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Dear Mr Anderson and Mr Nurmansyah,

Re: Workers' Rights in Indonesia

Thank you for your letter of December 17 2010. We continue to value adidas' engagement with Oxfam Australia with regards to workers' rights in Indonesia. Thank you also for the information regarding the areas of improvement around workers' access to confidential reporting, transparency and other purchasing practices. Please find attached to this letter a response to some of those points.

In the case of the unfairly dismissed Panarub union officials, as you mention, there have been numerous letters exchanged, meetings and phone calls over the past several years between Oxfam Australia and adidas. Yet despite this high level of correspondence we have not seen any progress for the handful of former union leaders who have repeatedly tried to find work at adidas suppliers. We are at a loss to understand why these skilled workers have been unsuccessful in all of their applications to adidas supplier factories. It is of considerable concern to us that after 5 years none of the 33 Perbupas union leaders have been able to find work within adidas' supply chain.

We have provided adidas with documented evidence to show that experienced workers have applied for relevant positions at adidas suppliers on multiple occasions over the past five years. Adidas is aware, for instance, that former Panarub employee, Mr Suparjo, has sent several applications to adidas supplier factories including Shyang Yao Fung, Pancaprima Brothers, Ching Luh Indonesia and PT Tuntex. We understand that after years of applying unsuccessfully to adidas suppliers, Mr. Suwandi, another former union leader at Panarub has successfully found work making *Nike* products.

As mentioned in our previous letter, we view the treatment of these unfairly dismissed union leaders as a litmus test of adidas' commitment to freedom of association in its supplier factories. We are disappointed that Adidas has not, as it promised on multiple occasions, requested supplier factories consider these individuals for employment.

We understand that adidas plans to encourage a local NGO (Dompot Dhuafa) to find employment opportunities for two of the trade union officials. During our meeting in Jakarta in October 2010 we said we would inform the former union officials that you had made a reference to this NGO. In our October meeting we mentioned to adidas that we did not know whether the union leaders would be interested in adidas' proposal. It is up to Mr. Suparjo and Mr. Hamdani whether they are interested in following up with adidas about Dompot Dhuafa (we understand that Mr. Suparjo has been in contact with your Jakarta office for more information).

Mr. Suparjo and Mr. Hamdani were manufacturing for adidas for up to 8 years and were active in one of the factory's union at the time of their dismissal. As such, Oxfam Australia urges adidas to pay extra attention that the job applications by the former union officials are fairly processed at adidas supplier factories. Adidas has committed to tracking union officials' applications with your suppliers. We are waiting for confirmation from adidas that the job applications submitted by Mr. Suparjo and Mr. Hamdani (who has applied to Ching Luh Indonesia on multiple occasions) have been successfully received and are being fairly processed.

We urge adidas (once more) to keep its original promise and request that its supplier factories consider these individuals for employment.

In addition to the above, we are concerned that adidas has taken a long time to respond to a number of pressing concerns. We are waiting to hear an update from adidas concerning its investigation into the bribery allegations at the adidas supplier, PT Nikomas. We first raised this bribery case with adidas in September 2008. The fact that adidas hasn't followed up this case in almost two and half years makes it difficult for us to believe that adidas is serious about tackling allegations of bribery in its supplier factories. We hope this is not the case and that adidas will treat this case and any future bribery cases, should they arise, with more attention. We are also waiting to hear whether adidas has addressed the ongoing problem of union access at PT Panarub as well as the inadequate food allowance at the factory that was raised in our previous correspondence.

We welcome adidas' strong support for the incorporation of worker rights awareness into the new education center for the footwear industry in Indonesia. We also welcome adidas' ongoing active role in the FOA protocol process and we remain confident that an agreement will be reached soon.

We look forward to your report on concrete measures that adidas has taken to to resolve the serious and—as you have identified— ongoing concerns expressed in this letter.

Yours sincerely,



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1. Confidential and accessible means for workers to report exploitation and abuse

We welcome adidas' work to strengthen confidential reporting channels for workers and hope that the concerns of workers will be listened to and acted on by the company in a manner that helps to resolve the problems. We welcome adidas' Open Letter and confidential worker hotline. We would be interested in any data that shows how and the time frame in which complaints lodged are followed up.

2. Independent education and training for workers concerning their rights at work

We support the training in workers' rights that adidas is providing in Cambodia. The other trainings that adidas mentioned in 2008 were all for *suppliers* and did not appear to be for workers. This potentially means that despite training suppliers, workers may not be aware of their rights at work. We understand that your approach is that human resource and training departments are responsible to communicate educational materials to workers. To make sure that this training of workers occurs we suggest that a number of worker representatives are also invited to join in the training of human resource and training department personnel. We also expect that independent education and training for *workers* will be supported by adidas in all their supplier factories in all countries in which adidas manufactures.

3. Further transparency regarding company supply chains and efforts to improve conditions

The posting of adidas' suppliers in 2007 was a positive step forward in transparency. We welcome adidas publishing factory lists around major sporting events. We urge adidas to publish the list for the London 2012 Olympics as soon as it is finalised. We look forward to further improvements in adidas' transparency, including its licensees.

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

The key performance indicators that adidas refers to in this response do not give any clue as to how respecting labour standards is actually *measured* or rewarded in adidas' factories.

Adidas says that it has "open" and not fixed term contracts with its suppliers. We cannot see how this open form of contract supports a stable business relationship with suppliers as the suppliers cannot know exactly how long they will keep receiving orders. Not knowing from season to season whether the factory has orders from adidas can add to unstable industrial relations in the factory and the abuse of workers' rights.

We also would like to see evidence from adidas about how controlling the volume of orders to a supplier factory (referred to as "level loading") is supporting workers' rights.

Adidas does not mention any consideration it may have given to whether or not the prices paid to suppliers to produce its goods is fair. Nor does it mention price disclosure to workers' representatives as a necessary part of transparent pricing and purchasing practices.

5. Prioritising retaining unionised factories in the company's supply chain

Adidas' current practice of "intervening to support workers rights" where adidas finds breaches of Freedom of Association (FOA) is welcomed and certainly better than no action. However, breaches of labour rights in its supplier factories will not cease until adidas is willing to provide incentives to unionised factories. Adidas should also make it clear to all suppliers that it will prioritise retaining unionised factories in its supply chain.

On the occasions that adidas has addressed the harassment and unfair dismissal of union leaders, the company has not done enough to ensure that this harassment has stopped and that the workers involved haven't continued to be disadvantaged. In one example, at the adidas Panarub supplier, 33 union leaders were *illegally* dismissed. Most of these union leaders are still without work and adidas, despite the long period of time that they have had to address this issue, have done very little to help these illegally dismissed leaders to find work with other adidas suppliers.

We note that adidas expects its suppliers to be neutral in respect to union organizing and says it "would take enforcement action if a local trade union provides us with evidence that a right of access has been denied." We believe that adidas will be in a better position to promote freedom of association if it requires the signing of access agreements between factory management and local unions at supply factories.

6. Banning, or severely restricting, the employment of workers on short-term contracts

We acknowledge adidas' active encouragement to minimise the use of temporary workers, however, a ban on, or policy severely limiting, short-term contracts would be the most effective way to support workers' rights to secure, decent employment in adidas's supplier factories. The prevalence of short-term labour undermines

a factory's ability to comply with international standards on FOA, as well as inevitably undercutting all employee rights and benefits. A ban or severe limitation on short-term contracts could be built into adidas' contractual arrangements with supplier factories.

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

In 2006 of thousands of workers lost their jobs after adidas pulled its orders out from three Indonesian supplier factories. We remain concerned that the buying practices of adidas are likely to be one of the main reasons the factories had to close. There was little that was open, fair or transparent about these lay-offs and closures. We understand some workers from Spotec and Dong Joe are still looking for work. We appreciate adidas' efforts to prioritise ex-Spotec workers at the Ching Luh Indonesia supplier factory (which is on the former Spotec site).

8. 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

Adidas has stated that it will continue to source in countries and free trade zones where the right to freedom of association does not have legal force. We believe that allowing workers to form independent trade unions and bargain collectively is the most effective way to give them greater influence over their working lives and provide a platform for them to obtain their labour rights.