

## **adidas Group Response to Play Fair's *Fair Games?* Report on Olympic 2012 Supplier Factories**

On May 6<sup>th</sup> the Play Fair Campaign - an alliance of NGOs and international trade unions - published a report critical of the human rights situation facing worker in contract suppliers making sporting goods for the 2012 London Olympics. The report was based on research and off-site worker interviews conducted by local trade unions and a Hong Kong labour rights group at 10 factories in three countries: China, the Philippines and Sri Lanka. adidas Group has made London Organising Committee of the Olympic and Paralympic Games ( LOCOG) product in 3 of these factories, in China and the Philippines. The name and address of the each London Olympic production facility has been posted on the adidas Group's website, together with their trade union and collective bargaining status. We did so to fulfill a commitment we had made previously to the NGO community, and as part of our ongoing efforts to promote supply chain transparency. adidas Group is the only London Olympic sponsor to have done so.

For the past decade we have engaged directly with Play Fair member organizations regarding their campaign demands, which mirror the issues which are being raised in the *Fair Games?* report - namely freedom of association and the right to form trade unions, precarious employment and elimination of short-term labour contracts, improvement to general working conditions and the payment of living wages. In the lead-up to the London Olympics those engagements have included face-to-face meetings with the ITGLWF and TUC in a workshop with local trade unions and workers in Sri Lanka in March 2011; a formal Stakeholder Dialogue on worker rights held in London in May 2011, attended by ITGLWF, the TUC, Labour Behind the Label, LOCOG and others; and meetings with the Philippine's ITGLWF Council in December 2011, to assist them in their factory investigations.

In all of these meetings we have been forthright about the efforts we make as a company to protect worker rights - to ensure fair, safe and healthy workplaces - but also honest in acknowledging that there are no "perfect" factories and that we continue to invest our time and energy in promoting ways to improve labour relations and supporting our suppliers, through training, to build functional and effective human resource and safety management systems. In our work with suppliers we place special emphasis on worker-management communications and the development of effective grievance systems to address worker concerns. We believe that this is the cornerstone for ensuring a positive climate for the exercise of human rights.

On our part, we also operate an independent 24 hour hotline to hear the workers' voice if they cannot resolve complaints directly with their employers. In China adidas Group's Worker Hotline is managed by an independent NGO, in the Philippines we have designated monitoring staff field calls from workers in their own language. Some of the complaints detailed in the report are therefore not new, but have been raised through our existing complaints mechanisms, trade union outreach, or through our own auditing of factories.

We have set out below a preliminary response to the issues raised in the *Fair Games?* report. Our response is based on a review of existing audit records, site visits and discussions held with our suppliers at each of the production facilities and some initial worker interviews. We are also conducting in-depth

worker interviews, where appropriate, to check and verify complaints specifically in relation to any claims of abuse or harassment. We will update this statement with our findings in early June, once our investigations have been completed.

## China

Guangzhou Tien Sung Sporting Goods Co Ltd. is located in Southern China and currently employs 1,431 workers. The factory is part of Amerseas Enterprises, a wholly owned subsidiary of the Tien Sung Group., which has been making garments for adidas Group since 2004.

**Freedom of Association** - As Play Fair acknowledges, the only legally recognised trade union in the PRC is the government-mandated All China Federation of Trade Unions (ACFTU). In such circumstances, adidas Group has encouraged the development of parallel means to uphold worker's ability to be represented and to engage with their employer. We have run extensive training programmes to promote the free-election of worker and welfare committees in a number of our suppliers' factories China, in partnership with local NGOs. These committees are intended to complement the work done by the official trade union representative. However, there currently no such committee in place in Amerseas' Tien Sung plant.

The ACTFU established a trade union in the Amerseas' factory in 2007. A little less than 10 percent of the workforce are members of the government mandated union, and we share Play Fair's view that this is not an effective mechanism to represent worker interests and safeguard worker rights. In March 2011 the factory union re-elected its officers in March 2011. The current office holders comprise 4 workers, 2 supervisors and 4 managers.

It is claimed that the factory's employee manual states that strikes and the dissemination of materials which hamper the employer-employee relationship can lead to dismissal. This is not completely correct. The workers handbook does mention that the dissemination of materials can result in dismissal, but it makes no reference to, nor does it prohibit, participation in strikes. We understand that no disciplinary action has ever been taken in relation to this clause on dissemination of materials, but we have requested that it be removed as it is inconsistent with worker's right to free speech. The factory has agreed to amend and re-issue its workers handbook deleting this clause.

**Working conditions** - It is reported that workers do not wear masks because they feel that this will impact them in meeting production targets; the implication being that they are placing their health at risk. We have reviewed air testing reports for the factory and can confirm that the air quality of all production floors at factory premises is in compliance with national and international standards. Occupational health medical checks, which are conducted annually, show no evidence of respiratory problems and it is questionable why workers are being required to wear dust masks in what is a normal cut-and-sow operation. A recent unannounced audit revealed over 80 percent of workers wearing such masks. adidas Group has recommended that the factory conduct a risk assessment, to confirm which operators really need to wear dust masks, and which do not.

It is also stated that “other protective equipment such as noise reduction devices were not provided, despite the noise of hundreds of machines operating on the factory floor.” It is a requirement, strictly monitored by adidas Group, that workers employed in enclosed embroidery rooms must wear ear-plugs due to the noise of this machinery. Noise levels in the general production areas however do not reach levels that would present an occupation health risk and would not warrant noise protection; they are below national limit and in compliance with adidas Health & Safety Guidelines. This has been confirmed by noise tests conducted in 2011.

During our last business review meeting with the factory in 2011 adidas Group raised its concern over the general ergonomics in the factory and the use of old-fashioned by workers. We recommended that the stools be replaced with chairs with back supports and Amerseas undertook to provide these to the workforce by the end of 2012.

**Living wages** – Play Fair’s researchers acknowledge that workers at the Amerseas’ plant are being paid the legal minimum wage, but argue that they are not receiving a living wage. That is, a wage which would enable workers to cover their basic needs, with some discretionary spending. Moreover it is claimed that “[e]ven workers who earn the highest productivity bonuses and work overtime report that they do not make enough to cover basic necessities such as food, accommodation and medical expenses”. We do not believe this paints an accurate picture.

The factory’s compensation and benefits system links workers’ income with their performance and professional competence. As such, 21% workers are earning base salaries above the local minimum wage level. The average wages for workers during last 12 months were RMB2,482 (USD 397) per month, with the majority (67%) of the workforce earning between RMB 2,000-3,000 per month. Over the past 3 years the local minimum wage has increased, on average, 20 percent per annum – which is well above inflation - and the current minimum wage stands at RMB1,300 per month. This new minimum wage took effect from 1<sup>st</sup> March 2012.

A productivity incentive scheme has been implemented by Amerseas to reward workers’ performance. Top performers can earn up to RMB100 (USD16) daily on top of their base salary and overtime premiums, and, for the most productive workers, their monthly income can reach RMB4,900 (USD768) per month.

Contrary to what has been reported by Play Fair, workers medical expenses are covered by the factory, either through worker registration into the national social security scheme or the equivalent coverage provided by the Amerseas private medical insurance. Approximately 38 percent of the workforce lives in dormitories which are located in the factory grounds. The majority of the workers, however, live off-site. Based on worker interviews, we know that those living in the local community spend on average RMB700-800 (USD112-128) per month on food and accommodation, whereas workers who live in the dormitories pay RMB350 (USD56) per month for room and board, inclusive of the cost of utilities. The factory subsidizes workers’ meals; a meal allowance equivalent 30% of meal expenses is offered to every worker who eats in the canteen.

**Social security** – It reported that workers are not registered for social security (pension, work-related insurance, medical insurance) as required by Chinese Labour Law. The factory has registered 40% of its

workforce into the national social security scheme, which is above the norm for suppliers operating in Southern China. They have committed previously to a plan to raise this to 60 % by October 2012 and have the goal to achieve full coverage by mid-2014. The incomplete coverage reflects local government's long held practice of negotiating enrolment levels with individual businesses, and a migrant workforce who have been reluctant to pay into such insurances, both due to the contributory cost, as reported by Play Fair, but also because they are distrustful of the government's promise of a pension on retirement or future potential unemployment benefits. adidas Group has continued to pressure our China suppliers to improve social security coverage and fully register their employees into the national scheme. However, in the absence of full coverage, our minimum expectation is that the factory purchases private insurances (at their own cost) to cover 100% of workers on medical, work injury, and maternity costs. This Amerseas has done. Moreover, they have set up a clinic with two certified doctors to provide medical care for workers, and have subsidized workers for non-work-related medical treatment.

**Excessive Working hours** – Play Fair state that “workers regularly work in excess of the legal limit of 36 hours over-time per month” and are working 40-60 hours over-time per month, even in the low season. It is also stated that “all workers are required to work over-time on a daily basis”, with shifts that can begin at 8am and finish by 10 or 11pm. The regular hours in the factory are from 8am to 5pm. However, on those days where overtime is required, it is our understanding that the factory would typically operate until 9pm (with a one-hour meal break from 6-7pm).

The factory has applied for and received government approval for Comprehensive Working Hours which permits extended overtime during specific periods in the year. This accords with adidas Group's Workplace Standards which are derived from ILO guidance, which caps the working week at 60 hours, with one day off in 7. We do accept however that there is an issue over excessive working hours in Chinese factories, including at times the Amerseas plant and we have seen evidence through our own auditing seen working hours breach the 3 hours overtime legal limit. adidas Group continues to press our suppliers to reduce total working hours, while maintaining existing levels of take home pay, through higher productivity and incentive schemes.

From our review of records and on-site worker interviews we can see that the factory implements a voluntary overtime system; workers are allowed to take leave or refuse overtime. Also we can find no evidence to support the claim by Play Fair that workers are deprived of hot water in the dormitories. Hot water is supplied from 6-11 pm each day.

**Precarious employment** – The *Fair Games?* report states that the majority of workers are on temporary contracts. In fact all workers sign 3-year employment contracts with the factory directly, which is a common practice in China. By law workers take up permanent employment status on the second renewal of their contract. Irrespective of the contract status, adidas Group's Workplace Standards requires all workers to enjoy the same pay, benefits and bonuses as permanent employees.

Play Fair also states that two possible places of work are stipulated in the workers' employment contracts. This is true. Neither the China Labour Contract Law nor the China Labour Law prohibit job transfers, so long as they are mutually agreed between the parties, do not demote the job holder, or reduce his/her wage package. A review of HR records confirms that no workers have transferred from Guangzhou to Heyuan since 2010. Nevertheless adidas Group has recommended that the factory delete reference to Heyuan in the Guangzhou worker's employment contract, as this is a source of concern for workers.

## Philippines

The ITGLWF Philippines Council conducted interviews with 35 workers from five sportswear producing facilities, employing some 22,000 workers in the Mactan Economic Zone. These factories were stated as: Feeder Apparel Corporation, Global Wear Manufacturing 1, Mactan Apparel Corporation 2<sup>1</sup>, Metrowear Inc., and Yuen Thai Philippines Inc. Two of these suppliers named produce Olympic product for LOCOG. Our responses to the claims made by the Fair Play report are as follows:

**Freedom of Association** – The Fair Play report is correct in reporting that none of the factories located in the Mactan Economic Zone have an existing recognized union, but it is not wholly accurate to say that “no workers’ organisation of any type exists” in these workplaces. Each factory has Labour Management Council (LMC) where the workers representatives are freely elected by the workers. These LMC’s are fully functioning and hold regular meeting to discuss workers welfare issue.

It was reported that the main reason why workers have not attempted to form unions was because “they were afraid of the employers’ reaction; they feared that their employment would be terminated and that company management would refuse to recognise a union”. The adidas Group’s Workplace Standards are very clear on this point. Freedom of Association and the right to form and join a trade union of a worker’s own choosing is a right that we seek to promote and protect. It is also a key performance measure for our suppliers. We believe that Freedom of Association requires a positive climate of non-interference from factory management and we encourage and support this through the development and implementation of effective systems of worker-management communication. At the very minimum, we expect our suppliers to recognize and respect freedom of association rights, to be neutral regarding organizing, to forego campaigns against union formation and to avoid any discrimination action against union members.

It is also stated that at Yuen Thai Philippines workers are specifically instructed by management on their first day of employment that it is company policy to prevent workers from joining or forming a trade union.” There is no evidence to support this allegation and we are conducting worker interviews to corroborate this. The factories have training officers who manage the induction programme for new joiners. The presentation materials include a clear statement outlining the company’s commitment to comply with adidas Group’s standards on Freedom of Association. To make it clearer still, we will ask Yuen Thai to insert the statement on their commitment to Freedom of Association, i.e. respect workers right in forming or joining union at their own choosing, into the Employee Handbook.

**Precarious employment** – The report states that, based on the information drawn from workers interviews, between 25 and 30 per cent of workers in the five factories are employed on short-term contracts. This is not correct. None of the factories employ short term contract workers. There are only two types of employment contract: (i) regular (i.e. permanent) and (ii) probationary workers. Currently there are, on average, 2-6 % of probation workers in our supplier’s factories in Cebu. The factories have been asked to improve their personnel files record and communication to workers, so that all workers

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<sup>1</sup> Note: we believe that Play Fair has mistakenly referenced Mactan Apparel Corporation 2, when in fact they are referring to its sister factory Mactan Apparel Corporation 1. adidas Group disclosed Mactan Apparel as a LOCOG supplier.

are fully aware of their status, especially when their probation period ends and they sign a new contract as regular worker.

It is reported that Sintex – SCI and Yuen Thai hire workers as apprentices and trainees. This is also incorrect. adidas Group eliminated such practices from our Philippine’s suppliers over a decade ago. The *Fair Games?* report states that Mactan Apparel Inc and Metro Wear management have recruited ‘juvenile labourers’ in breach of government regulations. Again this is not correct. Only Metro Wear Inc employs (less than 20) juvenile workers and their employment contracts comply with the Philippine law and also meet adidas Group’s strict standard in relation to working hours restrictions and workplace safety for juveniles.

**Living Wages** – a living wage, where the income of a single worker is sufficient to pay the costs for their entire family, remains an aspiration in global supply chains. Base wages in mass production industries, such as apparel, are determined largely by the minimum wages set by governments, which are tasked with providing a safety net for the lowest paid worker. In the Philippines minimum wages are determined through the National Wages and Productivity Commission (NWPC) and the Regional Tripartite Wages and Productivity Boards (RTWPBs) in all regions of the country. Currently the minimum wage for the Mactan Special Economic Zone is Peso 305 (USD7.17) per day or Pesos 7,930 (USD186.59) per month.

We acknowledge and accept that wages are generally low in the Philippines. As a country, it has one of the lowest minimum wages in the region and also has very low wage multipliers for overtime work, which also reduces the amount of supplementary income that can be generated by workers. Unlike other sourcing countries, suppliers in the Philippines do not provide additional cash benefits, such as meals, transportation or attendance allowances. Some suppliers, such as Yuen Thai, do have plans to establish worker cooperatives, to help workers secure access with low interest loan, and tackle the prevalence of ‘loan sharks’. Both Mactan and Metrowear provide workers with emergency loans (at zero interest) and also run grocery stores selling basic staples at reduced prices. But these actions fall well short of what would be needed to deliver a living wage.

The adidas Group has researched the question of living wages and has concluded that the best way to improve the general welfare of workers is to work with our business partners at the enterprise level, to promote wage-setting mechanisms which are transparent and have the input of workers. We believe basic pay should be benchmarked at a level higher than the local minimum wage and should acknowledge and reward workers for productivity gains. Our suppliers’ wage-setting efforts should also take into account the general cost of living and basic needs of their workforce.

To support these goals we have launched a series of Fair Wage Assessments, including pilot research in Metro Wear Inc. and Global Wear Manufacturing Inc. 2 in the Philippines, the results of which will be available later this year. The Fair Wage approach is based on assessing 12 complementary Fair Wage benchmarks to gain a complete overview of wage practices at the enterprise level and to identify remedial needs. We are hopeful that this tool will help improve the quality of pay systems, their fairness and efficiency, as well as strengthen communication and social dialogue.

**Excessive Working Hours and involuntary overtime** – We do strictly control working hours, and all overtime must be voluntary.

We have investigated the claims that our Philippines suppliers are forcing their workers into overtime and have found that all of the factories have in place a voluntary overtime policy and that this has been clearly communicated to the workers at the time of their induction. This has been verified through feedback obtained from worker interviews and also by a review of factory records, which show that workers sign voluntary overtime forms prior to undertaking overtime work. The *Fair Games?* report also stated that “eight workers revealed that they were not being paid premium rates for working on special days such as public holidays. A further 11 workers revealed that they had not received premium pay for working a normal rest day”. However our review of factory payroll and other records do not show any issue over the payment of overtime compensation. We will be requesting the particulars of each of these workers, so that the specifics of each claim can be checked.

The Labour Code of the Philippines states that “the normal hours of any employee shall not exceed eight hours a day”. The law however is silent on the maximum permitted overtime hours that can be worked and so our suppliers apply the working hours requirements detailed in the adidas Group’s Workplace Standards. Our standards state that “employees must not be required, except in extraordinary circumstances, to work more than 60 hours per week”. Extraordinary situations do occur, such as the recent earthquake in the Philippines, and power outages which may interrupt production and require changes in work schedules and potentially longer working days. Whenever such circumstances arise, suppliers are required to formally notify adidas Group, thereby ensuring transparency over their working hour’s practices.

We could find no evidence to support the claims that if workers refuse to work overtime their conduct is investigated by the factory management, and that this can lead to a formal warning. We have reached out to the ITGLWF Council to ask them to share the names of the workers who have made these statements, so their cases can be properly investigated. During our investigation we did find evidence of improper disciplinary practices, when workers failed to meet certain production target. We have immediately asked that the factories responsible to end this practice and conduct a comprehensive review of their disciplinary procedures, to ensure that they are aligned with our Workplace Standards.

**Abuse and Harassment** - We conduct frequent audits in our supplier factories as well as receive weekly complaints through our worker hotline. We are aware of an occasional isolated case of harassment or shouting, but those cases we know of have been investigated and resolved internally by the factories concerned. That said we have seen no evidence in our general monitoring of any systemic or widespread abuse or harassment taking place in our supply chain in the Philippines. We will be commissioning an independent third party to conduct off-site interviews to verify the claims made by the workers who met with ITGLWF Council and we will also ask ITGLWF to disclose the contact details of the individuals they interviewed so that we can follow-up on their specific allegations.

**Discrimination** – We have asked for the contact details of the worker interviewed by the ITGLWF Council, who claims that she was granted leave by Mactan Apparel, but not granted her legal entitlements during maternity.

## Sri Lanka

MAS Linea Intimo is part of MAS Holdings, one of the largest apparel producers in Sri Lanka. adidas Group's production at MAS Linea Intimo, however, is very small: less than 3% of the factory's capacity and it is due to these very low orders volumes, that our business relationship with MAS Lineas Intimo is drawing to a close. The factory was disclosed by adidas Group as a potential production unit for Team GB wear, but it has made no LOCOG Olympic apparel. The other MAS Holdings' production unit mentioned in *Fair Games?* report is MAS Linea Aqua. Contrary to what the report states, adidas Group has had no production in this factory since January 2008, when it was deactivated as supplier.

We have therefore confined our responses, below, to issues raised by Play Fair in relation to MAS Linea Intimo.

**Freedom of Association** - The report mentioned that workers at MAS Linea Intimo believe that the Employee Council (EC) or Joint Consultative Committee (JCC) members receive only 30 minutes leave per month to conduct activities. None of the workers could say when the last meeting had been held or what was discussed by committee members. The workers who knew of EC/JCC existence stated that, rather than electing individuals by secret ballot, management would simply choose individuals, with management also setting the schedule of, and agendas for, meetings. We cannot find any evidence to substantiate these observations.

Based on workers interviews held during our regular site monitoring, we have received feedback from workers which confirm that they are aware of Joint Consultative Committee, its members and functions. They were clear about the mechanism which should be followed to convey problems to their JCC's representative in their respective departments. Workers have also informed us that the JCC is elected by the workforce, without the involvement of management and they are clear that the tenure of the committee is one year after which re-election is required. Worker interviews also indicate that they awareness on the issues discussed at the JCC meetings. Overall, workers have expressed their confidence and trust to JCC mechanisms and our interviews with JCC members have confirmed that they face no restrictions in conducting their activities.

Other than the JCC, workers were also clear on grievance channels available to them, either through their supervisor, HR department or suggestion boxes. Letters placed in suggestion boxes are collected and discussed in the JCC's monthly meeting, with the results being posted on the employee notice boards. Our monitoring interviews were conducted with a cross-section of workers with different pay grades and length of service, chosen at random from different departments.

Aside from the general question of whether Employment Councils (or their forerunner, the JCCs) are functioning effectively, we do agree with Play Fair that ECs do not meet the ILO convention on Freedom of Association. This was discussed in March 2011, in the first-ever multi-stakeholder meeting held in Sri Lanka involving unions, employers and multinational brands for the apparel sector. As follow up of the meeting, adidas Group committed to write to our Sri Lankan suppliers, to outline our expectations in safeguarding workers' freedom of association and to clarify our views on the role and function of Employee Councils. adidas Group is not opposed to the presence of Employee Councils, or Joint Consultative Committees, so long as they do not restrict the legitimate right of workers to join or form a

trade union. We stressed that where workers rights with respect to freedom of association are infringed, we would take the necessary enforcement action under our Workplace Standards – our code of conduct.

In 2011 we also took to coordinate the development of a training programme for factories in Sri Lanka, to improve factory management understanding, and raise employee's awareness, of Freedom of Association. We have reached out to the ILO to assist with this initiative. Discussions are continuing.

**Forced Overtime** – Play Fair reports that workers are being forced to work overtime in order to meet production targets and that these targets cause considerable stress and anxiety among the workers. It is also mentioned that workers in MAS Linea Intimo, along with workers from other MAS factories, cite overtime as their second most important concern in relation to working conditions.

The issue of forced overtime was flagged during our regular monitoring visits in 2009 (as well as in earlier FLA audits) and a corrective action plan was developed and communicated to factory. The issue surfaced again in December 2010, and the factory was asked to undertake a complete review of their OT approval system and develop an effective internal monitoring system. The remedial steps were cross-checked and verified by adidas Group in January 2012. Our worker interviews and document reviews confirmed that factory had undertaken the required remediation and that overtime was completely voluntary.

**Living Wage** - The report mentioned that the wages paid to the workers interviewed ranges from 10000LKR to 25000LKR (79USD to 198USD) per month. All workers stated that their current wages inclusive of overtime are insufficient to meet their basic needs. It is claimed that workers are receiving only 22 to 55 percent of a living wage.

Under the Sri Lanka Wage Board Grade, a minimum wage is established based on the grade level (grade I to V) and years of service of a worker. For all grades MAS Linea Intimo pays above the minimum wage. For example, the minimum wage requirement for Grade I is LKR 9100 to LKR 9900, while the factory pays LKR 14,500 to LKR 21,350. For grade II, the minimum wage is LKR 8020 to 8620, whereas the factory pays LKR 9000 to LKR 13,450. MAS Linea Intimo also provides a number of other benefits to their workers. For example, a skills allowance (ranging from LKR 250–1250), a production incentive (LKR 700 – 1300), attendance allowance (LKR 1500 – 2000) and yearly bonus (1.5 month's salary/year). Workers, except those under grade I, who have worked for 3 years or more, also enjoy a long service bonus (LKR 300 – 500).

We understand that MAS Linea Intimo pays higher than its neighbouring factories. This is known to workers and is often cited as a reason for them taking employment at this factory. For regular working hours, i.e. 45 hours per week excluding overtime, total monthly earnings average LKR 11,500 for grade III & IV, LKR 12,500 for grade II and LKR 19,100 for grade I. For newly joining workers on grade V (e.g. first timers, trainees), workers receive an average wage of LKR 9,800.

In terms of facilities, Linea Intimo also provides workers with free transportation to and from work, and free meals including breakfast, lunch and tea during the breaks.

## **Next steps**

Based on the allegations detailed in the *Fair Games?* report, formal complaints have been submitted by Play Fair to LOCOG, regarding breaches to their Supplier Sourcing Code (SSC). adidas Group will continue with our on-site investigations and off-site worker interviews and where we are able to verify non-compliances, we will work with our supplier on remedial action to bring them into conformance with our Workplace Standards and the SSC. Our findings and proposed remedies will be shared with Play Fair, as part of a mediated process under the LOCOG complaints mechanism.