory subscribed model for confidential reporting channels. We are also experimenting with NGO-run hotlines and confidential reporting channels in China and Bangladesh
- More than 1000 workers communicated with SEA staff in 2007 seeking help or redress of issues in factories. The SEA database documented the grievances reported, the method of reporting (email, phone, SMS, fax, face-to-face meeting, etc), the number of workers represented, the nature of the grievance reported and the follow-up actions by the SEA team. The most common grievances reported were related to strikes and disputes, dismissal, discrimination, incorrect payment of wages and benefits, harassment and intimidation, excessive overtime, disciplinary practices, and poor workplace conditions.
- In response to communication from workers, SEA investigates the issues found during worker interviews, management interviews, and document review. The SEA team identifies the training needed or the alternative means of consultation and monitoring required. Depending on the finding, SEA will involve liaison office staff, quality staff, other brands, NGOs, and local government in the issue resolution.

Question re. independent education and training for workers concerning their rights at work

In 2007, we engaged or partnered with the following organisations in Asia who provide training services for workers' education and training on labour rights:

- In China and Vietnam SEA worked closely with local arbitration bodies, external consultants and the ILO, to develop and run dispute resolution training for suppliers.
- In Cambodia we continued to support the ILO-run Better Factories Cambodia programme and supporting training initiative and rights awareness for workers and unions.
- Collaborations with Indonesia's Manpower Department and other brands included training for suppliers on employment contracts and settling industrial disputes. The Ministry of Labour and Industrial and Trade Ministry were engaged to discuss effective management of factory closures.
- We used the service of local external consultants to provide training about food and canteen hygiene for suppliers in Indonesia.
- At the end of 2007, we initiated a project in Indonesia where we will identify and engage credible and professional consultants who can help factory unions and workers in establishing worker cooperatives in a factory.

Question re. further transparency regarding company supply chains and efforts to improve conditions

The adidas Group values transparency and stakeholder feedback. We report regularly on our compliance work including the location of our suppliers globally. We also submit our programme to evaluation, accreditation and public reporting by the Fair Labor Association. Moreover, we continue to practice full disclosure to researchers, trade unions and other concerned NGOs, based on their specific requests. A practice we have followed for more than a decade.

In 2007, the adidas Group has been taking the following approaches to to further strengthen transparency regarding its supply chain:

- Regular reporting of its programmes through our annual social & environmental report and its corporate website. The website is permanently kept up to date and statements on factory cases are reported there.
- We continued in our practices to disclose factory names and addresses to several local union affiliates based on individual requests. A full list of our main suppliers has been posted on our website and is updated on a regular basis. The addresses of US collegiate licensed suppliers were also disclosed to the universities in the United States that hold licensee agreements with us.
- One innovative feature in our efforts to be a transparent company is the Group's participation in the Fair Factories Clearinghouse (FFC). The FFC is an industry-wide database that centrally gathers information from the whole supply chain, and records our monitoring results. By using this data system there is now a higher level of transparency: for instance, compliance information in the FFC database can be shared with other companies and third parties.

Question re. purchasing practices which allow suppliers to respect labour standards (including stable business relationships and reasonable prices and delivery times)

The adidas Group has implemented a sourcing strategy that seeks to balance security with flexibility and growth. The sourcing strategy is reinforced by regular compliance evaluations which rate the effectiveness of actions taken by management to remedy non-compliance. The factory compliance ratings are determined through the monitoring process and are communicated to colleagues in Sourcing for inclusion in the key performance indicators used to decide production allocation and factory site selections.

It has been adidas Group policy for the past years to further consolidate our supply chain, placing larger orders with fewer factories and establishing long-term partnerships. Our international suppliers enter into formal 'open' contracts, i.e. they do not have a specific term and orders are placed on a recurrent or seasonal basis.

We actively work with our Sourcing teams and encourage 'level loading' to distribute the flow of orders to manage the peaks and troughs in working hours. We have also managed the process of order reallocation between factories where it is anticipated that a breach of our weekly working hours standard might occur. We also require suppliers to submit capacity calculations to demonstrate to us that they can accommodate orders, without breaching the maximum permitted 60 hour/six day work week.

Question re. framework agreement between the ITGLWF and the WFSGI to facilitate freedom of association and collective bargaining

In previous correspondences we had already outlined our position on International Framework Agreements (“IFAs”). We believe that the current forms of IFAs proposed by union federations to the WFSGI do not recognise the legal and commercial independence of its members and their business partners. The WFSGI is not formally authorised to enter into formal agreements with third parties in relation to those issues which are exclusively within the control and responsibility of its members and their suppliers. Furthermore, in the previous drafts of the IFAs which have been provided to the WFSGI, there is an imbalance in relation to the obligations imposed on the WFSGI and its members and their suppliers (in terms of monitoring and disclosure) as compared with the obligations to be met by union federations.

There is no doubt that IFAs would extend the influence of international union federations in Asia and other parts of the world. However, we have some concern that local unions may view such agreements as undermining their rights or bypassing the need for negotiations at the local level. There have been instances of long-standing partnerships between a company and trade union in different countries being disrupted by global union federations, without first factoring national realities. With brands and suppliers around the world, the WFSGI must consider the potential impact on local partners and the ramifications an IFA could have on such relationships. Furthermore, there are other important questions regarding IFAs which have remained unanswered, for example:

- The actual legal status of IFAs and how they impact the national legal context.
- What happens in cases where the supplier’s workforce is unionised with an affiliate which does not belong to the international confederation?
- Where there are inconsistencies between terms agreed globally and existing local agreements, which prevails?

Given that there is still some ambiguity as to the application and impact of IFAs at the local level, we will continue to engage directly with factory management, workers, and local worker organisations and NGOs. This approach has enabled us to strengthen our programme, at the same time as allowing adidas Group suppliers and their union counterparts to develop relationships independent of our influence or interference.

Question re. prioritising retaining unionised factories in the companies’ supply chain

We do not have in place a specific policy that actively favours the selection and retention of unionised factories over non-unionised factories. However, if we were to find clear evidence of “union busting” by a business partner, whereby a supplier deliberately closed a unionised factory in order to re-open a union free enterprise elsewhere, we would view this to be a breach of FOA and would take enforcement actions which also may lead to the termination of our relationship with that supplier.

Our primary concern is whether suppliers, or any individual in their employment, restrict (or attempt to restrict) the rights of workers to associate freely, or obstruct the activities of a legitimate union, or the members and representatives of a union, to organise. Where we find such breaches of FOA, we will actively intervene in support of workers’ rights, where necessary engaging with government agencies, the ILO and non-government organisations to resolve the issues. Typically this has included identifying and addressing discrimination or harassment in the workplace, based on union affiliations, and securing the re-instatement of workers unfairly dismissed due to their union activities.

Question re. banning, or severely restricting, the employment of workers on short-term contracts

The adidas Group's Social & Environmental Affairs team has, for many years now, actively encouraged suppliers to minimise their use of temporary workers, in favour of employing workers on long term contracts.

Our policy has been communicated directly to suppliers in training sessions run over the past 7 years, i.e. since we first issued our Employment Standards in 2001.

If factories close, ensuring that workers receive their full entitlement to severance pay and take steps to help ensure there is no discrimination against worker activists if they apply for jobs with other suppliers

We have strategies in place to monitor closures and relocations, and we have been active in our engagement with, and support for, unions and workers where suppliers have sought to downsize or close factories.

We request that our suppliers provide mid and long-term business plans, including their plans for opening or closing production locations and reasons for doing so. Knowing their plans at an early stage allows us to evaluate the steps necessary to minimise the social impact of factory closures or lay-offs.

In the case of retrenchments, the adidas Group requires suppliers to have in place a viable financial plan to manage worker severance pay and benefits. We encourage our suppliers to go beyond meeting legal minimums, and to engage with unions and workers to ensure lay-offs are managed in an open, fair and transparent way.

In several cases of factory closures we have taken intensive efforts in helping workers find new jobs in other of our suppliers' factories, e.g. in organising job fairs for workers or asking other suppliers factories in offering jobs to them.

Not increasing your company's sourcing in countries and free trade zones where the right to freedom of association does not have legal force. Any new production should be in countries and zones where this right has legal effect.

Our sourcing policy distributes production across a range of countries – the major sourcing countries being China, Indonesia, Thailand, India, Turkey and Vietnam. Other secondary sourcing countries include Cambodia and the Philippines. The selection of a sourcing country and placement of orders in any given factory is influenced by a number of factors, including tariff and bi-lateral trade agreements, the individual factory's ongoing business performance and their social, health and safety compliance.

In Asia, where the majority of our product is made, we see varying levels of trade union coverage within the supply chain. In countries such as Indonesia trade unions are very active and are widely represented in the factories making goods for adidas Group brands, indeed in some cases the factories have several competing unions in the same workplace. In other countries such as Thailand, where there is freedom to form unions, the total number of unions remains very low. Nationally only 4% of the manufacturing sector is unionised. And of course there are countries such as China and Vietnam where there is only one "official" trade union, sanctioned by government. In those countries we have supported the development of parallel means and have worked towards improving worker-management communication and worker representation.

Questions re. supplier factories in Indonesia

With regards to the three factories closure cases (Dong Joe, Tong Yang and Spotec), we believe that we have provided a clear and comprehensive explanation in our letter to OXFAM Australia dated October 4, 2007.

As described in our earlier letter, following the closure of the three factories at the end of 2006, the adidas Group made extensive efforts to manage the issue and has acted beyond our legal duties by providing support to the workers through our medical care programme. That programme, which included extensive outreach and feedback from affected workers and their unions, lasted until August 2007. In addition to this, in the aftermath of factory closures, we had proactively engaged with the government and the industry association, to draw their attention to, and seek their support in resolving worker compensation claims. Eventually all three factories went through a bankruptcy process, which resulted in different outcomes for the factories and their workers. In the bankruptcy process the adidas Group neither had a legal right, nor obligation, to intervene. As per Indonesian bankruptcy law, the court-appointed Curator bears full responsibility to settle the workers' severance payment.

You will be aware that the Spotec factory was bought by one of our footwear suppliers and is currently in a start-up phase. The new factory owners have agreed to provide employment opportunities to former Spotec workers and our SEA team in Indonesia is working closely with former Spotec union members to monitor the hiring process.

With regards to the the union membership verification process at PT Panarub, we continue to actively engage and communicate with the two unions and the factory management team. At one point (as we reported to OXFAM Australia in October 2007) consensus was reached, with all parties agreeing to participate in the verification as mandated by Indonesian law. Recently, however, there was a setback when the SBTGS union unilaterally withdrew their support for the verification exercise. Despite extensive efforts and numerous meetings spanning several years, it is increasingly difficult for the adidas Group, as a third party, to facilitate a process in which the unions involved show no desire to work together, or reach consensus on a way forward.

Our SEA team in Indonesia is also maintaining regular communication with the dismissed former union officials from PT Panarub. We have provided them with the list of our suppliers in Indonesia, along with the necessary contact details, to which they are welcome to send their application should any job opening become available. The SEA team has committed to monitor applications, to ensure that the former union officials are treated fairly (as per factory hiring policy and procedure) and to prevent any discrimination taking place in the process.