

16th July 2010

Attention:

Ms Daisy Gardner and Ms Sarah Rennie

Labor Right Advocacy
Oxfam Australia

Ms Inneke Zeldenrust

International Coordinator
Clean Clothes Campaign International Secretariat

Ms Julia Thimm

Urgent Appeals Case Coordinator
Clean Clothes Campaign Germany

Ms Fanny Gallois

Urgent Appeals Coordinator
Clean Clothes Campaign-France

Mr Sam Maher

International Solidarity and Outreach
Labour Behind the Label

Dear all,

Workers' Rights in Indonesia

Thank you for your letter of joint 17th June, 2010 regarding the above subject. We acknowledge your ongoing concerns regarding the job status of the individuals named in your letter, as well as other labour related issues in Indonesia.

We share your concern that several former union officials from PT Spotec and PT Panarub have yet to find jobs after an extended period of unemployment. Nevertheless, we believe we have been transparent in what we believe we can, and cannot do, to support them in their efforts to secure work. In our past communications, and more recently in our online statement (posted on our website on May 17, 2010), we elaborated on the various efforts and actions we have taken since the Panarub dismissals and PT Spotec bankruptcy. As you know, with the exception of the PT Ching Luh Indonesia (CLI) plant there has, until comparatively recently, been relatively few job openings in the footwear sector in Indonesia. The reasons for this are self-evident, such as the factory closures of 2006-7, low worker turnover rates in our existing suppliers and of course the recent economic downturn. There is also a great deal of competition for jobs, with hundreds of applicants for every open position. The good news is there now appears to be an upswing in the growth prospects for footwear suppliers in Indonesia.

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Despite the many challenges facing CLI in their recruitment process, we believe that progress has been made, even though the outcome has not always met with everyone's expectations, including our own. The details of efforts and improvements have been shared in our letter of April 30th, 2010 and we ran through the current status in our on-site meeting with Oxfam Australia on May 24th 2010. Some of this information is repeated below, in our response to the points raised in your letter.

1. Former Panarub Union Leaders

We have shared information previously on the status of the job applications of the 3 former Panarub union leaders which have been entered into CLI hiring database.

In the case of Mr Suparjo, our initial review of the database showed that his application had 'failed' due to improper or incomplete documentation. We reported this in our letter of April 30th and also informed Mr Suparjo of our findings. However when CLI sent us their call list for the end of May hiring round, we noted that Mr Suparjo was named in that list. It is possible that his name was added because, as you have mentioned in your letter, he has sent multiple applications. We can only assume that one of those applications had more complete information that satisfied the documentation test.

With regards to the results of Mr Suparjo's test, we checked the factory records and found that his score was indeed below the passing grade. You will be aware that as an outside party we can not intervene in the outcome of the factory's testing system. Our field team has directly observed how the factory conducts its hiring process, including the written test. We found that the process to be fairly transparent and that the internal HR staff follow the procedure rigorously.

We do not share your notion that the written test is purposely designed to fail certain applicants, such as former union leaders or workers with extensive work experience. It is our observation that this is not a psychological test, but rather one that addresses the applicant's competence in basic mathematics and logic. The requirements appear similar to an entry test for a junior high school.

As we reported in our letter of April 30th, CLI '*cleaned up*' their database with a cut off date of January 2009. This was done to ensure CLI's FIFO (First in First Out) system is followed rigorously. We have shared with Oxfam Australia that Mr Hamdani's and Mr Suwandi's applications are already entered into the database and that they lay somewhere in the middle of application list for the warehouse department. Given that it is normal for a warehouse department to have relatively low turnover and therefore only offer a few openings in any given year, it might take some time before Mr Suwandi and Mr Hamdani receive their calls for interview.

Due to the extended timelines for recruitment, we understand why the former union officials may feel that they have been passed over and they are therefore attributing this lack of an immediate call for an interview to be some form of discrimination, but we do not believe this to be the case. As far as we can determine, there are no grounds to level a charge of discrimination against CLI.

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Given the above situation, we believe former Panarub union officials named in your letter should also send applications to other adidas Group suppliers, whenever job openings become available. We have provided job lists previously, but to date we have not heard of these former union officials having submitting applications to our other suppliers.

2. CLI Applications from former Union officials of PT Spotec

In our letter of April 30th 2010, and during the meeting with Oxfam Australia on May 24th, we explained our stance on job applications lodged by former Spotec union officials. We have put considerable effort into ensuring that there is no deliberate discrimination against former union officials in CLI's recruitment process and we have been prompt in following up and investigating any allegations of misconduct raised by former union officials through Oxfam Australia.

With respect to the petition by CLI employees, it was clear that this did not relate to the individual's trade union affiliation, per se, but rather to the specific actions taken by union representatives during the closure of PT Spotec and the alleged deduction of monies from the workers' severance payment.

The debate about the worker's petition is not a straightforward one. We have discussed this at length with CLI. We understand that they are caught between the need to satisfy adidas Group's Workplace Standards, which require hiring decisions to be based solely on the merits of an individual applicant, and their concerns over a potential backlash from the workers; should they ignore the depth of negative feeling towards these former PT Spotec union officials.

During our meeting of 24th May 2010 with CLI, their management team openly expressed their concerns over the safety of those individuals named in the petition, but also the challenge in being able to maintain harmony with their workforce. To diffuse the situation, we had recommended that all the parties meet: the former union officials, representatives from the petitioners and the factory management. We believe that once the allegations raised in the petition has been resolved and withdrawn, CLI will be able to proceed with the normal hiring process.

3. Retesting Ms. Ari, former union leader at Spotec

We have addressed this issue previously in our letters of April 30th 2009 and on April 30th 2010. Without additional supporting evidence, we are afraid there is little we can do in re-opening the case. Having said this, we understand that CLI does allow former employees who have failed the probation period to re-apply for employment after the lapse of a 12-month period. Since Ms Ari's employment was terminated more than a year ago, she has opportunity to re-apply for a job in CLI. And given her status as ex-Spotec worker, her application should be prioritized by CLI. However, the request that she be re-tested under the supervision of an independent tester is not one that we can support. Who would be a relevant "independent" person where it relates to CLI's own internal testing procedures?

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4. Public Notification regarding job vacancies

We are happy to recommend to our suppliers to post their job opening online whenever possible, but we can not make this a mandatory requirement. We have raised this option with them in the past, but most suppliers believe that it is not the most effective way to recruit workers at an operator level. Our suppliers' believe the traditional approach of posting job openings at the gate, or securing candidates through a referral policy, is the more effective way to recruit workers.

As far as we know, CLI has been posting their hiring or "call" list at prominent locations on the factory gate. Your suggestion that the postings should be placed in a secured place is sensible, and we will share this with CLI accordingly.

With regard to your suggestion that notices be posted at least two weeks in advance, CLI have said that they should be able to post notices at least one week in advance. However, due to generally low turnout of applicants on the proposed interview day, very often the Personnel Department must also make additional calls to meet the hiring target at relatively short notice. We have checked with CLI regarding "last minute" calls as stated in your letter. They were quite surprised to hear such a report. In general, CLI personnel department calls the applicants 3 days in advance, and only when there is an urgent case, i.e. where the hiring target is still not met, do they call applicants as late as one day before the interview date.

You brought up your concern about strict documentation requirement in CLI hiring process. We discussed this issue with CLI and we understand that they have now implemented a more flexible approach whereby the applicants can submit the missing documentation according to an agreed timeline. We believe this should satisfy your concern.

5. Recruitment Process at CLI

a) Discrimination based on residency and gender

During our on-site meeting with Oxfam Australian, CLI management explained the background and reasons why they had agreed to put in place a special arrangement for hiring local villagers. With the establishment of factory in their area, the villagers looked to CLI to provide them job opportunities. CLI felt that they could not ignore the needs of the local community, which had brought some pressure to bear on them, including violent protests at the factory gate. CLI also sees recruitment as part of their broader responsibility and commitment to grow together with the local community.

While CLI will continue to offer employment opportunities to local villagers, they do wish to make the process both fair and transparent. They have learned from past experience and they have also listened to input from key stakeholders, including local government.

There has been some progress. For example, the factory no longer sets a quota based on gender, which was clearly discriminatory. There is also a new procedure in place to ensure that the hiring of local villagers go through a formal selection process, rather than a rather loose hiring arrangement as in the past. In addition, CLI has implemented a direct application process,

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whereby the local villagers must submit their own applications directly to the factory recruitment staff. During this process, the recruitment managers explain the selection and testing procedures to the applicants. Previously, applications were submitted by so-called “coordinators” from the villages or by the local village heads. This new procedure is taken to minimize, if not eliminate altogether, the involvement of middle men in the hiring process.

b) The use of middle man and threats of violence

The changes in the factory’s local hiring policy have frustrated some of the villagers, especially those who have acted as the middle man in the hiring process. They have complained that the new policy is too strict and has placed limitations on job opportunity for locals. It has certainly raised the bar for entry. For example, during the hiring round at the end of May 2010, roughly 20 - 25% of village applicants failed to pass the entry test and these individuals were therefore not hired.

To vent their disappointment at the new hiring process, local villagers held yet another demonstration in front of the factory gates. Fortunately the demonstration was peaceful; as there had been advance notice of the protest, CLI had sought help from the police to provide additional protection to the property. What is clear is that the relationship with local villagers remains a difficult one for CLI and that there are competing interests that they have to manage in terms of recruitment.

Despite the latest incident, CLI management has confirmed to adidas that they remain committed to implementing an improved hiring procedure which better serves the interests of their business. CLI will continue in its dialogue with the local villagers regarding its hiring policy and procedures.

5. Engaging with Unions at CLI

Thank you for sharing the suggestion from SBKU on ways to improve union–management communication at CLI. We have passed this suggestion on to CLI. We understand that CLI’s management is committed to maintaining positive industrial relations with each of the three unions representing workers in the factory.

6. Allegation of bribery at PT Nikomas

We have noted from your letter that Ms Neneng is willing to provide us with more detailed information regarding the bribery case, albeit only as a verbal statement. Our SEA team in Jakarta will contact Mr Chris Wangkay to arrange a meeting with Ms Neneng. We will consider the appropriate course of action after we have heard from Ms Neneng and she has disclosed to us the names of those who solicited bribes. We are mindful, however, that the alleged bribery took place in 2007 and we would therefore wish to check with PT Nikomas that those named are still in the employment of the factory.

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7. Respect for worker's right across adidas supply chain and adequate resourcing of adidas compliance team

As we have explained previously, our suppliers' compliance with the adidas Group's Workplace Standards, including respect for Freedom of Association, is measured regularly through an SEA Key Performance Indicator (KPI). This KPI is also included in a broad set of operational measures, such as quality, delivery, etc., that is used by our Sourcing organization to track the general performance of the suppliers. Through this measurement system, the better performing factories, including those with improved performance in terms of workplace conditions and the exercise of worker's rights, are given the opportunity to secure more orders.

In our letter of April 30th 2010, we explained the reason why in the past 12 months we are quite constrained in our resources in Indonesia, which was due mainly to staff departures. We are happy to share with you the positive news that one former key team member, Ms Adelina Simanjuntak, has re-joined our team in Jakarta.

8. New Training Center for Workers

At this point we do not have new updates on the progress of the training center. We understand that the Footwear Employers Association (Apprisindo) is taking the lead on this initiative, but we have yet to receive information from them on their proposals and it is not clear how this training center will be set up and run. As you know from earlier meetings, adidas has been proactive in other training centre initiatives to integrate basic worker rights into the training curriculum. We hope that the proposed training center in Indonesia will present an opportunity to do the same.

9. FOA Protocol Negotiations

Recently we have received mixed messages from the union groups in Indonesia regarding the FOA protocol negotiations process. In early June we were informed by Mr Chris Wangkay from Oxfam Australia that the unions intended to re-start the negotiation process. At that time we immediately took action and contacted other members from the brands and suppliers. Everyone was supportive and eager to overcome the roadblocks in the negotiation. But only days later, we learned that the union groups had held a public demonstration, questioning the commitment from the international brands about the FOA protocol and seeking to link this to the World Cup.

Despite the above incident, adidas remains committed to play an active role in the development of the FOA protocol in Indonesia. We have redirected staff resources to assist the sports good industry in this important engagement and have committed a great deal of time to this endeavour, putting aside other compliance commitments as a company.

A week ago Mr Parto, who represents the trade union groups, contacted us and we agreed to meet to overcome the roadblocks in the negotiations. We are pleased to report that the meeting, which took place on 15th July 2010, went well and we reached agreement with the unions on a new timeline to complete the draft of the FOA Protocol. We are optimistic that an agreed draft will be available by mid-September 2010 and that this can then be shared with others for comment.

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We hope the above addresses the points raised in your letter. Please feel free to contact us again should you have further questions.

Sincerely,



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SEA Regional Manager,
South Asia



William Anderson
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Asia Pacific