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# ADIDAS SUBMISSION



# Clean Clothes Campaign Wage Survey

Response ID:7; AdidasGroup Data

## 1. Login/Password Action

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### AdidasGroup

Password : AdidasGroup

## 2. Introduction

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### 1. Company name:

AdidasGroup

### 2. Brands owned by company:

adidas, Reebok, TaylorMade, CCM Hockey

### 3. Main contact person:

Name: : Frank Henke

Email: : Frank.Henke@adidas-group.com

Contact phone number: : +49-9132-842032

## 3. The living wage standard

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### 4. 1.1 What is your company's position on payment of the living wage to workers in your supply chain?

Workplace Standards

The provision on wages in the adidas Group Workplace Standards reads as follows:

“Wages are essential for meeting the basic needs of employees and reasonable savings and expenditure. We seek business partners who progressively raise employee living standards through improved wage systems, benefits, welfare programmes and other services, which enhance quality of life.”

In this context, the adidas Group has examined the question of fair 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 been developed with the direct input of workers. Ideally, this occurs through negotiation or collective bargaining, or through alternative legal means, such as a worker’s council or welfare committee. In setting wages suppliers should also ensure that basic pay is benchmarked at a level higher than the local minimum wage or industry wage, acknowledge and reward workers for productivity gains and include and takes into account data on general cost of living and workers’ needs. The wage setting mechanisms must be supported by improvements in the factories human resources management system and they must meet, in full, all legally mandated benefits.

We have provided supporting guidance to our business partners on the above, including a requirement that they:

“ Acknowledge and reward workers for productivity gains and benchmark basic pay at a level that higher than the local minimum wage and take into account data on general cost of living and workers' needs.” For more details please see Section 4.5 of our Employment Guidelines. Our research into Fair Wages, which is described further below seeks to identify and define the process which underpin a ‘fair wage’.

## Public Policy

Our Employment Guidelines also highlighted the relevant ILO conventions and UN human rights norms, including the International Covenant on Economic, Social and Cultural Rights 1966, which requires States Parties to “recognise the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions.”

Complementing our own engagement with suppliers, it is important that the appropriate framework conditions exist for wage setting nationally, or by industry sector, and this must be secured through transparent and effective public policy mechanisms. Specifically, there is a need for governments to fulfill their state duties under international law, including the setting of minimum wages under the ILO’s Minimum Wage Fixing Convention 1970, which “shall, so far as possible and appropriate in relation to national practice and conditions, include- (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.” (Article 3).

## Fair Wage Assessments

Building on our established practices, we have continued to review and assess the mechanism through which fair wages are assessed, and paid, and have engaged with the Fair Wage Network to develop and pilot Fair Wage Assessments in our supply chain. 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. Different Fair Wage tools capture the different aspects of the wage story in the enterprise and provide findings that are reliable and robust. We believe the Fair Wage assessments will help individual suppliers – and the adidas Group – to identify the management practices required in each of the Fair Wage dimensions. The assessment evaluates compliance with legal wage provisions, wage levels, and wage adjustments and sets a series of wage policy recommendations. These recommendations encompass the quality of pay systems, their fairness and efficiency, as well as the strength of communication and social dialogue.

During 2011 and 2012, 25 adidas Group suppliers in eight countries completed Fair Wage self-assessment questionnaires and 4 factories participated in full Fair Wage Assessments, meaning worker surveys were conducted as well as the management self-assessments.

A summary of the pilot and its findings are available in our 2012 Sustainability Progress Report. This summary includes links to the web pages of the Fair Labour Association and the Fair Wage Network. see: <http://www.adidas-group.com/SER2012/suppliers/suppliers-systems-and-guidelines.html>

Link to Fair Wage Network: <http://www.fair-wage.com/>

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### **5. 1.2 Please give the link to the code of conduct which is used when monitoring conditions in your supplier factories. If it isn't publicly available, please upload a copy using the option below.**

<http://www.adidas-group.com/en/sustainability/Suppliers/default.aspx>

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#### **Upload option.**

[English\\_Workplace Standards.pdf](#)

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### **6. 1.3 Does your company agree with the definition of a living wage as given [here](#)?**

No, our definition differs from the definition given.

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#### **If no, please provide details of how your definition of a living wage is different and give justification.**

Where applicable, the Asia Floor Wage has been used as a reference for benchmarking wages in the Fair Wage Network’s wage assessments, but it is not the only living wage formulation that is considered. In the

research conducted in the Philippines, for example, where cost of living data is available through the local wage board, consideration is also given to the legally defined “living wages”.

We have examined and compared various living wage formulae in the past and found considerable variability (depending on household size and cost of living elements selected) with widely divergent results. Although we value the work that has been done by the labour NGOs to develop the Asian Floor Wage, and acknowledge that it is a useful reference wage, with broad support from civil society and international trade unions, we do not require our suppliers to follow a proscribed living wage methodology when considering the cost of living for workers. We are continuing to explore this subject through our engagement with the Fair Wage Network.

#### 4. Respect for freedom of association and collective bargaining, a precondition for a living wage

##### **7. 2.1 How has the right to Freedom of Association and Collective Bargaining been clearly communicated to workers in your supplier factories and subcontractors?**

The adidas Group’s Workplace Standards are derived from ILO conventions and UN human rights norms. As such, 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 respect and, in accordance with the UN Guiding Principles, we will take action if we see evidence of our suppliers breaching their legal duty to uphold this right in practice. We encourage our suppliers to maintain a climate of non-interference with trade union activities and to implement effective systems of worker-management communication, including entering into good faith processes of collective bargaining where a union has been duly formed and can legally represent the views of the workforce as a bargaining unit.

In the early years of our programme we required posters in every factory, describing our Workplace Standards. These posters were published in the languages of the local workforce and included the right to form and join trade unions and collective bargaining. However our engagement and feedback over the years with workers showed that simply stating these rights publicly, did not further their adoption, nor the workers’ understanding of those rights. This is borne out by surveys and offsite interviews we have conducted of workers, where their views on the benefits afforded to them in joining trade unions has ranged from positive interest and a desire for an opportunity to seek membership and representation, to ignorance of what unions are, to fear, and even hostility towards unions.

There are many barriers to the formation of trade unions in Asia, not least being that two of the largest sourcing countries in the region, namely China and Vietnam, prohibit by law the creation of independent trade unions. In those settings, our effort and engagement with workers has been directed at identifying parallel means for worker representation, through free and fair elections, as well as tracking the emergence of more representative State unions and the role of sectoral level collective agreements.

The true exercise of the right to freely associate requires non-interference from factory management, which adidas Group seeks to uphold and encourage, but it also requires an active and engaged trade union movement at a national and local level, one with effective organizing capabilities and which is free of government influence and control. In some of the countries where we source our products, we note that trade unions may, at times, be competing with one another, or be aligned with specific political parties. In some countries the organizing rules are unclear, which adds a further layer of complexity to representational rights for workers.

In order to exercise collective bargaining rights, trade unions must operate within the ambit of the national laws in forming a bargaining unit. The adidas Group has no legitimate role to play in the negotiations or collective agreements that take place between independent unions and factory management to agree wages and other benefits. Nonetheless, we supply guidance materials if these are requested by the two parties, and in many cases have provided introductions to local ILO trainers and other consultants who can assist management and workers to build their social dialogue mechanisms.

We have designed training modules to address FOA practices. Examples range from worker representative training in China, in partnership with labour NGOs (these allow for the free election of worker representatives to welfare committees and more recently worker training on the role of their representatives), multiple training sessions on FOA for suppliers in Indonesia, FOA training and protocol development for suppliers in Sri Lanka ,and the running of briefings for workers in partnership with trade unions and labour officials in the Philippines.

See more information:

[http://www.adidas-group.com/SER2012/downloads/adidas\\_SPR2012\\_performance.pdf](http://www.adidas-group.com/SER2012/downloads/adidas_SPR2012_performance.pdf)

**Percentage of supplier factories and subcontractors reached by these measures:**

15.%

**Please supply an example of materials used:**

[Open\\_Letter\\_Workers.pdf](#)

**8. 2.2 Do you support or facilitate training for workers to ensure they are aware of their right to freely associate, in conjunction with local independent trade unions or workers' rights organisations? Please supply details:**

Yes, we have done so directly with the Philippines trade unions. We have also explored this possibility with trade unions in Sri Lanka, in support of an engagement led by the former ITGLWF and the UK's TUC. In that case we reached out to the ILO's Better Work programmes, to permit the training of suppliers and supervisors using materials first developed for Cambodia. This initiative however lapsed, as the ILO could not commit to the delivery of the training materials through their local field office.

As mentioned previously we have also run independent training on FOA with our suppliers and a number of our suppliers also participate in the ILO Better Work programmes in Cambodia, Indonesia and Vietnam and have their workers have received training on FOA from the ILO. FLA has also delivered FOA and worker representation training in Bangladesh and we have engaged closely with trade union federations and local plant level unions regarding the training for FOA Protocol implementation in Indonesia. See later comments.

Percentage of supplier factories reached by these measures: : Approximately 10 percent of the direct supply chain in Asia

**9. 2.3 Do you provide training for management of your supplier factories and subcontractors on the right to freedom of association?**

Yes

We have designed training modules for internal factory compliance staff, middle management, and factory management on FOA principles and best practice. All newly approved suppliers must undergo basic training on core labour conventions, worker's rights, including FOA, which are part of our Workplace Standards

**Percentage of supplier factories and subcontractors reached by these measures:**

70%

**10. 2.4 Have your supplier factories and subcontractors issued the Right to Organise Guarantee to workers in any of your production units?**

	Country:	Number of suppliers:	Details:
1:	Indonesia	1	2005. PT Panarub, issuance of a 'Right to Organise' letter to the workforce, in response to recommendation in independent report we requested from WRC.
2:	Sri Lanka	7	Trade unions expressed concern that organizing rights were being restricted within the economic processing zones. adidas Group developed standard advisory to our suppliers over the need to protect the workers' rights (which was used as a pro forma by the other buyers participating in the dialogue with the trade unions) and we requested that a 'Right to Organise' letter be each worker.
			As part of the complaint mechanism established for the London Olympics, two international trade unions – ITGLWF and ITUC - and their local trade union Philippines affiliates raised concerns over the right to organize within the

3:	Philippines	2	economic processing zone in Cebu. The complaint related to two adidas Group suppliers making London Olympic product. Although the claims could not be substantiated, adidas agreed to ask our supplier, Sintex Group, to issue a right to organize guarantee to the workers in those factories and to participate in a briefing of workers on FOA. The briefing was conducted by the local unions, adidas, Sintex and the Cebu labour department. Following the briefing worker interviews were conducted by adidas Group compliance staff to confirm the workers understanding of their FOA rights.
4.			

**Please provide a sample of materials used in specific countries:**

- [FoA-Open letter-CEBU.pdf](#)
- [Panarub-open letter.pdf](#)
- [Open\\_Letter\\_Workers.pdf](#)
- [Protocol signing110609.pdf](#)
- [Appendix VI FOA Protocol English Translation.pdf](#)

**11. 2.5 Do you require supplier factories and subcontractors to sign Union Access Agreements? If yes, please supply details.**

No

At a minimum, we expect our suppliers to recognize and respect FOA rights, to be neutral regarding organizing, and to forego campaigns against union formation. We would not mandate that suppliers sign access agreements, but we would take enforcement action if a local trade union provides us with factual evidence that a right of access has been denied, contrary to the national labour laws.

**Number of supplier factories with agreements:**

none

**Please provide a sample of agreements signed:**

**12. 2.6 Does your company have an accessible, actionable and safe means by which workers can file and follow up on complaints about violations of freedom of association and collective bargaining rights? How do you monitor that this can be accessed freely by workers?:**

Since the establishment of our programme more than decade ago we have provided workers (and trade unions at federation and plant level) with the contact numbers of our field monitors and a confidential channel to lodge complaints about factory non-compliances, including infringement of FOA rights. All approved suppliers are required to place posters in prominent locations, such as employee notice boards, in the respective language(s) of the workers. These posters provide a hotline number to the adidas Group's Social & Environmental Affairs team. In some cases these hotlines are manned by independent NGOs, as is the case in China. In other countries, such as Bangladesh, we are partnered with a local NGO to independently report on worker concerns.

In China, since 2008 we have been working with an independent worker hotline provider that cover more than 400 supplier factories; in Indonesia, we have piloted an innovative SMS worker hotline service which will be progressively rolled-out to other countries. For more information please see our Sustainability reports:

- 2009 sustainability progress report [http://www.adidas-group.com/en/SER2009/suppliers/3\\_5.html](http://www.adidas-group.com/en/SER2009/suppliers/3_5.html)
- 2010 Sustainability Progress Report: <http://www.adidas-group.com/en/SER2010/suppliers/monitoring-compliance/worker-hotlines/Default.aspx>
- 2012 Sustainability Progress Report: <http://www.adidas-group.com/SER2012/suppliers/suppliers-direct-suppliers.html>

Following the receipt of a worker or trade union complaints, SEA investigates the issues reported by interviewing workers and management, and by reviewing pertinent documents. The SEA team then identifies the subsequent training, consultation and monitoring required. Depending on the findings, we involve liaison office staff, quality staff, other brands, other NGOs, and local government in the resolution of problems within

the work place.

If a worker, or any organization representing workers such as a trade union, is dissatisfied with our findings or actions, they may also independently make a third party complaint under the FLA complaint mechanism.

We obtain regular updates from hotlines providers and verify the use of hotlines through worker interviews. In some cases, we have commissioned independent third parties to verify with workers their ability to access and use worker grievance channels, including our hotlines. An assessment in 2012 of our worker complaint mechanism in Indonesia triggered a review of the hotline services. We found that too much priority was given to trade union generated complaints, to the detriment of other forms of general worker complaints. Inspired by an ILO Better Work project in Indonesia, we decided to test mobile communication as an alternative way to improve communication with workers. Workers can send texts to hotline services if they have a grievance. Such system was piloted last year and rollout to other 4 factories this year and plan to extend the program and manage it as part of our overall work plan to improve performance in our suppliers' factories.

### **13. 2.7 Have you done any work to limit the use of short term contracts in your supplier factories and subcontractors?**

Please provide details of your policy and its impacts in relevant countries: : Based on the findings from our own monitoring, and in response to feedback from the NGO community, union organizations, and workers, in 2006 a supplementary guidance note was developed dealing with contract, temporary and/or casual labor. The standards and practices set out in the guidance note, make it clear that we expect suppliers to comply with local laws and our Employment Guidelines when recruiting workers and signing employment contracts, and that the use of short-term labour should be limited and only used under certain strict conditions. The two underlying principles governing this standard are:

How has any of this work impacted on workers ability to receive seniority bonuses?: : Our Standards and approach to contract workers is underpinned by the Part Time Work Convention 1994, which states that part time or temporary workers must receive the same protections and benefits as comparable full time workers in respect of paid annual leave, public holidays and sick leave.

### **14. 2.8 Is there anything else you would like to tell us about work you have done so far, or work you are planning, to promote the right to freedom of association in your supply chain?**

The adidas Group has engaged with local governments in a number of different sourcing countries to address systemic issues related to the exercise of Freedom of Association. Recent examples are given below.

In 2010 the adidas Group joined four major brands in writing to the Cambodian Government to express our concern over the reported intimidation and harassment of trade union officials who had participated in a national strike to raise wages. Staff from the International Labour Organization's (ILO's) Better Factories programme - which monitors labour conditions in adidas Group supplier factories in Cambodia - provided us with regular updates on the situation and reached out to government, the local manufacturers association and the trade unions to obtain their perspectives. A full statement, including a copy of the letter to the government, is on our corporate website.

In 2012 we accompanied local trade union officials in a meeting with the Philippine Economic Zone Authority (PEZA) to discuss access rights for unions to Special Economic Zones, in particular those located in Cebu.

In 2012 we also met with officials from the Bangladesh Economic Processing Zones Authority (BEPZA) seeking clarification on their views and the law in relation to freedom association and bargaining rights within economic processing zones

## **5. Dialogue and negotiation with labour rights organisations**

### **15. 3.1 Please provide details of any active collaborative work undertaken with independent trade unions or labour rights organisations in your sourcing countries:**

We have collaborated closely with Oxfam Australia and with the former ITGLWF (now merged with IndustriALL)

in the development of a Freedom of Association Protocol for Indonesia. The adidas Group has played a pivotal role in this process. We acted as the lead party in a supplier-brand caucus that has been formed to engage with Indonesia's trade union movement, to develop a basic framework for the exercise of trade union rights in the workplace. After one year of negotiations, agreement was finally reached on a protocol that was shared with other brands and suppliers in the sporting goods industry in Indonesia. We have seen this this will set an important benchmark for suppliers and that the provisions in the protocol will close the gap in expectations and reduce misunderstandings between factory managers and trade union officials with respect to trade union activities, rights of access and so on, thereby improving the overall industrial relations environment. Of all brands that have acted as co-signatures to this Protocol, adidas has the highest uptake by its suppliers. All adidas direct suppliers (45 factories) in Indonesia have adopted and signed the FOA Protocols. To date we have conducted 4 workshop sessions for all our suppliers to provide them briefing and training related to the implementation of the Protocol. In addition to that we also track and discuss the progress of implementation FOA Protocol on regular basis with our suppliers by using a 'Self-assessment' form to benchmark our supplier's compliance against the Protocol.

International NGOs: OXFAM Australia, ITGLWF (IndustryALL), CCC,  
Local unions in Indonesia: SBGTS, SPN, SPTSK Reformasi, KASBI, Garteks SBSI  
Local NGOs: LBH (Legal Aid) Jakarta, Akatiga

### **16. 3.2 Have any of your collaborations resulted in unions or bargaining processes starting within your supplier factories?**

It is difficult to gauge the degree to which our training and awareness raising for suppliers and workers converts to a greater number of trade unions being given an opportunity to form, or to operate more freely, or for a greater number of collective bargaining agreements to be successfully entered into, as such matters are dependent on the general climate and maturity of industrial relations in each country, including such factors as the make-up and nature of the trade unions, their relationship and engagement with industry sectors and individual manufacturers, the provisions of the national labour law, and the role of the government labour inspectorates and the judiciary in the monitoring and enforcement of the law.

We would stress that it would be contrary to our role as a buyer, to actively assist in the formation of trade unions, or for us be in any way directly involved in collective bargaining processes between an individual union and a factory. As stated previously, adidas Group will only become involved in protecting rights, where we have factual evidence of a direct breach of local labour laws and our Standards, and where the parties have exhausted existing available grievance channels. We will not intervene in cases, for example, which are already under investigation by government labour authorities, or are pending a decision from a labour tribunal or court.

## **6. 4. Benchmarks for a minimum living wage**

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### **17. 4.1 Does your company have internal figures that it uses to benchmark living wages for each sourcing country or region?**

Yes

#### **If yes, please provide details of how these were developed and how they are used:**

We have monitoring staff is present in each of our key sourcing countries and they track the legal minimum wages, prevailing industry wages, and any specific negotiated wage levels (through CBAs, or secured through other means including, at times, strike action). This information is shared with our sourcing organization and costing departments on a monthly basis.

Through our monitoring activities we strive to ensure that workers receive the proper payment of wages and benefits, and for this information to also be reflected in the costing sheets submitted by our suppliers. We do

so, to ensure that negotiated prices always account for and cover the legal norms for wages, including overtime premiums.

We have over 1,100 suppliers in 62 countries around the world, some in developing and some in developed economies. We have not required our suppliers to apply the AFW to their operations, or use this in their benchmarking of the living costs of their workers, and we do not hold specific data on how many factories are paying at, or below, the AFW. As the Fair Wage Assessments proceed, one area or wage component captured will be the Living Wage, where the AFW is used as a reference for Asia based suppliers.

**18. 4.2 Please provide information about the figures you are using to benchmark a living wage in your 3 main production countries or regions.**

	Country/region	Living wage benchmark
1.		
2.		
3.		

**19. 4.3 Please give details of the number of your supplier factories in Asia that are currently paying the Asia Floor Wage.**

	Country/region	Number of supplier factories paying Asia Floor Wage
1.		
2.		
3.		
4.		
5.		

**7. Purchasing practices that make living wages possible**

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**20. 5.1 Is your company doing work to limit the use of subcontractors in your supply chain and/or consolidate your supplier factory list? Please provide details:**

The Group's sourcing strategy seeks to balance security with flexibility and growth. Export production for the company consists of a balanced portfolio of long-term, strategic business partners located in key countries such as China, Indonesia, and Vietnam. The maturity of the sourcing strategy and our focus on long-term relationships with strategic partnerships has further contributed to a volume based consolidation of orders to a relatively small number of core suppliers operating production facilities in several countries. Taken together, our strategic suppliers produce approximately 85 percent of our global orders. The prospect for further consolidation in our direct supply chain is limited.

Our influence in terms of social and environmental compliance is linked to the strength of our partnerships, and is often proportional to the scale and stability of the orders placed with our suppliers. It is therefore our policy to have orders committed to our main suppliers' manufacturing facilities; we do not encourage subcontracting to subordinate smaller factories. For our strategic partners, especially in our footwear business, we have many factories which are dedicated fully to adidas production.

A full overview about the adidas Group supply chain structure is provided on the corporate website and in our 2012 sustainability progress report:

See: [http://www.adidas-group.com/SER2012/downloads/adidas\\_SPR2012\\_performance.pdf](http://www.adidas-group.com/SER2012/downloads/adidas_SPR2012_performance.pdf)

**21. 5.2 Does your company operate a policy of buyers favouring supplier factories that consistently meet a high wage standard? How?**

The short answer is no.

Our process of supplier selection is driven by our Sourcing organization nominating factories that pass technical performance criteria (in particular quality standards and manufacturing capability). These nominated suppliers are then screened for social compliance which includes our standards on wages and benefits. Those that meet our minimum thresholds under our Workplace Standards are approved. Those that fail are rejected, or rejected subject to a second visit to permit remedial actions. We are not involved in comparative exercises. In other words, we are not choosing one nominated supplier over another, say between locations or countries, based on a single determinate such as wages.

As for retention of suppliers, the reasons for termination of business relationships may be manifold – driven by concerns over technical performance, quality, available capacity, on-time-delivery, financial stability and investment levels, a failure to agree prices, etc. Occasionally, factories are also terminated due to repetitive non-compliances or zero tolerance issues under the Workplace Standards. This however is normally the last resort following extensive engagement and a ‘three strikes’ warning letter system, which calls for remedial action on the part of the supplier.

Decisions taken on order placements are based on a range of factors, among them the overall market conditions and consumer demand, seasonal fluctuations, supplier performance, product/category mix and the balancing of orders between suppliers to maintain committed fill rates. In evaluating the ongoing performance of a supplier, our Sourcing colleagues refer to the factory KPI data.

The KPI data measures a range of parameters including quality, on-time delivery, innovation (R&D) and management commitment. In addition to these factors, the KPIs contain labour and social compliance parameters.

An overview about supplier ratings based on KPIs is provided in 2012 sustainability progress report. See: [http://www.adidas-group.com/SER2012/downloads/adidas\\_SPR2012\\_performance.pdf](http://www.adidas-group.com/SER2012/downloads/adidas_SPR2012_performance.pdf)

## 22.

Are other incentives provided for buyers or supplier factories to work towards a living wage for workers? : Please see answer above. Compliance (including wages and benefits) is regularly monitored and KPI assessments are carried out twice a year.  
How is this monitored? : see above

### **23. 5.3 Does your company break down and calculate whether FOB prices per piece are sufficient to allow for compliance with the wage standard your company has set out in its code of conduct?**

FOBs are calculated and negotiated based on the fixed and variable cost data supplied by the factories. These normally include information on the prevailing industry wage, or the legal wage, or, if applicable, the wage which has been negotiated through collective bargaining agreements.

### **24. 5.4 Does your company operate a policy of buyers favouring supplier factories that support the establishment and functioning of genuine trade unions, and those with collective bargaining agreements?**

In a highly competitive industry – one with complex business processes – sourcing relations and purchasing preferences cannot be driven by a single factor, such as preferential order placement due to the existence of a trade union or CBA. What we do support is rewarding suppliers who demonstrate both business and compliance performance. We do so through KPI systems that inform order placement for our long term suppliers.

### **25. 5.5 Please provide information about any other work your company has done / is planning to do on improving your purchasing practices, in relation to wages.**

We are reviewing our work on the impact of purchasing practices on labour conditions to align with the FLA’s newly developed compliance benchmarks on this subject.

## 8. Living wage projects

**26. Please provide details of any projects here. Please note you can cut and paste long pieces of text into these small boxes if necessary:**

	Project 1	Pr
Location:	• The Fair Wage Study 2003/4	• 2012 Fair w
Number of factories and workers involved:	4	
Living wage benchmark used:		
Partnerships:		
Wage increase achieved:		
Details of process:	See: <a href="http://www.adidas-group.com/en/sustainability/Suppliers/Issues_in_the_workplace/default.aspx">http://www.adidas-group.com/en/sustainability/Suppliers/Issues_in_the_workplace/default.aspx</a>	See: <a href="http://group.com/SER20systems-an">http://group.com/SER20systems-an</a>

**27. Please upload any useful supporting documentation here:**

[fair wage study LP3ES Presentation.pdf](#)

**9. New Page**

**28. 7.1 Have you publicly supported calls from civil society and unions to increase the minimum wage to a living wage standard in your production countries? Have you made this position clear towards governments and employers associations?**

We have not been approached by NGOs in the past to support such a request. We have advocated for legal compliance with minimum wages and called for improvements in wage-setting processes, but not specifically related to living wages. Please see comments below.

Minimum wage setting is normally the preserve of governments, trade union federations and employer associations – those parties involved in the tri-partite discussions which take place within national or sectoral wage boards. Multinational brands have no place at the table. However, where we have noticed a failure on the part of governments to properly execute or enforce legal wage adjustments, we have addressed this formally to the local and regional authorities and urged them to follow the law, and to properly monitor and enforce compliance at a business level. Thus our advocacy is defined by a rights-protection approach, not one where we have lobbied governments to promote a specific wage outcome.

The following are examples of case where we have actively challenged governments over their failure to uphold minimum wages:

India - On 2 March 2009, the State of Karnataka issued a notice increasing the minimum wage for the apparel industry. This was the first increase to workers' basic wages since 2001. The Clothing Manufacturer Association of India filed a petition with the government, disputing the way in which the new minimum wage had been calculated. In response to the petition, the State Government wrote to the local Labour Commissioner requesting that he review the figure. After a year without any meaningful result, with government in state level, in March 2010 and despite numerous engagements, the adidas Group wrote to the Minister of Labour

highlighting the failure of the government to uphold the law and the minimum wage for workers. On 30 March 2010, the Karnataka Government released a revised minimum wage notification replacing, and reducing, the previously published minimum wage. The adidas Group acted quickly to secure a commitment from all our suppliers to pay the revised minimum wage and to settle any arrears in wages owed to workers, including employees who had already left the employment of the factories since March 2009.

Indonesia – In 2011, and again 2012, adidas Group wrote to the Minister of Manpower and the Minister of Trade and Industry raising our concerns about the lack of certainty and clarity around the annual minimum wage-setting processes in the country. We highlighted the fact that in recent years wage-fixing, which has been devolved to the provincial and local government, had become less transparent and much more politicized. Rather than building consensus through tripartite structures and negotiation, provincial governors have increasingly applied their own discretionary powers to set wages, while at the same time sanctioning the widespread use of waivers, to offset the cost of the minimum wage increases which they have awarded. The outcome has been largely negative, with both employer associations and trade union federations challenging the legality of waivers and the minimum wage setting processes through the national courts.

**29. 7.2 As part of this work, have you issued a public statement assuring country governments that you will not relocate production as a result of minimum wage legislation that ensures a living wage?**

No, we have never made such a statement, nor would we ever see a need to do so. We do not engage with governments in any of our decisions related to our production plans or sourcing arrangements, outside of our general engagement over trade related matters (tariffs for imports and exports). The above question by CCC implies that buyers are threatening to move countries if governments contemplate setting their minimum wages at a level which would deliver a living wage for the workforce, but it is in fact a legal duty for governments who are signatories to the UN International Covenant on Economic, Social and Cultural Rights 1966 and, more specifically, the ILO's Minimum Wage Fixing Convention 1970, to deliver just such a minimum wage – one that supports the general welfare of a wage earner's family.

For a global business, any decision to relocate production or to source from a new location or country depends on a wide variety of "push" and "pull" factors, e.g. changes in customs regulations, trade preferences, proximity of sales markets, technological capabilities, financial strength and skills of the workforce in our suppliers, etc. We would add that for many years, the adidas Group's source base has been very stable, despite a significant increase in wages across a range of countries.

## 10. Transparency

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**30. 8.1 Does your company publish a full public list of supplier factories, and sub contractors, their locations and products?**

<http://www.adidas-group.com/en/sustainability/Suppliers/default.aspx>

**Do you have plans to publish a full list in the future?**

**31. 8.2 Does your company publish impact reports on projects related to wages?**

Here reference is made to the adidas Group 2012 Sustainability Progress Report that provide a summary of findings from the Fair Wage pilots and links to website of the FLA and Fair Wage Network.

## 11. Collaborative working

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**32. 9.1 Please provide details of your involvement with any multi-stakeholder initiative projects working to improve wages:**

2003 - Fair Wage Study Indonesia (commissioned through an independent academic researchers) included a multi-stakeholder process with government, suppliers, local NGOs and trade unions to input to the research.

The findings of the research were made public and were also shared with international stakeholders through the wage forums organized by the FLA.

2007 – Jo-In Wage ladder concept (MSIs: The six collaborating organizations in Jo-In are the Clean Clothes Campaign (CCC), Ethical Trading Initiative (ETI), Fair Labor Association (FLA), Fair Wear Foundation (FWF), Social Accountability International (SAI), and the Workers Rights Consortium (WRC)

2012 Fair Wage Assessments (FLA, Fair Wage Network)

**33. 9.2 Please provide details of any work you have initiated outside an MSI, directly with other companies which has improved wages:**

2007 – Jo-In Wage ladder concept. adidas Group participated with designated suppliers in the wage ladder study conducted in Turkey. We provided baseline information.

2012 Fair Wage Assessments (FLA, Fair Wage Network)

See summary of approach and findings at the adidas Group 2012 Sustainability Progress Report:

<http://www.adidas-group.com/SER2012/suppliers/suppliers-systems-and-guidelines.html>

**34. Supporting documents:**

[fair wage study LP3ES Presentation.pdf](#)

**12. 10. A clear route map for implementing a living wage for all workers**

**35. 10.1 Has your company developed a strategy for delivering a living wage in your supply chain? Is this a public commitment?**

We have well developed programme of work for our Fair Wage Assessment, a component of which includes consideration of living wage benchmarks. We have launched pilots, with a specific focus on countries where we have large scale production or where there are specific low wage environments, for example, the Philippines. We believe the Fair Wage assessments will help individual suppliers – and the adidas Group – to identify the management practices required in each of the Fair Wage dimensions. These will be progressively rolled out over the next five years.

**36. 10.2 Does this strategy have a time scale? If yes, please state.**

Fair Wage will be advanced and rolled-out over the next 5 years

**37. 10.3 What consultation have you carried out on this strategy, both within and outside your company?**

We are scheduling stakeholder engagement in Asia, once the Fair Wage Assessment reports are available and seeking feedback from unions and NGOs.

**38. 10.4 How will you ensure that vulnerable workers, such as homeworkers or migrant workers are also included in efforts to increase wages?**

**39. 10.5 Is there anything else you would like to tell us about your work on the living wage that hasn't been covered in this survey?**

**13. Further questions about your supply base**

**40. 1. What are your main production countries? Please state percentage of total production per country and the number of supplier factories.**

	Country	Percentage of production	Number of suppliers
1	China		289

2	Vietnam		73
3	Japan		63
4	Indonesia		61
5	Brazil		56
6	Full overview and production volumes in survey attachment		
7			
8			
9			
10			

**41. 2. What kind of trade partners are part of the sourcing structure? Please indicate an approximate % of volume share of your production:**

Production at factories owned by your company: : 5  
 Orders placed directly to supplier factories: : 85  
 Orders placed through agencies or intermediates: : 10  
 Other: : %

**42. If other, please specify.**

Figures requested are displayed in the table below and split into product categories Footwear, Apparel, Accessories & Gears

**43. 3. What is the length of time that you have been working with your current suppliers?**

	% of suppliers
More than 5 years:	41
2-5 years:	37
Less than 2 years:	22

**44. 4. How many sites did you use to produce your goods in 2012?**

First tier suppliers: : 977  
 Sub contracted suppliers: : 132

**45. 5. How many supplier factories do you trade with where you have a regular production share of more than 25%?**

Please list suppliers, country and % of product share at the factory: : We will not share the adidas Group's share of production capacity per supplier in each country where we manufacture our goods. We view this to be commercially sensitive data.

**Response Location**

<b>Country:</b>	United Kingdom
<b>Region:</b>	B7

<b>City:</b>	Bristol
<b>Postal Code:</b>	
<b>Long &amp; Lat:</b>	Lat: 51.450001, Long:-2.5833

From : Henke, Frank <Frank.Henke@adidas-Group.com>  
To : "anna" <anna@labourbehindthelabel.org>  
Cc : Maik Pflaum <pflaum@ci-romero.de>, "Anderson, William" <William.Anderson@adidas-Group.com>  
Subject : RE: Adidas Profile  
Date : Tue, 28 Jan 2014 06:52:19 +0000

Dear Anna –

Thank you for sharing your proposed profile and for publishing, in full, our responses to your survey question.

We appreciate that as a campaign group you have a specific point of view and this shapes your conclusions. However, having read through the profile we must respectfully disagree with your observation that adidas Group is “hands-off” when it comes to wage questions, or your statement that we “continue to fail to engage in any significant work to move towards payment of a living wage.” That is not borne out by the materials we have prepared and shared with you. It runs counter to the fact that we conducted in-depth wage studies in selected countries in the past and we have Fair Wage Assessments underway in five different low wage countries globally. That is not a small undertaking and should not be dismissed lightly. These factory-level assessments capture the workers voice and wage expectations and are part of a process that has been designed to deliver long term change in our suppliers’ pay systems, including a dimension that specifically addresses living wages. The living wage dimension in the Fair Wage methodology and assessment is aligned with ILO living wages concepts and methodologies. Indeed the whole process has been developed by one of the world’s leading experts on wages, Professor Daniel Vaughan-Whitehead.

We must also state the obvious - the improvement of wages in global supply chains is not the exclusive preserve of multinational buyers. All parties have a part to play. The most obvious being the factories who, as independent contractors and employers, pay the workers' salaries. This demands our close engagement with governments and suppliers, especially over minimum wage setting processes. The latter can be contentious. We only have to look to the current situation in Cambodia to see how a failed wage process impacts the long term wage prospects of workers. If minimum wage setting (which underpins sectoral pay systems) cannot be secured, in a fair and transparent way, there is little hope for the industry to meet broader expectations around living wages.

Finally, you reference a quote from our CEO Herbert Hainer to support the view that somehow adidas Group is in a ‘race to the bottom’. We know this is a strongly held view by the labour rights community, but as a company we work with a diversified sourcing base. Currently, goods are being made in 63 countries around the world – some in developed countries and some in emerging economies. We are not sourcing goods based on labour costs as a primary driver, but on a mixture of factors including reliability, quality, productivity, country level risk, and trade tariffs and barriers as well as consumer demands. China it a major sourcing country and will remain so in the future. Why? Because it is also one of the world’s fastest growing consumer goods markets.

We would appreciate it very much, if our comments together with the comprehensive information we had provided in our responses to your wage survey will be adequately represented in the adidas profile that you intend to publish end of March.

Kind Regards,

Frank

Frank Henke

adidas AG

## **Freedom of Association Protocol**

### **Preamble**

The Parties recognise and affirm a joint commitment to uphold the right to freedom of association as part of the body of universal human rights.

The Parties recognise the existence of issues and problems in the implementation of freedom of association for workers in Indonesia which impact upon workers' other rights.

The Parties recognise and are aware that as a result of the violations and problems that arise in the implementation of freedom of association, it is not uncommon for union representatives and members to experience victimisation.

The Parties are aware that production processes have continually developed and have become part of global production chains involving workers and companies in numerous different nations.

The Parties recognise the need for fair rules of play in conducting business, especially regarding implementation of the right to freedom of association. For that reason, it is very important that there is joint understanding and commitment between workers and companies regarding the implementation of freedom of association within industrial relations.

The Parties acknowledge that a commitment to uphold the right to freedom of association requires transparency and accountability between workers, suppliers and brands, which will in the long run be beneficial to all parties.

The Parties agree to uphold the right to freedom of association in accordance with the operation of Indonesian laws in the region where the company operates, as well as international laws.

To this end, the Parties agree as follows:

## **CHAPTER I GENERAL PROVISIONS**

### **Article 1 Definitions**

- a. The parties are those who sign this protocol. They comprise of Unions, Brands and Suppliers.
- b. Workers are all those who carry out waged work.
- c. Suppliers are companies that provide goods or services to the brands.
- d. Brands are legal persons or entities that are registered as owning trademark rights.
- e. Unions are organisations formed from, by and for workers, whether within or outside of companies, with the aim to promote, defend and protect workers' rights and interests as well as to increase the welfare of workers and their families.
- f. This protocol is an agreement entered into by the Parties concerning freedom of association.
- g. A collective bargaining agreement (CBA) is an agreement made between a union or several unions that are registered with the authority responsible for workplace relations, with the employer, or several employers or an employers' association and is legally binding for those who create it.
- h. Company regulations are regulations made in written form by industrialists in all companies that produce brand goods and/or services in the total chain of production in Indonesia, which cover work requirements and procedures.
- i. A code of conduct is a guideline for conduct which is made by brands to be implemented in suppliers.

### **Article 2 Scope**

- (1) This protocol binds the parties in the matter of upholding the right to freedom of association, in all companies which produce brand goods and/or services throughout supply chains in Indonesia. For the initial phase this protocol will apply to Suppliers that:
  - (i) Produce finished goods for the Brands, and
  - (ii) Have a direct legal manufacturing contract with the Brands, and
  - (iii) Have workplace auditing conducted by the Brand's compliance team, or
  - (iv) Have a system whereby all auditing of Codes of Conduct or supplier company workplace standards are conducted by a third party auditor.
- (2) Suppliers have an obligation to disseminate the contents of this protocol and encourage its implementation amongst sub-contractors in accordance with the strategy put in place by the National Level Supervision and Dispute

Resolution Committee.

### **Article 3 Protocol Application**

- (1) The application of this Protocol does not negate the rights and responsibilities of the parties as prescribed by legislation, codes of conduct, and other international standards.
- (2) Parties are obligated to implement this Protocol in suppliers covered by the scope set forth by Article 2 above, including both suppliers that have CBAs as well as those that do not.
- (3) In the event that the CBA conditions are inferior to those in the Protocol, the Protocol shall prevail.
- (4) In the event that the CBA conditions are superior to those in the Protocol, the CBA shall prevail.
- (5) Suppliers (see Article 2, “Scope”) are obliged to produce CBAs which encompass the provisions of this Protocol.
- (6) In the event that the company does not yet have a CBA but has a union or union members, the Protocol shall apply.
- (7) Brands must supervise and ensure the implementation of the provisions within this article.

## **CHAPTER II IMPLEMENTING FREEDOM OF ASSOCIATION**

### **Article 4**

Suppliers (in accordance with the scope as defined under Article 2, section 1, subsections (a) (b) (c) and (d) above) are obliged to implement freedom of association including, inter alia:

1. Give workers freedom to form unions within the company premises.
2. Acknowledge the existence of the various unions in the company without discrimination.
3. Not interfere in any way with unions carrying out their organisational activities provided that these activities do not contravene protocol determinations, the CBA or other applicable laws and regulations.
4. Release union representatives or members from their work duties for the purpose of undertaking union organisational activities, with continued provision of all rights to which the particular worker is normally entitled.
5. A release from duties for union representatives and/or members as referred to in section (4) above is to be given:
  - a. Throughout the period of organisational leadership, and
  - b. In accordance with a duty officers’ schedule, and/or
  - c. From time to time as appropriate to union activities.
6. Release from duties as intended in section 5 (a) and (b) above is to be

implemented as follows:

- a. For unions with 10 – 500 members, at least 1 worker is to be released from duties along with at least 1 additional duty officer;
  - b. For unions with 501 – 1,000 members, at least 1 worker is to be released from duties along with at least 2 additional duty officers;
  - c. For unions with 1,001 – 2,500 members, at least 1 worker is to be released from duties along with at least 3 additional duty officers;
  - d. For unions with 2,501 – 10,000 members, at least 2 worker is to be released from duties along with at least 3 additional duty officers;
  - e. For unions with more than 10,001 members, the number to be released from duty should be negotiated internally between the union and the company but should not be less than the number stated in 6 (d).
7. Release from duties as defined in Article 4 section 5 (c) is to be applied to union representatives and/or members who obtain a mandate to implement union activities with co-ordination and agreement from management, and taking into consideration that this does not interfere with production processes.
  8. If regulations concerning release from duties in suppliers surpass the provisions in this Protocol, then those previous regulations still apply.
  9. Union representatives who are released from duties as intended in section 5 (a) must be placed back with the position and job title that they originally held, or an equivalent work position, within seven days of the completion of their leadership period.
  10. There must be no intimidation in any form whatsoever, including demotions, transfers, wage reductions, criminalisation, provision of a work load outside of the worker's capabilities, suspension or sacking of members and/or union organisers, perpetrated against union members or representatives undertaking organisational activities throughout the period of their leadership.

## **Article 5**

- (1) Suppliers shall facilitate the implementation of union activities within the company in such ways as:
  - a. Unions may make use of company meeting space if requested at least 3 days in advance provided that such a meeting space is available. For urgent needs, companies are obliged to provide a meeting room as long as such a room is available (and not in current use).
  - b. Unions may make use of communication facilities such as telephones, fax and internet within the company as long as such facilities are available and in accordance with regulations and procedures as applies to other users within the company.
  - c. Unions may make use of company vehicles if requested 3 days in advance provided that such a vehicle is available. For urgent needs, the company can loan out a vehicle if such a vehicle is available on that day and not in current use.
  - d. Unions may display their organisation's flag at the same level with the national flag, the company flag and the workplace health and safety flag.

- e. Unions may display a union signboard around the location of the union secretariat or in another place provided for such purposes within the company's premises, such as beside the gates or an alternative strategic and appropriate position where it is easily visible to others.
- f. Unions shall be given freedom to receive visitors from union organisations outside the company who are guests of the union in accordance with the regulations in effect within the factory.
- g. The company must assist in deducting union fees from the wages of union members every month and within a period of time jointly agreed upon or at the latest within 10 work days the amount must be given to the relevant union leader depending on the administration processes within the company.
- h. Wage deductions as intended in subsection (g) are to be implemented upon receipt of a letter of authorisation from the union member. The letter of authorisation does not need to be officially stamped.

(2)

- a. Suppliers are obliged to provide a space or room that is appropriate, hygienic and strategic within the company premises to be used as a union secretariat together with furnishings to support the union's activities, including two sets of desks and desk chairs, filing cabinets or cupboards and a table and chairs for guests.
- b. In the case that the company is limited in its ability to provide for the above facilities and fittings, then the company is obligated to make a refurbishment plan with the union's agreement within a timeframe of 6 months.

(3) Suppliers have the obligation to support and facilitate union activities during working hours including:

- a. Routine scheduled meetings, such as meetings between union representatives, as well as between union representatives and members.
- b. Ad hoc meetings as may be required, both between union representatives and between union representatives and members, providing three days' prior notice to the company.
- c. Union educational activities, both scheduled and unscheduled, providing three days' prior notice to the company.

(4) Suppliers have the obligation to support and facilitate union activities outside the company premises, including:

- a. Attendance at both routine and occasional discussions and meetings, with organisational officials, both at company level or affiliates, with three days' prior notice.
- b. Attendance at seminars or education from union organisations, affiliates, other connected organisations, and/or government agencies.

## **Article 6**

- (1) Companies and unions have the obligation to produce a Collective Bargaining Agreement (CBA) within a time frame of not more than six months after the formation of a union in accordance with applicable legal requirements.
- (2) In negotiating a CBA, Unions and Companies shall adhere to the following:
  - a. Companies shall not reject an invitation from unions to negotiate to produce

or renew an agreement.

- b. Companies shall not undertake any form of intimidation against the union delegates in the CBA negotiating team.
- c. During CBA negotiations, union delegates in the negotiation team are to be relieved of their daily work load in accordance with a jointly agreed upon schedule.
- d. During CBA negotiations, union delegates in the negotiating team are to be given freedom to carry out surveys so as to gather data to support the negotiations.
- e. The negotiating team must be given access to information concerning company conditions so as to obtain supportive data, as far as that access does not breach confidentiality provisions as provided by law or by contract with a third party.

### **CHAPTER III FREEDOM OF INFORMATION**

#### **Article 7**

- (1) Suppliers are forbidden to impede in any way the distribution of information by unions.
- (2) The distribution of information mentioned in section (1) is to be carried out, *inter alia*, as follows:
  - a. Unions can freely attach information to public notice boards. Prior permission from the company is not required but copies of the information may be provided.
  - b. Information distributed must not contravene applicable regulations or laws.
- (3)
  - a. Suppliers have an obligation to provide announcement boards specifically for union information, with a minimum of one board situated in a strategic public space, such as the canteen, the employee rest area or another location used by the company to place announcements or information for employees. If there is more than one union, then arrangements should be made between those unions.
  - b. If there is a greater need for announcement boards (there is a large number of employees and / or the location is large), then the union is permitted to use existing information board facilities that are specifically for employees following the stipulations contained in Section 2(a) and 2(b) above and with agreement between other unions (where there is more than one union).

## **CHAPTER IV SUPERVISION, DISPUTE RESOLUTION AND SANCTIONS**

### **Article 8**

- (1) To supervise implementation of this FOA Protocol, the parties are obligated to form an FOA Protocol Supervision and Dispute Settlement Committee no later than 90 working days after the signing of this Protocol.
- (2) FOA Protocol Supervision and Dispute Settlement Committees will be established at company and national levels.
- (3) The FOA Protocol Supervision and Dispute Settlement Committees at the company level will have members from company level unions and company management.
- (4) The FOA Protocol Supervision and Dispute Settlement Committee at the national level will have members from national level unions, Non-Government Organisations, Brands and Suppliers.
- (5) The Standard Operational Procedures of the FOA Protocol Supervision and Dispute Settlement Committee will be determined within 90 working days after the formation of the Committee as intended in section (1).

### **Article 9 Sanctions**

- (1) Violations of the determinations in this protocol constitute actions that infringe freedom of association and redress may be sought in accordance with legislation, Codes of Conduct and other international regulations.
- (2) Efforts should be made to resolve violations via consensus building deliberations. If these deliberations do not reach a consensus then the dispute should be resolved with reference to legal regulations. If a dispute concerning an infringement cannot be resolved via such negotiations, then the matter should be referred to a court of law.

## **CHAPTER V ADDITIONAL REGULATIONS, CONCLUSION AND AMENDMENTS**

### **Article 10 Language**

1. The language used in this Protocol is Bahasa Indonesia.
2. In the case that a problem arises in the interpretation of a Protocol that has been translated into another language, then the interpretation should refer to the Protocol in Bahasa Indonesia.

### **Article 11 Amendments of Regulations**

In the instance where freedom of association conditions in a company are better than the provisions set out in this protocol, then those pre-existing provisions continue to operate.

## **Article 12** **Concluding Determinations**

1. This Protocol shall be effective from the signing thereof by the Parties.
2. This Protocol is open for signature by other parties that are prepared to adopt the Protocol provisions.
3. The procedure to become a signatory as intended in section (2) is by making a written statement which is presented to the National Level FOA Protocol Supervision and Dispute Settlement Committee.
4. Other matters which are yet to be agreed upon in the first stage of negotiations by the FOA Committee will be revisited and renegotiated in the second stage of negotiations 12 months after the FOA Protocol takes effect.

Codified in Jakarta, 7 July 2011.

## **SUPPLEMENTARY EXPLANATIONS FREEDOM OF ASSOCIATION PROTOCOL**

### **Article 1 (a)**

With consideration to the large number of suppliers, a letter of acknowledgement will be created as an appendix for signature by the suppliers who adopt this Protocol.

### **Article 3 (2)**

[In response to question: only a small proportion of suppliers have been directly involved in protocol negotiations, so how can it be effectively socialised?]

At initial stages a limited number of supplier companies were involved in the negotiation and signing of this protocol. For this reason parties who are signatories of this Protocol are tasked with its socialisation and to invite other suppliers, brands and unions to sign the protocol.

Where a union who has not signed the Protocol considers that the regulations in their collective bargaining agreement are more favourable than the regulations in this Protocol, the union can choose between their collective bargaining agreement and the Protocol.

Additionally, where a union has not signed the Protocol, suppliers and brands who have signed will remain bound by all the protocol regulations which are non-reciprocal in nature. In fact, many supplier factories producing brand goods do not yet have workplace unions. Provided that suppliers have signed the protocol with the brands, its implementation should not be effected by the absence of a union. For instance, brands are still obliged to conduct monitoring on the implementation of the Protocol.

Where the union hasn't signed the Protocol its regulations still apply as long as they relate to the obligations of brands or suppliers. This includes workplaces where only one party has signed, in which case that the signatory becomes responsible for socialising the Protocol that amongst other unions, suppliers or brands.

The parties have had the experience that the establishment of unions is frequently impeded, with many union leaders or members experiencing criminalisation. These experiences have provided the rationale for this particular provision.

This provision is intended to ensure that brands take responsibility in protecting freedom of association.

Article 3 (3)

In the case that the union of a company prefers the provisions in the collective bargaining agreement, than the union can choose between the protocol and the collective bargaining agreement provisions.

Article 4 (5) (c)

Refer to the implementation of Article 5 subsections (3) (b) and (c) as well as subsections (4) (a) and (b).

Article 4 (6)

The union representative released is decided upon by the relevant trade union. Duty officers are union representatives who takes turns at working in the secretariat to carry out union activities.

Article 4 (7)

Provided this does not interfere with production processes in terms of avoiding work position vacancies.

Article 4 (10)

Outside the context of carrying out organisational activities as provided for under freedom of association, union representatives may still be subject to disciplinary actions if they violate company regulations or laws.

The definition of *criminalisation* in this provision is in reference to the situation where reports are made to legal authorities against union representatives or members on the basis of their union activities.

Article 5 (1) (a)

Routine union meeting schedules are to be submitted to suppliers.

Article 5 (1) (c)

Suppliers are obliged to loan out a vehicle if there is one provided and it is not in current use.

Article 5 (1) (e)

This provision is based on the principle of fairness.

Article 5 (3)

This provision applies to the improvements of secretariat facilities which fall under the responsibility of suppliers.

Article 5(4)

To *support and facilitate* refers to giving permission or dispensations and the provision of facilities including a secretariat, the loan of vehicles and so on, as provided for within this Protocol.

Article 6 (1)

The creation of a collective bargaining agreement does not depend upon the number of unions as per the 115/PUU-VII/2009 Constitutional Court decision.

Article 7 (1)

*Information* as referred to in this provision must not conflict with applicable legal regulations.

Article 8 (1)

The committee only handle cases which are in accordance with the criteria in the Supervision and Dispute Settlement Committee Standard Operational Procedures which will be later discussed and reconciled with the implementation of this protocol.

Article 8 (2)

Brands are not included in the company level Supervision and Dispute Settlement Committees.

Article 8 (5)

The scope and criteria for disputes to be resolved by the Supervision and Dispute Settlement Committee will be clarified in the Supervision and Dispute Settlement Committee Standard Operational Procedures which will which will be later discussed and reconciled with the implementation of this protocol.

Article 9 (2)

The *consensus building deliberations* referred to in this provision are bipartite negotiations at the supplier level.

**Letter of Acknowledgement**

Herewith the parties sign the Freedom of Association Protocol  
Jakarta, June 7<sup>th</sup> 2011.

William Anderson  
Head of Asia Pacific Social &  
Environmental Affairs - adidas Group

Elly Rosita Silaban  
President of GARTEKS KSBSI

Amanda Tucker  
Sustainable Manufacturing Performance  
Director - Nike Inc.

Rudi HB. Daman  
Chair Person of GSBI

Dr. Reiner Hengstmann  
Global Director, SAFE Supply Chain –  
PUMA

Lilis Mahmudah  
Head of Program Division on behalf of  
Chairman of SPN

Lilian Kuo  
Vice President, PT Nikomas Gemilang

Rachman  
General Secretary of KASBI

Sebastianus Yeo  
HR Director, PT Panarub Industry

Franky Tan  
Secretary on behalf of the Chairman of F  
SP TSK

Steven Hung  
Deputy GM, PT Tuntex Garment  
Indonesia

Rendradi  
HR Director, PT Adis Dimension Footwear

## PERFORMANCE PASSION INTEGRITY DIVERSITY

These are the core values found in sport. Sport is the soul of the adidas Group. We measure ourselves by these values, and we measure our business partners in the same way.

Consistent with these values, we expect our partners – contractors, subcontractors, suppliers, and others – to conduct themselves with the utmost fairness, honesty and responsibility in all aspects of their business.

We use the adidas Group *Workplace Standards* as a tool to assist us in selecting and retaining business partners who follow business practices consistent with our policies and values. As a set of guiding principles, the *Workplace Standards* also help identify potential problems so that we can work with our business partners to address issues of concern as they arise. Business partners will develop and implement action plans for continuous improvement in factory working conditions. Progress against these plans will be monitored by the business partners themselves, our internal monitoring team and external independent monitors.

Specifically, we expect our business partners to operate work places where the following standards and practices are implemented:

### **General Principle**

Business partners must comply fully with all legal requirements relevant to the conduct of their businesses.

### **Employment Standards**

#### ***Forced Labour***

Business partners must not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise. No employee may be compelled to work through force or intimidation of any form, or as a means of political coercion or as punishment for holding or expressing political views.

#### ***Child Labour***

Business partners must not employ children who are less than 15 years old, or less than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

#### ***Discrimination***

Business partners must not discriminate in recruitment and employment practices. Decisions about hiring, salary, benefits, training opportunities, work assignments, advancement, discipline and termination must be based solely on ability to perform the job, rather than on the basis of personal characteristics or beliefs, such as race, national origin, gender, religion, age, disability, marital status, parental status, association membership, sexual orientation or political opinion. Additionally, business partners must implement effective measures to protect migrant employees against any form of discrimination and to provide appropriate support services that reflect their special status.

## ***Wages & Benefits***

Wages must equal or exceed the minimum wage required by law or the prevailing industry wage, whichever is higher, and legally mandated benefits must be provided. In addition to compensation for regular working hours, employees must be compensated for overtime hours at the rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding the regular hourly compensation rate.

Wages are essential for meeting the basic needs of employees and reasonable savings and expenditure. We seek business partners who progressively raise employee living standards through improved wage systems, benefits, welfare programmes and other services, which enhance quality of life.

## ***Working Hours***

Employees must not be required, except in extraordinary circumstances, to work more than 60 hours per week including overtime or the local legal requirement, whichever is less. Employees must be allowed at least 24 consecutive hours rest within every seven-day period, and must receive paid annual leave.

## ***Freedom of Association & Collective Bargaining***

Business partners must recognise and respect the right of employees to join and organise associations of their own choosing and to bargain collectively. Business partners must develop and fully implement mechanisms for resolving industrial disputes, including employee grievances, and ensure effective communication with employees and their representatives.

## ***Disciplinary Practices***

Employees must be treated with respect and dignity. No employee may be subjected to any physical, sexual, psychological or verbal harassment or abuse, or to fines or penalties as a disciplinary measure.

Business partners must publicise and enforce a non-retaliation policy that permits factory employees to express their concerns about workplace conditions directly to factory management or to us without fear of retribution or losing their jobs.

## ***Health & Safety***

A safe and hygienic working environment must be provided, and occupational health and safety practices which prevent accidents and injury must be promoted. This includes protection from fire, accidents and toxic substances. Lighting, heating and ventilation systems must be adequate. Employees must have access at all times to sanitary facilities which should be adequate and clean. Business partners must have health and safety policies which are clearly communicated to employees. Where residential facilities are provided to employees, the same standards apply.

## ***Environmental Requirements***

Business partners must make progressive improvement in environmental performance in their own operations and require the same of their partners, suppliers and subcontractors. This includes: integrating principles of sustainability into business decisions; responsible use of natural resources; adoption of cleaner production and pollution prevention measures; and designing and developing products, materials and technologies according to the principles of sustainability.

# Open Letter to Employees

Dear Employee,

**Minahal namong Empleyado,**

**Your Freedom of Association**

**Imong Kagawasan sa Asosasyon**

*Please be informed that the Philippine Constitution guarantees all workers the right to organize unions, to freely associate, collectively bargain and negotiate. The Philippine Labour Law which has application across the country and within the Mactan Economic Zone also supports and protects these rights.*

*Ikaw gipahibalo nga ang Konstitusyon sa Pilipinas nag-garantiya nga tanan empleyado adunay katungod pagtukod og union, gawasnon nga moapil, kolektibong makahangyo og makigsabot-sabot. Ang balaod sa pamuo sa Pilipinas nga naglangkob sa tibook nasod og sulod sa Mactan Economic Zone nagasuporta og nagaprotektar usab niining mga katungod.*

*In the same manner, the Philippines as a member state of the International Labor Organization observes and abides by ILO Convention 87 on Freedom of Association specifically Article 2 which states that “Workers and employers, without distinction whatsoever shall have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization”.*

*Sa susamang bahin, ang Pilipinas isip myembro nga estado sa International Labor Organization naga-obserba og naga-sunod sa ILO Convention 87 kabahin sa Kagawasan sa Asosasyon labi na sa Artikulo 2 nga nagasaysay nga “Mga empleyado og mga amo, sa walay kalahian adunay katungod sa pag-establisar og hayon nga ginsakopan kini sa mga lagda sa organisasyon, sa pag-apil sa maong organisasyon nga ilang buot gipili sa walay nahaunang pagtugot”.*

*Metro Wear Inc. respects the right of employees to form or join organizations of their own choosing, including trade unions and to negotiate a collective bargaining agreement.*

*Morespeto ang Metro Wear, Inc. sa katungod sa mga empleyado nga moporma o moapil sa mga organisasyon nga ilahang pinili, apil na niini mga unyon og ang pagkighangyo alang sa kolektibong pakigsabot-sabot.*

*We will not intervene in employees' decision to form or join an organisation which represents your interests as a worker, including a trade union. Please note that you are also free not to form or not to join union as this is your own choosing. Such a decision rests in your own hands.*

*Dili kami manginlabot sa desisyon sa mga empleyado sa pagporma o kaha pag-apil sa usa ka organisasyon nga morepresentar sa mga interes sa mga mamumuo, apil na ang unyon. Ikaw usab gipahimangnoan nga ikaw adunay katungod sa dili pagporma o pag-apil og mga unyon tungod kay imo kining kagawasan sa pagpili. Kini anaa lamang sa inyong mga kamot.*

*Metro Wear Inc.'s employees will not be subject to any discrimination or disciplinary or punitive action for exercising their associational or collective bargaining rights. Any supervisor or manager who fails to adhere to this policy will be disciplined.*

*Ang mga empleyado sa Metro Wear, Inc. dili makahiagom og diskriminasyon o pang-disiplina o kaha mga lakang agig silot mahitungod sa ilang pagbansay sa ilang mga katungod nga mag-asosasyon o kolektibong pakigsabot-sabot. Bisan kinsang superbisor o manager nga mapakyas sa pagtuman niining polisyaha makahiagom gayud og igong pagdisiplina.*

*If anything in this letter is unclear, please feel free to contact the Human Resources Department who can provide you with additional information.*

*Kung bisan unsang matang niining maong sulat dili klaru, palihug lang sa pagsampit sa atoang Human Resource Department nga maoy makahatag kanimo og dugang kasayuran.*

*Sincerely,  
Matinuod-anon,*

*Factory Manager  
Metro Wear, Inc.*

Dear Workers,

Last year, two well-known companies - adidas and Reebok - came together as one company, the adidas Group. Your factory has been making our products and is an important part of our business. The work you do is not only important for your factory but also to the continued success of our company.

In the past, you may remember seeing posters from our companies on the walls of the factory explaining basic labour and health, safety & environmental standards that factories making our products must follow. We call these requirements the "Workplace Standards". These posters have been removed, because we expect our business partners to protect your rights through internal policies and practices. However, we still care very much about the working conditions in the factory and your well-being. We will continue to visit the factory to check conditions. We will continue to discuss improvements that need to be made with factory management. When we visit, we will also take the opportunity to speak with you privately, and get your feedback on the workplace, like we did in the past.

We expect factory management to follow all local laws and regulations. We expect factory management to treat employees fairly, and to value the contribution you make to the factory and to our company. We inform factory management about all our requirements relating to Workplace Standards in detailed guidelines. We will continue to train factory management, and to give them as much guidance and support as we can. This will help the management to keep making improvements in your workplace and to develop the training you need to do your job and protect yourself.

If you have any questions about our new company, our "Workplace Standards", or our expectations of factory management, or if you have any problems which cannot be solved by factory management, please contact us at:

- *Office telephone contact of the local SEA manager/person*
- *Local office address if available, ie LO or subsidiary*
- *Email address(Worker.Hotline@adidas-Group.com)*

Thank you for your valuable contribution to the factory and to our company.

Best regards,



Frank Dassler  
General Counsel  
adidas AG

## INDONESIA: Pact boosts union rights for sportswear workers

Manufacturers and brands including Adidas, Nike and Puma have signed a pact with textile, clothing and footwear unions that strengthens rights for workers in Indonesian sportswear factories.

The agreement, described as "historic" by the parties involved, will allow workers to organise and carry out union activities at sportswear supplier factories.

The move comes after recent research by the International Textile, Garment and Leather Workers' Federation (ITGLWF) found 18 factories in Indonesia has all had taken anti-union measures.

"This protocol is important because our law does not cover technical implementation of freedom of association," said Lilis Mahmudah, head of program for SPN, the Indonesian trade union that signed the protocol. "It also ensures brands take responsibility to ensure respect for union rights."

"Our members have been waiting for this agreement to be concluded. It will help us in our bargaining efforts," added Emelia Yanti, general secretary of GSBI, another union that helped negotiate the deal.

Also backing the initiative are Oxfam Australia, the ITGLWF, the Clean Clothes Campaign (CCC), and the Play Fair campaign, which since 2004 has been campaigning for global sportswear brands to take concrete steps to improve conditions in their supply chains.

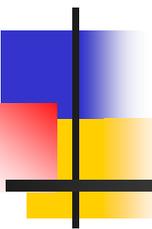
"The signing of this freedom of association protocol is an important first step in improving the situation for the hundreds of thousands of sportswear workers facing low wages and poor conditions," says Jeroen Merk of the CCC.

"The real test, however, will be in its implementation" adds Ashling Seely of the ITGLWF.

In the run-up to the London 2012 Olympics the Play Fair Campaign will be encouraging other sportswear and garment brands to sign up to the protocol.



[http://www.just-style.com/news/pact-boosts-union-rights-for-sportswear-workers\\_id111295.aspx](http://www.just-style.com/news/pact-boosts-union-rights-for-sportswear-workers_id111295.aspx)



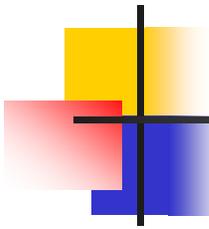
# FAIR WAGE STUDY OF WORKERS OF ADIDAS- SALOMON'S BUSINESS PARTNERS IN INDONESIA

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Jakarta, May 20-21, 2003

***LP3ES***

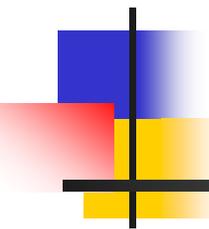
*Institute for Social and Economic Research, Education and Information*



# Presentation Outline

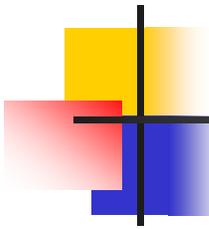
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- Methodology
- Profile of the factories and workers
- Income and Expenditure
- Fair Wage Formulation
- Management Perspectives



# METHODOLOGY

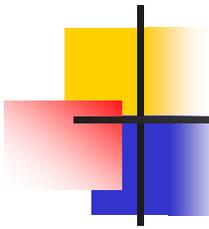
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# Objectives

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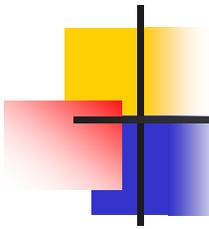
- To measure needs and wage requirements as a basis for understanding the fair wage conditions
- To develop a standard methodology to measure workers' needs, irrespective of location or country.



# Objectives

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- To assess the appropriateness of adidas-Salomon's definition of a "fair wage" by comparing it to the study results.
- To assess the accuracy, reliability and usefulness of the published national and regional cost of living and consumer price indices in Indonesia and their relationship to the minimum wage and industry norms.

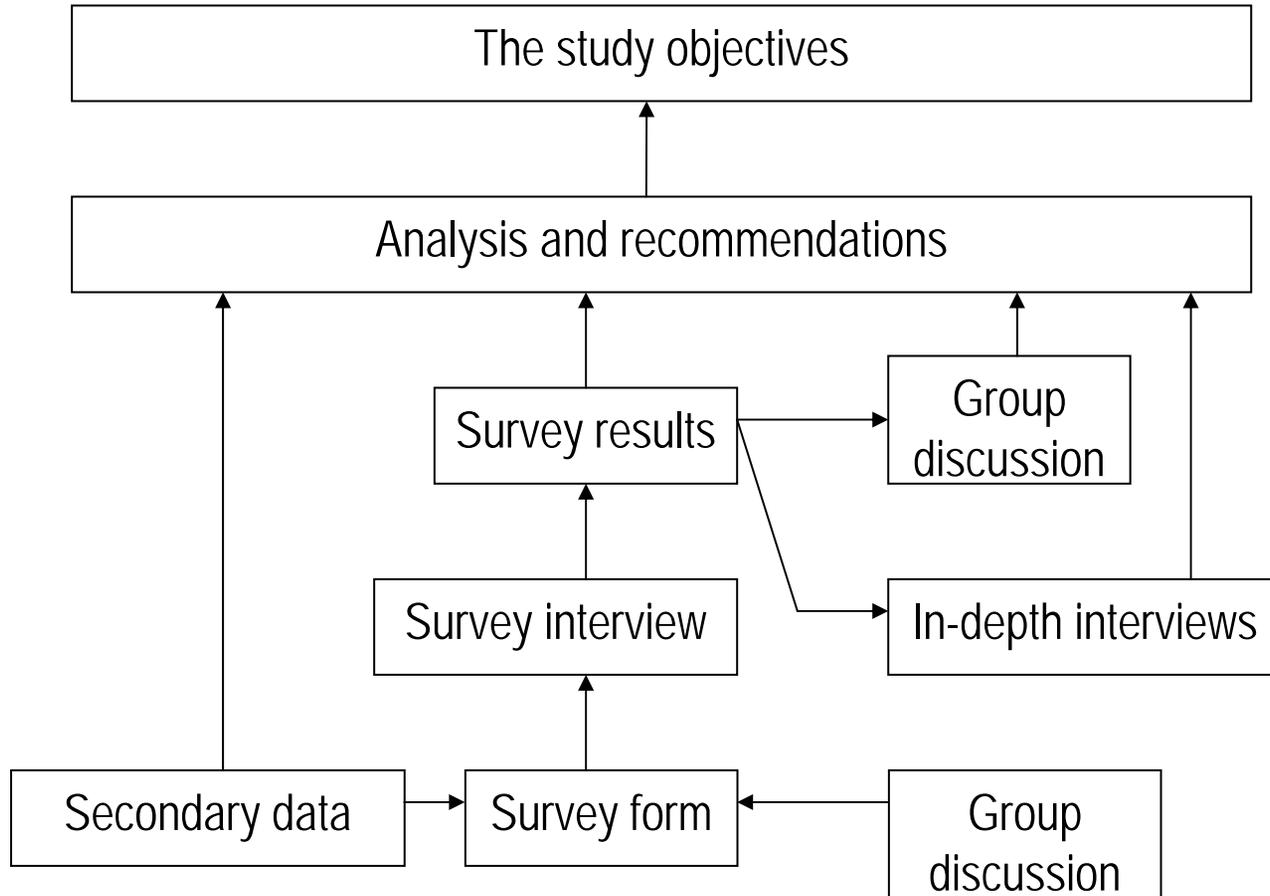


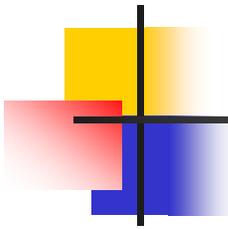
# Objectives

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- To recommend practical and workable solutions in wage-fixing mechanisms to help factory managers achieve a closer match between workers' wages and benefits and the local cost of living.

# Approach

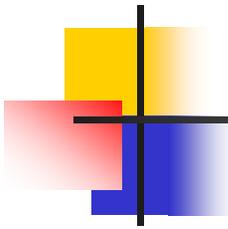




# Activities

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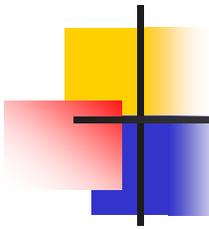
- Workers Survey
  - Sample size: 1,140 workers
  - 4 factories (1 footwear, 3 apparel)
  - Face-to-face interviews: (85% at the factories)
- Focus group discussion (FGDs)
  - 7 FGDs; 7-10 workers each



# Activities

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- Indepth interviews:
  - Factory management
  - Resource persons: business associations, manpower agencies



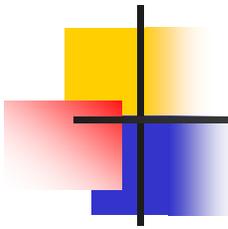
# Factories and location

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- 4 adidas business partners
  - "A", "B", "C", "D"
  - Nominated by adidas
- Location:
  - Tanjung Priok
  - Cakung
  - Tangerang
  - Cikupa
  - Cibinong

# Number of Respondents by factory

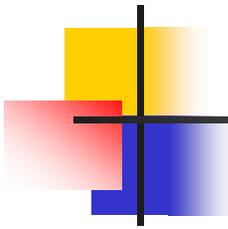
<b>Factory</b>	<b># of Respondents</b>
"A"	360
"B"	360
"C"	320
"D"	100
<b>Total</b>	<b>1,140</b>



# Limitations

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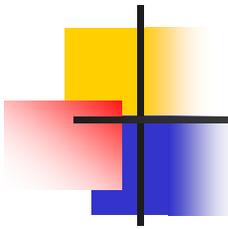
- Method used very much depends on respondent's recollection of past expenditures
- Survey was conducted several weeks after Ramadan -> spend more
- Just before the 2002 government mandated minimum wage increase -> wage increase expectation



# Limitations

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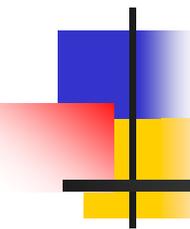
- Fail to obtain data on the loans held by individual respondents, however such data were investigated through FGDs and cooperatives
- Method employed in determining perceived needs relies on majority opinion
  - Subjective measurement
  - Affected by existing ownership



# Limitations

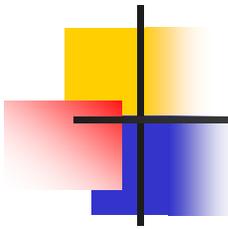
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- Incomplete payroll data from factories due to privacy rights of workers honored



# Profile of the factories and workers

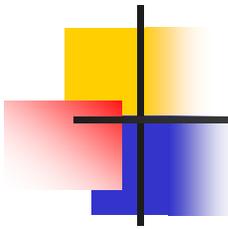
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# Description of factory "A"

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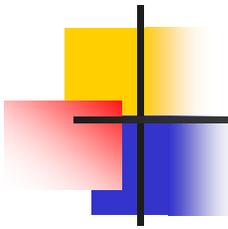
- Producing footwear
- Located in Tangerang
- More than 5000 workers, 90% female
- Provide non-cash benefits  
(transportation, meals, uniform, health clinic, sport and art performing activities)
- Developed workers cooperative



# Description of factory "B"

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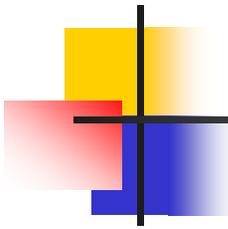
- Producing apparel
- Located in Tanjung Priok, Cakung, Cikupa (2), Tangerang
- More than 6000 workers, 80% female
- Workers Cooperative
- Limited non-cash benefits



# Description of factory "C"

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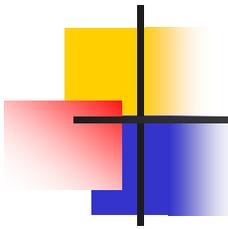
- Producing apparel
- Located in Cakung, Tangerang
- More than 5000 workers, 80% female
- Workers cooperative
- Limited non-cash benefits



# Description of factory “D”

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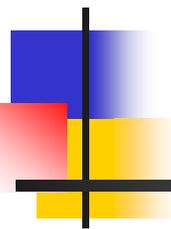
- Producing bags for local supply
- Factory: Cibinong
- 150 workers
- No workers cooperative
- Limited non-cash benefits



# Demography of respondents

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- 89% female
- 76% age between 20 – 29 years
- 36% finished junior high; 37% finished senior high
- 48% single; 38% married with children
- 85% with dependent
- 70% migrant



# Income

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# Fair Wage

**Income**

Income from factory

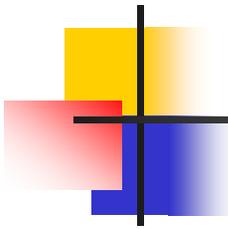
Other income

**Expenditure**

Perceived needs

Basic needs

**Fair wage**



# Sources of Income

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## **Income from factories**

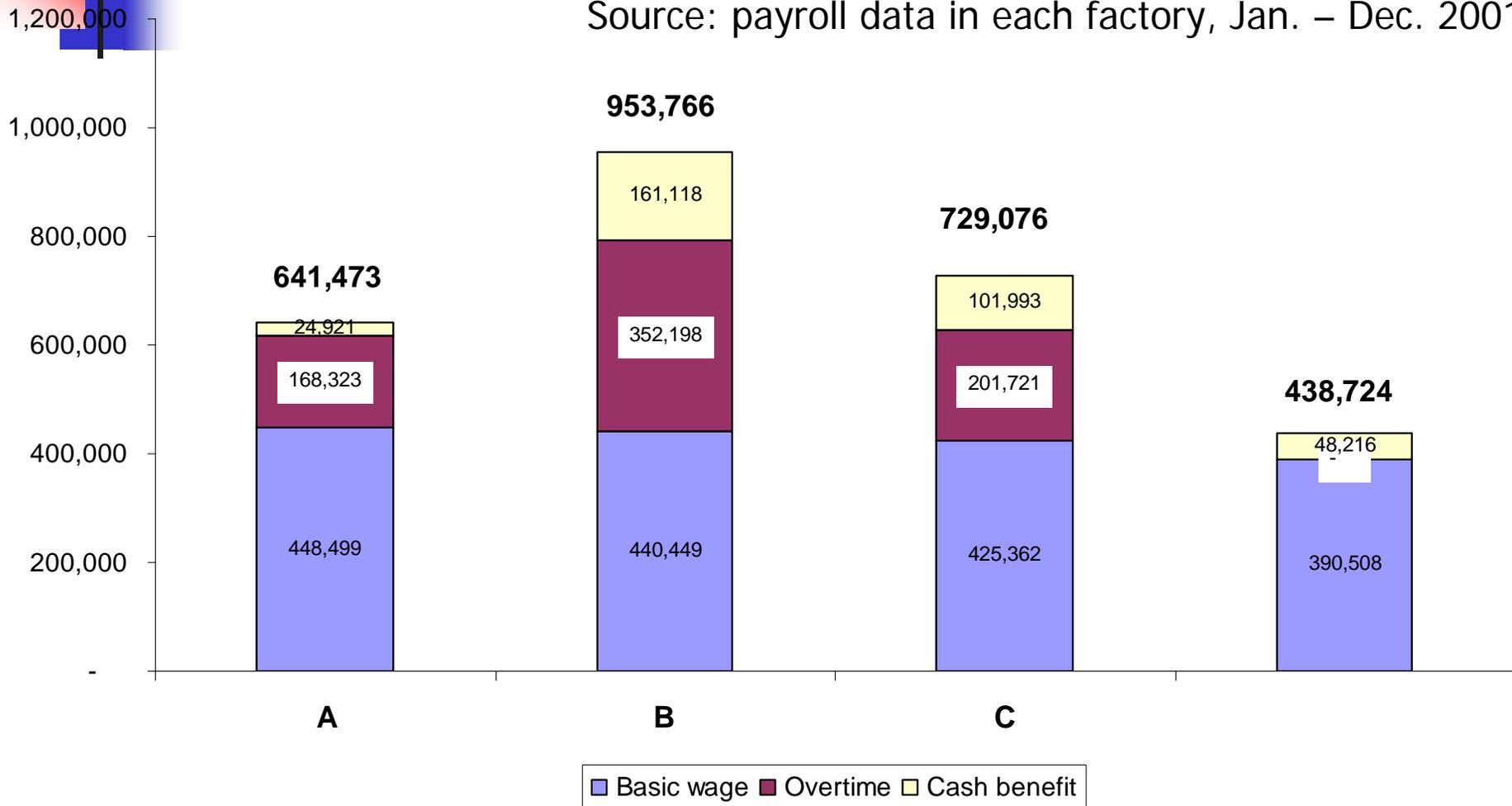
- Basic wage
- Overtime payment
- Cash allowances
- Non cash benefits

## **Income from other sources**

- Additional jobs
- Spouse income
- Contribution from others

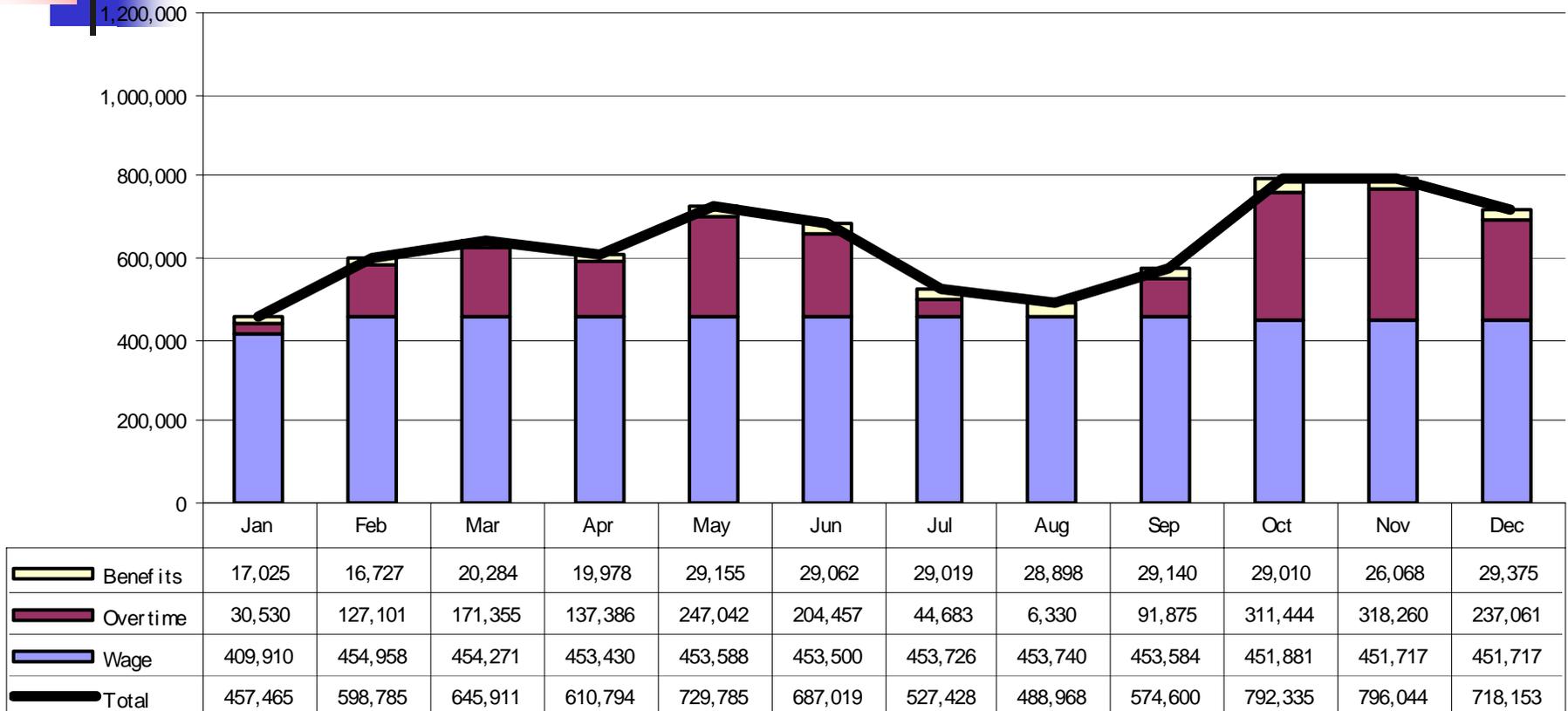
# Average total wages (Rp/month)

Source: payroll data in each factory, Jan. – Dec. 2001



# Average monthly wage in factory

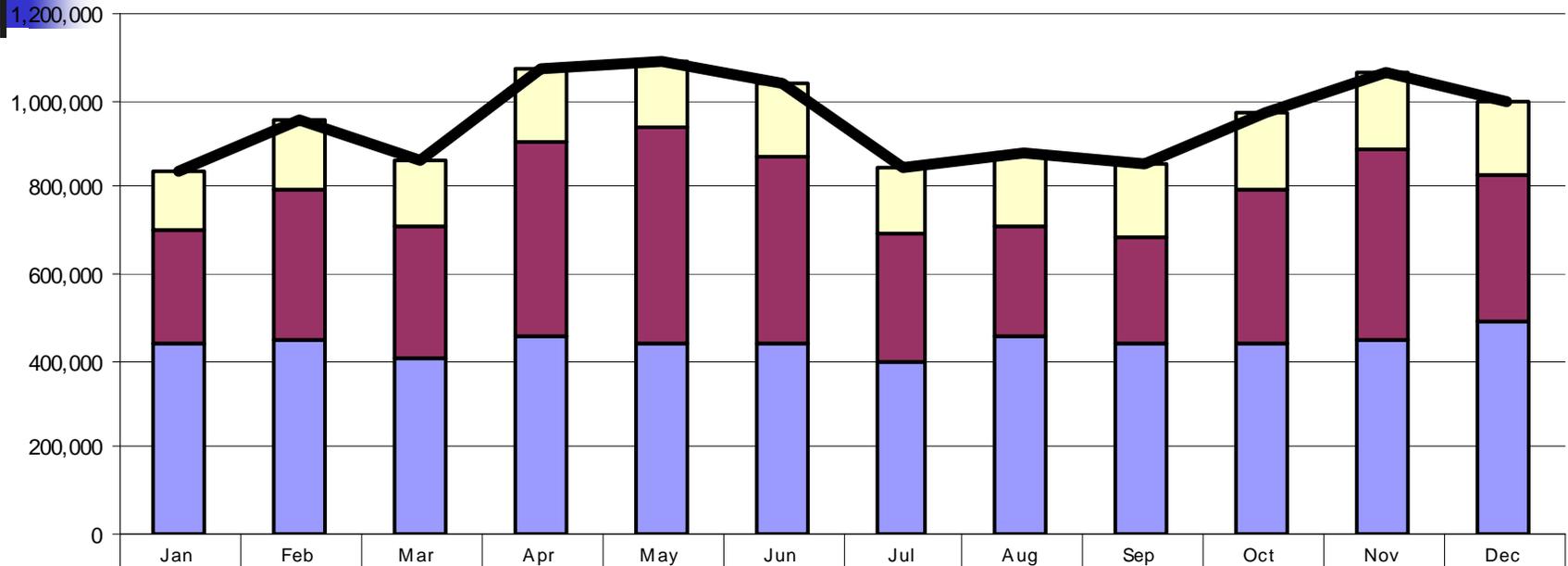
"A"



Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Average monthly wage in factory

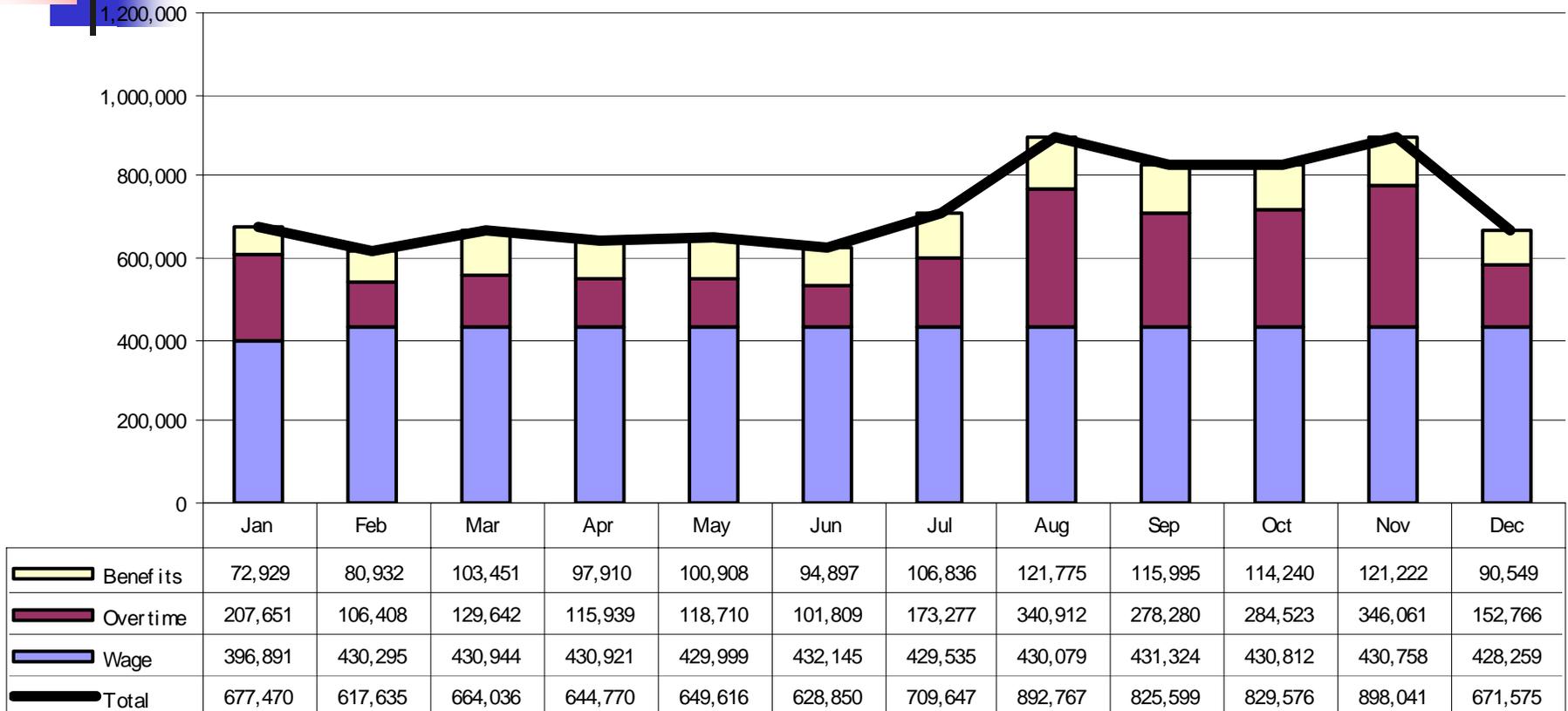
"B"



Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Average monthly wage in factory

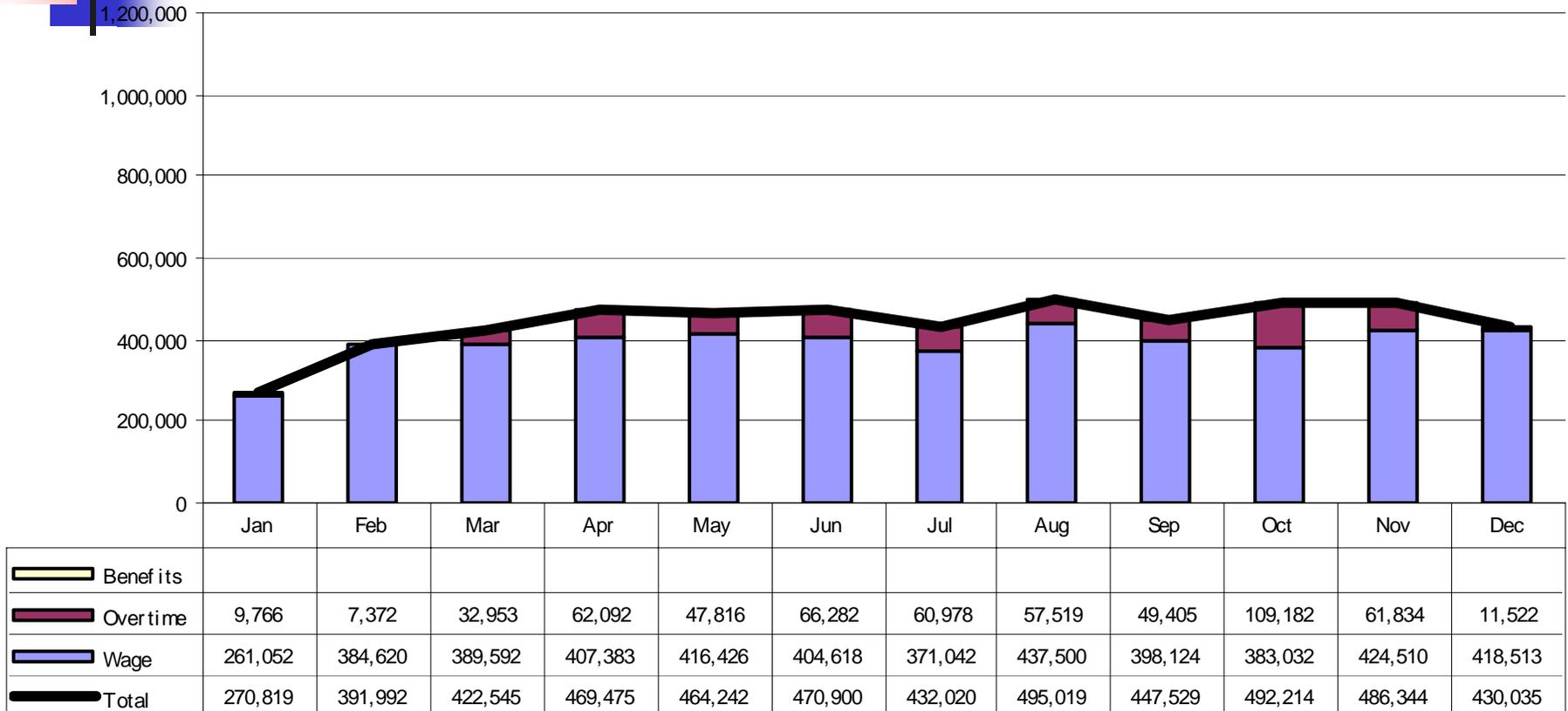
"C"



Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Average monthly wage in factory

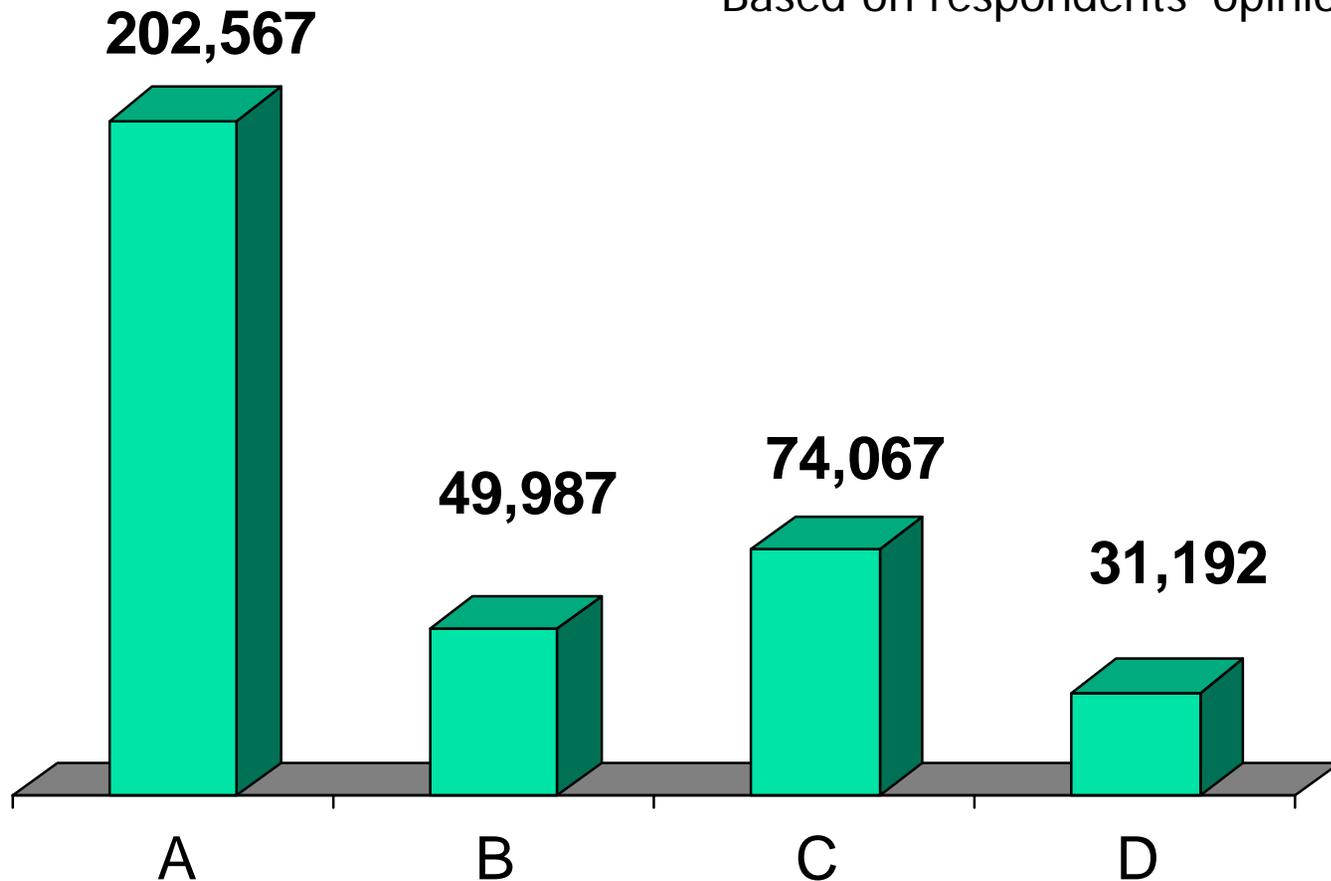
"D"

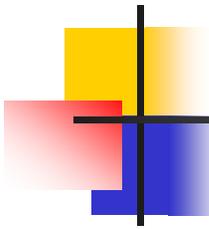


Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Cash equivalent of non-cash benefits (Rp/month)

\* Based on respondents' opinion





## Other sources of income

No.	Source of Income	% <sup>1</sup>	Rp/month <sup>2</sup>
1	Worker's additional jobs	4%	11,500
2	Spouse income	36%	199,434
3	Contribution from others	3%	12,996
	<b>Total</b>	40%	<b>224,544<sup>3</sup></b>

<sup>1</sup> Percentage of respondents who have other sources of income (multiple responses)

<sup>2</sup> Average of total respondents

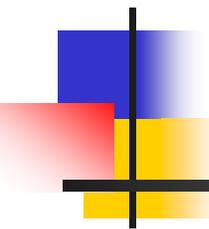
<sup>3</sup> Total is different due to multiple responses

# Monetary value of non cash

## benefits

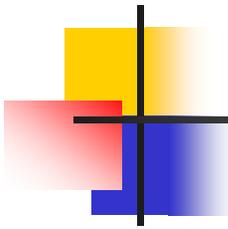
average of those who received such benefits; based on respondent's opinion

Benefits	A		B		C		D	
	N	Rp/month	N	Rp/month	N	Rp/month	N	Rp/month
Transportation	314	136,855	75	48,467	146	69,571	1	106,138
Meals	347	58,170	88	55,057	117	54,038	1	56,921
Housing	3	153,333	3	98,000	3	100,000	2	118,000
<i>Jamsostek</i>	142	8,070	95	7,538	223	18,063	2	12,785
Health	285	18,881	219	24,868	119	18,428	74	21,557
Recreation facilities	162	2,739	272	4,432	215	1,972	4	3,195
Uniform	339	3,305	272	2,574	293	1,373	1	2,4691



# Expenditure & Saving

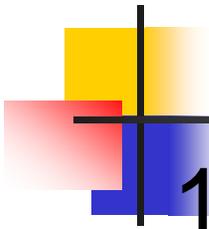
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# Expenditure

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- Expenditures are for household, including support to dependents
- Respondents were asked to recall their last expenditure
- Derived from Government standard
- Limitation
  - Timing of the survey



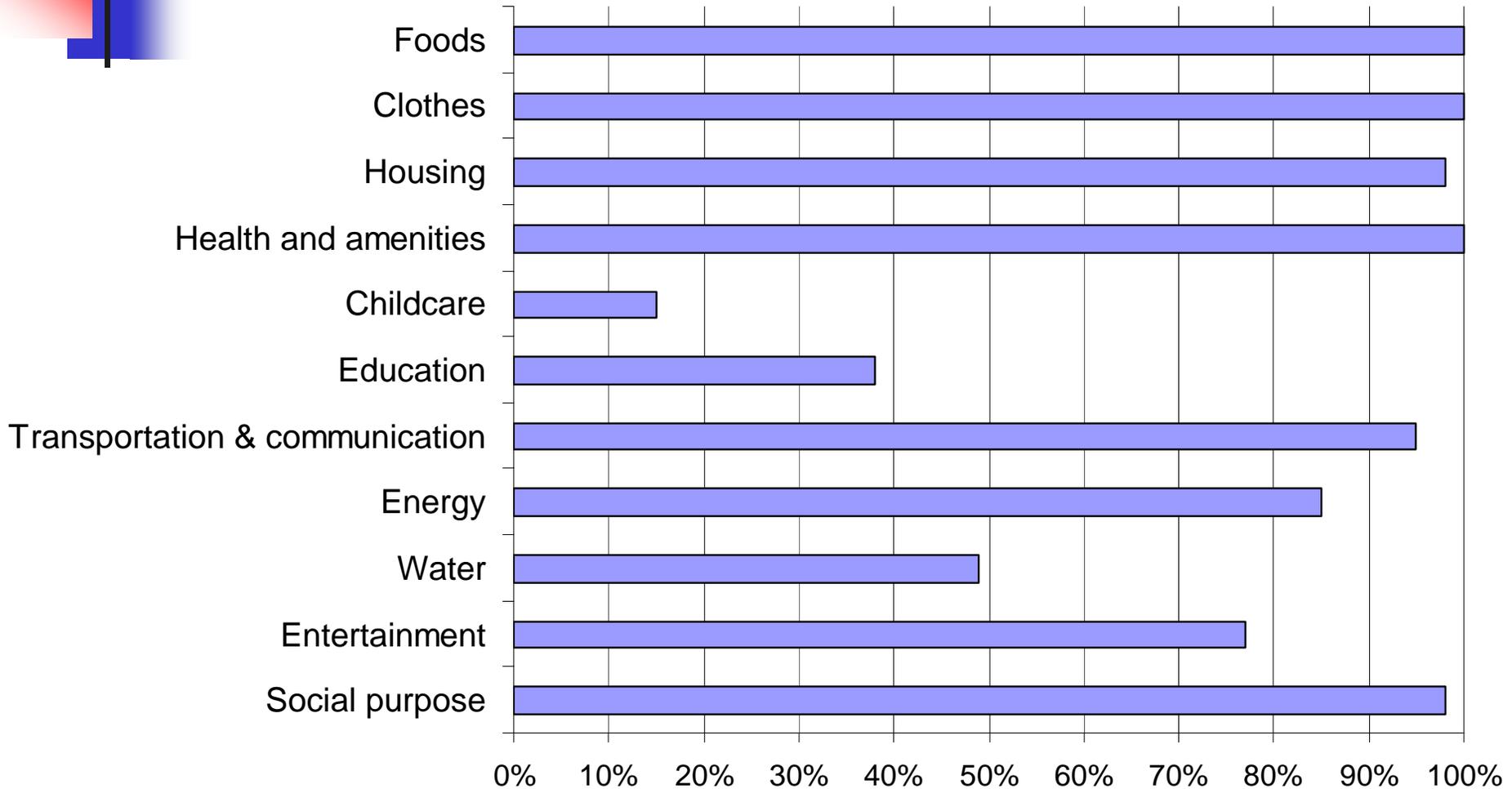
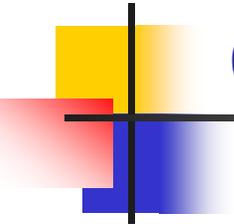
# Expenditure

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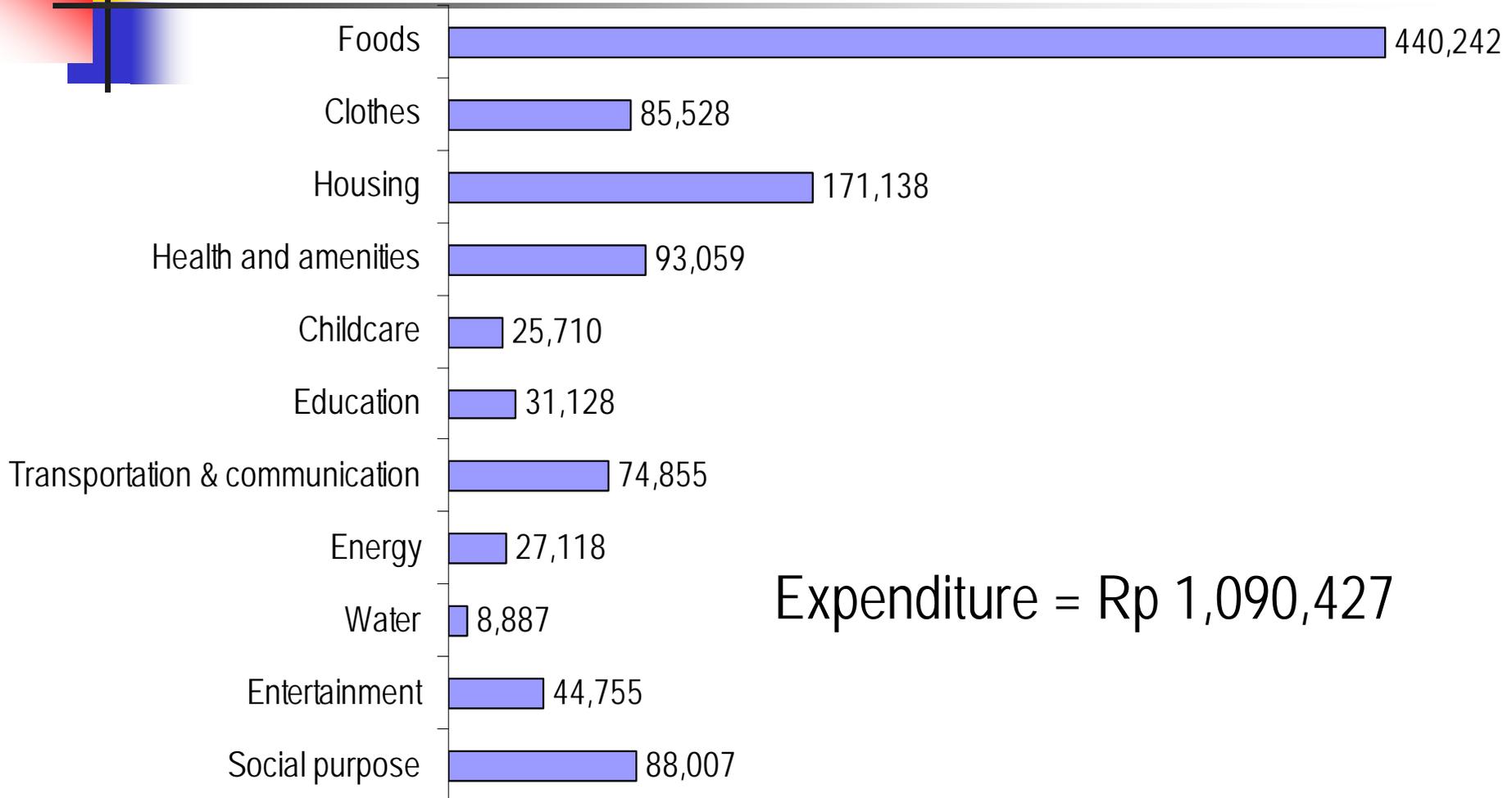
## 155 expenditure items:

- Food (21)
- Clothes (18)
- Housing (41)
- Health and amenities (26)
- Childcare (18)
- Education (11)
- Transportation (6)
- Energy (4)
- Water (2)
- Entertainment (5)
- Social purpose (3)

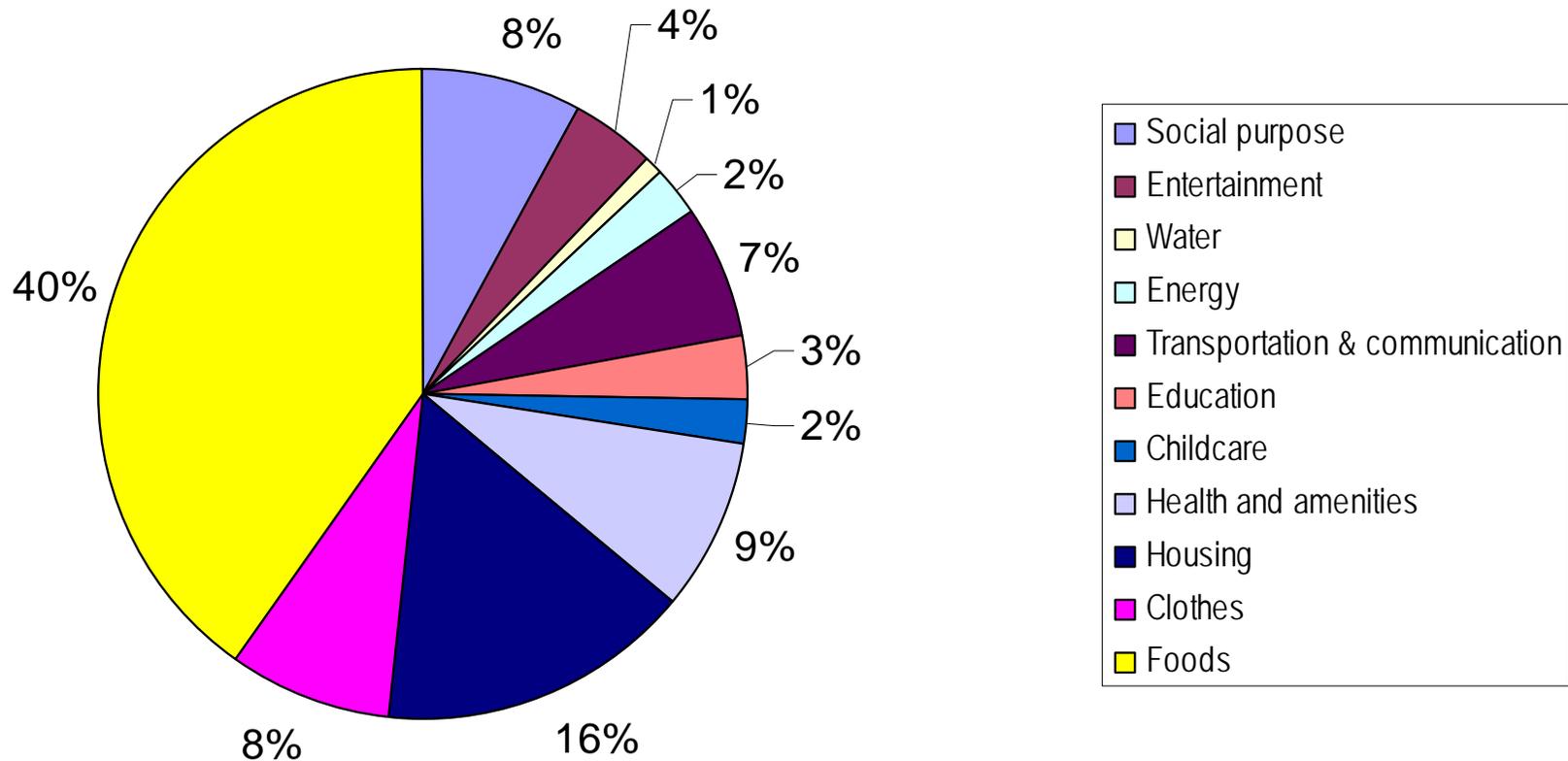
# Respondent's expenditure components



# Mean expenditure (Rp/month)



# Portion of each expenditure component

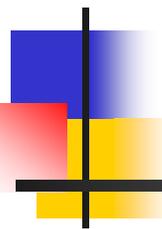


# Savings

<b>Form</b>	<b>%</b>	<b>Rp/month<sup>1</sup></b>
Savings (at home or bank)	45%	Rp 26,748
<i>Arisan</i> <sup>2</sup>	57%	Rp 61,214
Buy gold/jewelry	27%	Rp 7,903
		<b>Rp 102,830</b>

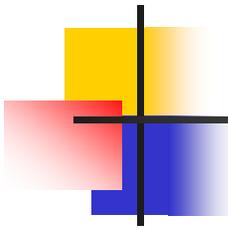
<sup>1</sup> Average of total respondents

<sup>2</sup> *Arisan* is a regular, traditional social gathering whose members contribute to and take turns at getting an aggregate sum of money or goods.



# Perceived Needs

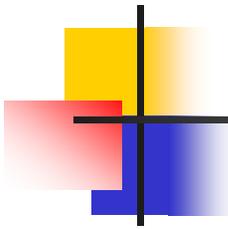
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# Perceived Needs

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- Derived from 155 expenditure items asked in the survey
- Subjective respondent's opinion on level of urgency (3 options):
  - should be fulfilled and cannot be delayed
  - can be delayed
  - not needed



# Perceived Needs

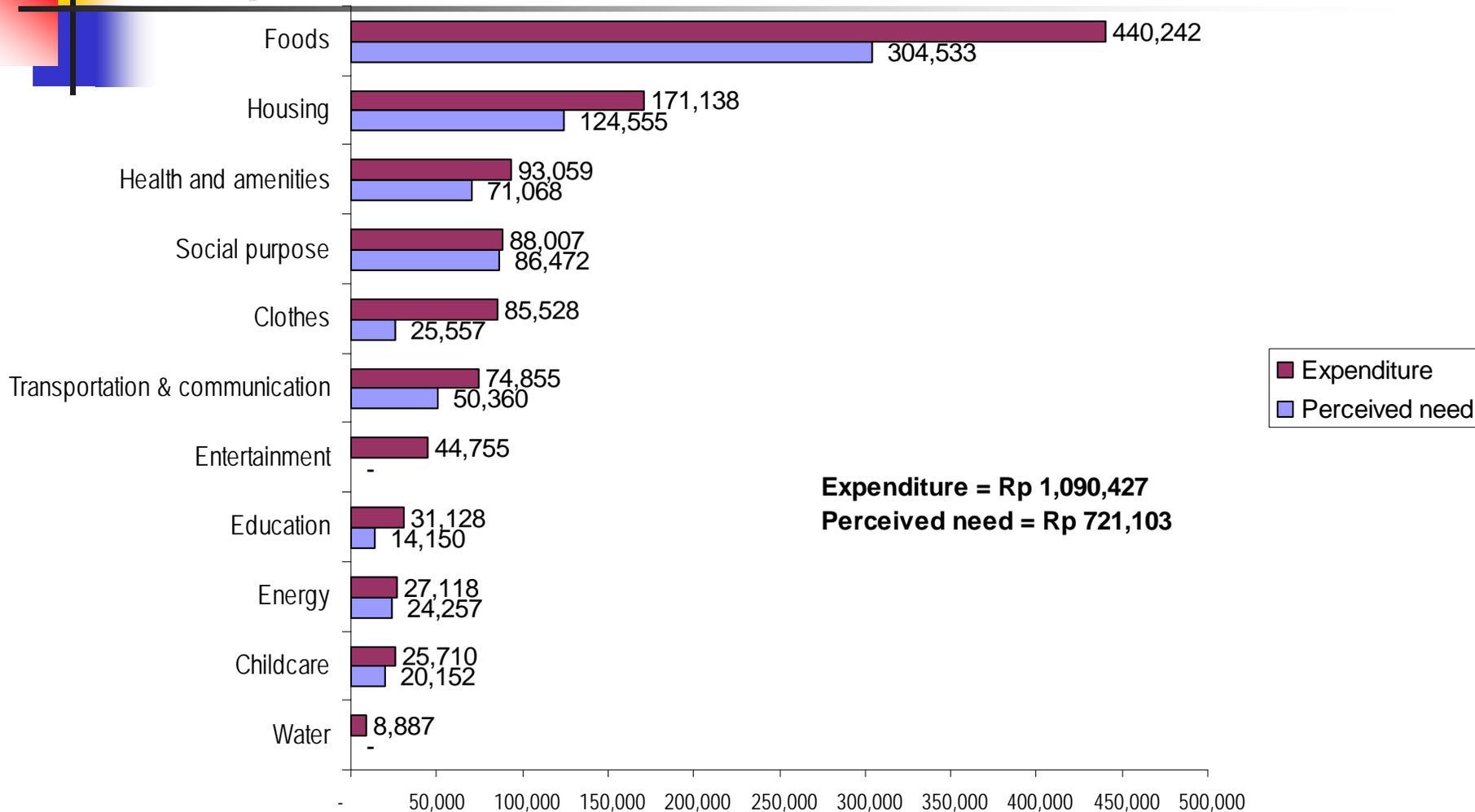
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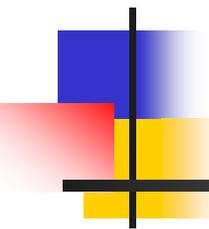
- An item is categorized as a need based mode of opinion (the largest among the three)
- Example: 41% respondents said a bed is should be fulfilled and can not delayed -> need
- Opinion could be affected by current ownership

# Number of items categorized as need and not needed

No.	Expenditure Category	# of Items Categorized as Needs	# of Items Categorized as Not Needed
1	Foods	12	9
2	Clothes	4	14
3	Housing	27	14
4	Health and amenities	16	10
5	Childcare	7	11
6	Education	6	5
7	Transportation & communication	2	4
8	Energy	2	2
9	Water	0	2
10	Entertainment	0	5
11	Social purpose	3	0
	<b>Total</b>	<b>79</b>	<b>76</b>

# Expenditure vs Perceived Needs



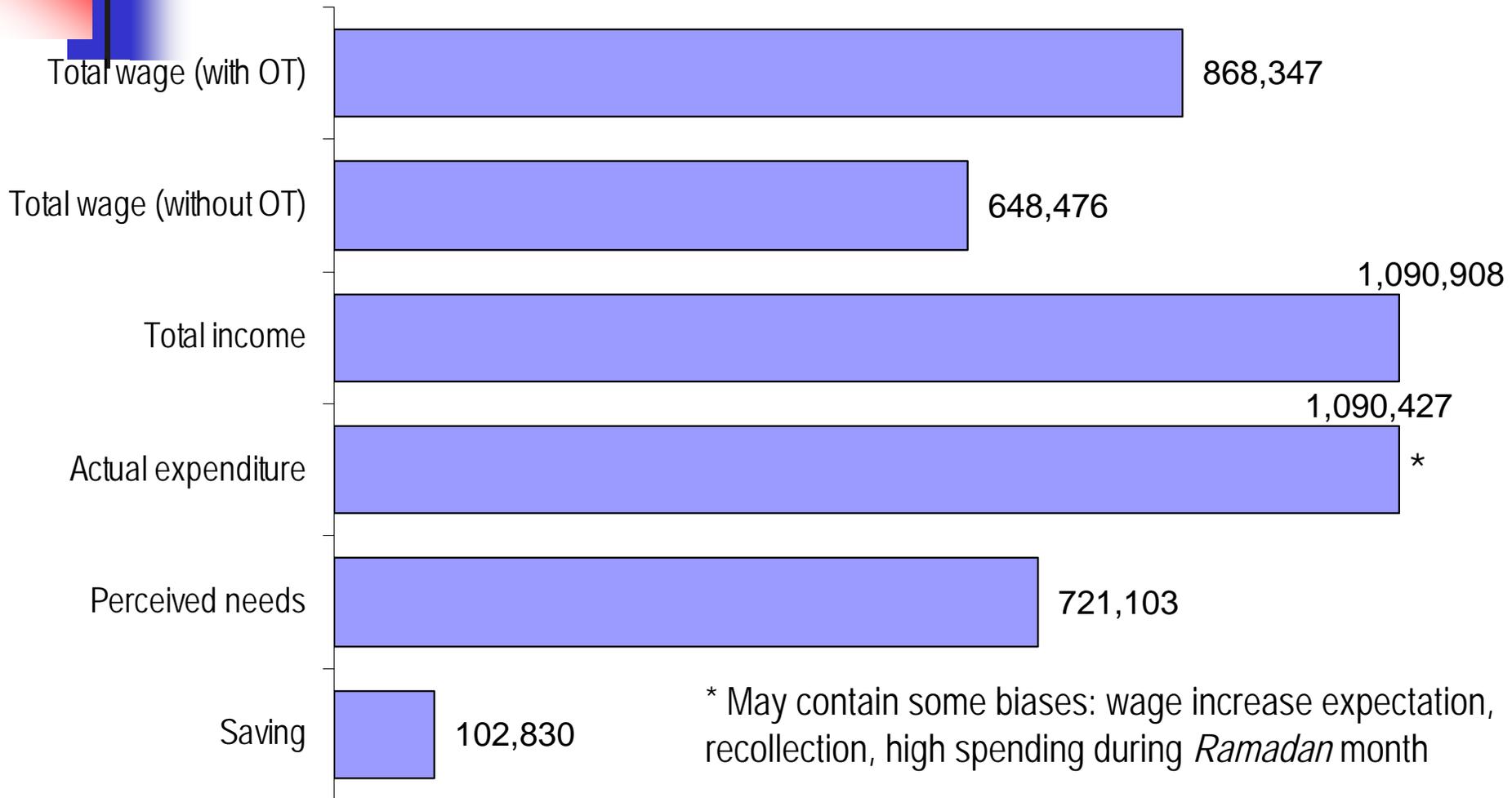


# Income & expenditure

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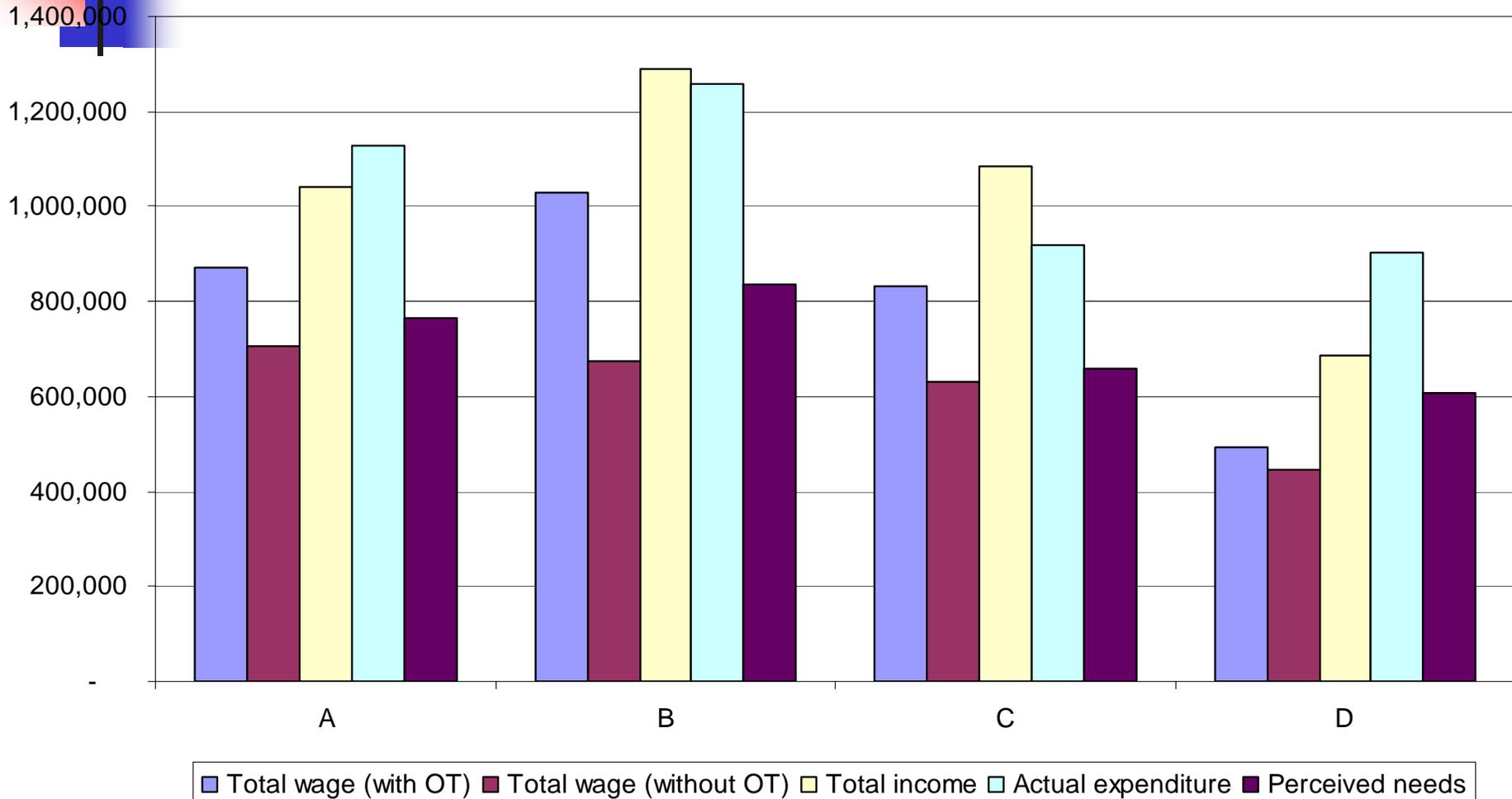
# Wage, Income, Expenditure, Needs

Total wage includes *Idul Fitri* allowance and non cash benefits



\* May contain some biases: wage increase expectation, recollection, high spending during *Ramadan* month

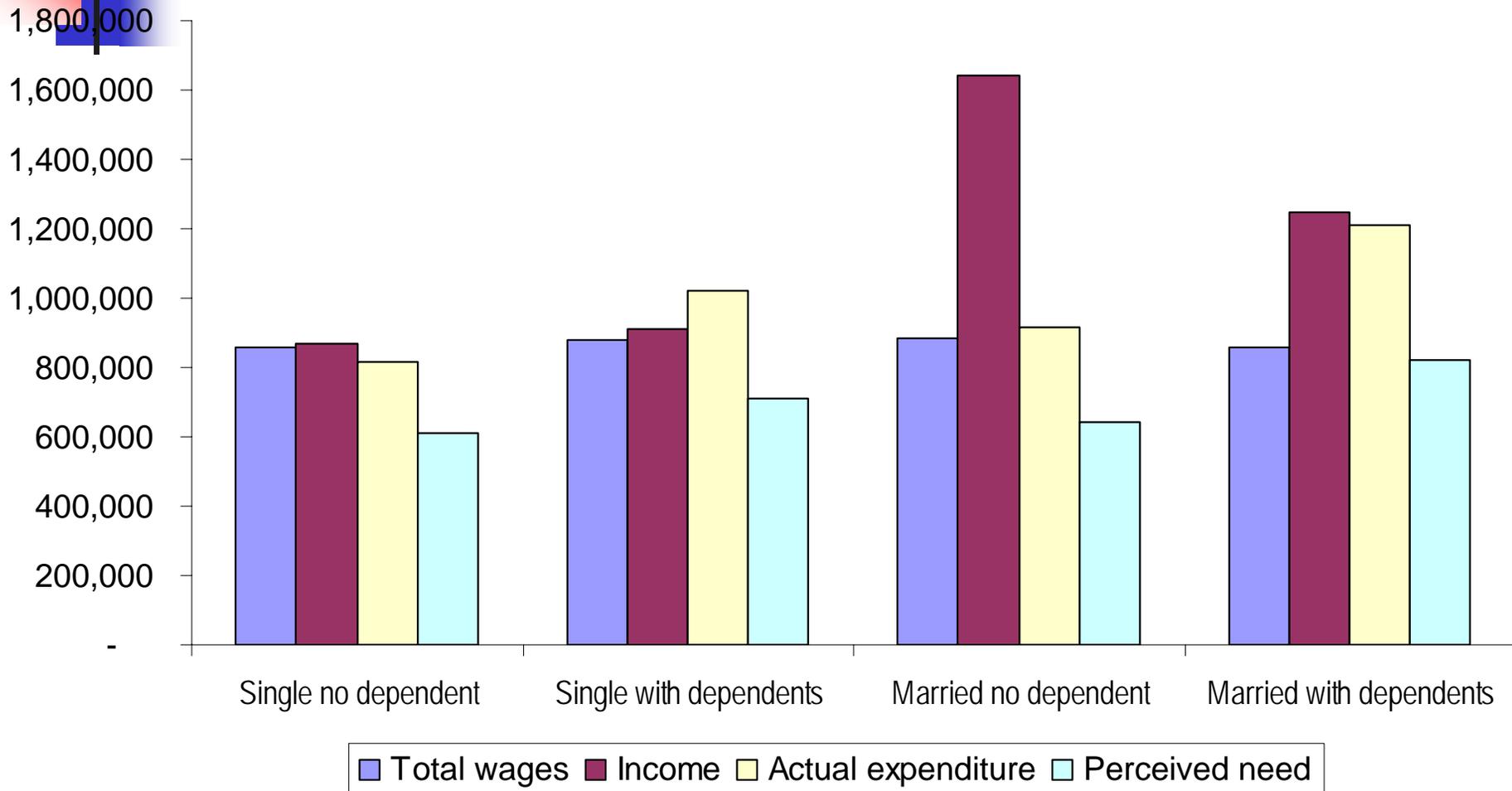
# Wage, Income, Expenditure, Needs by factory



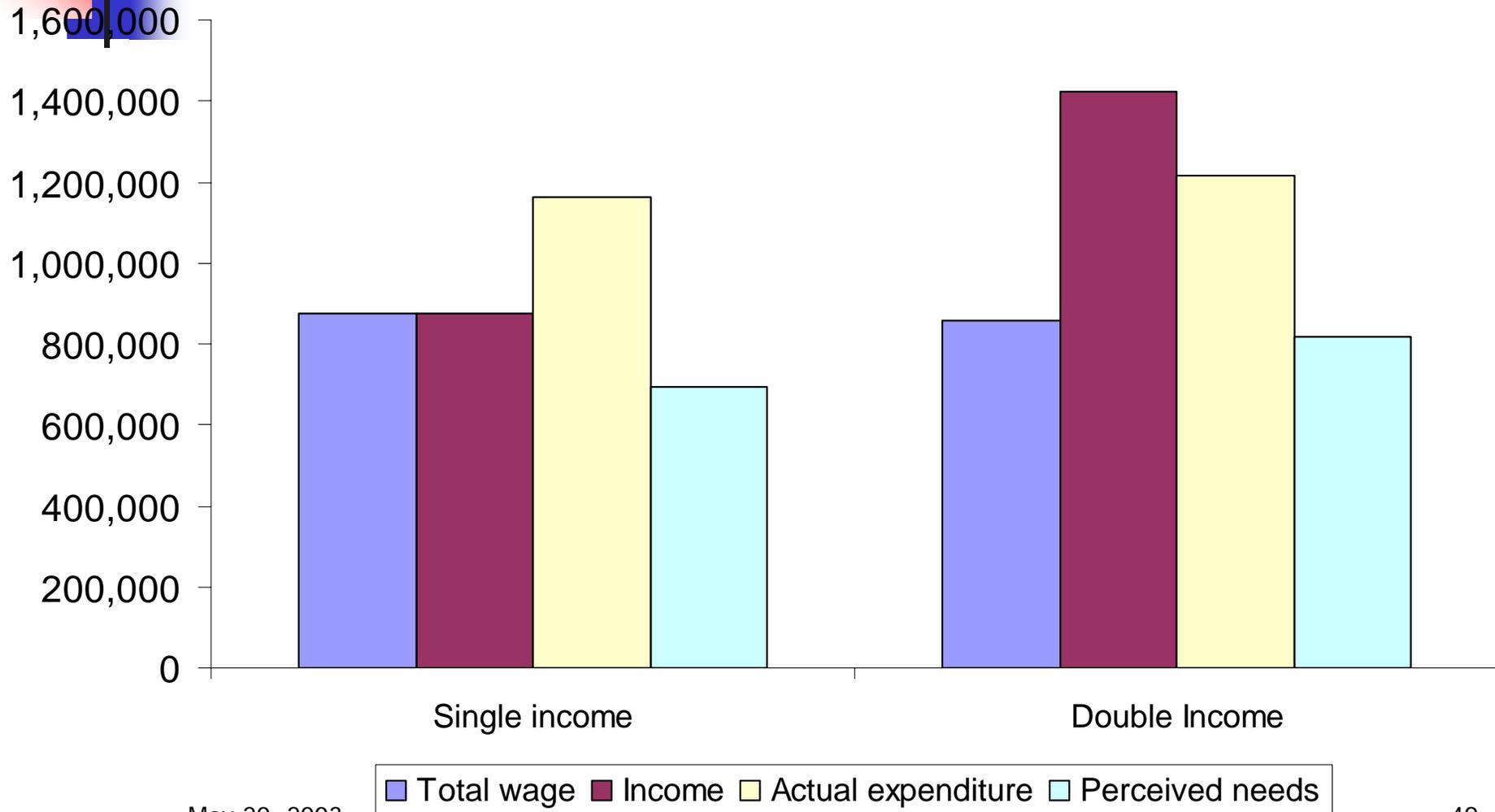
# Wage, Income, Expenditure, Needs by marital status



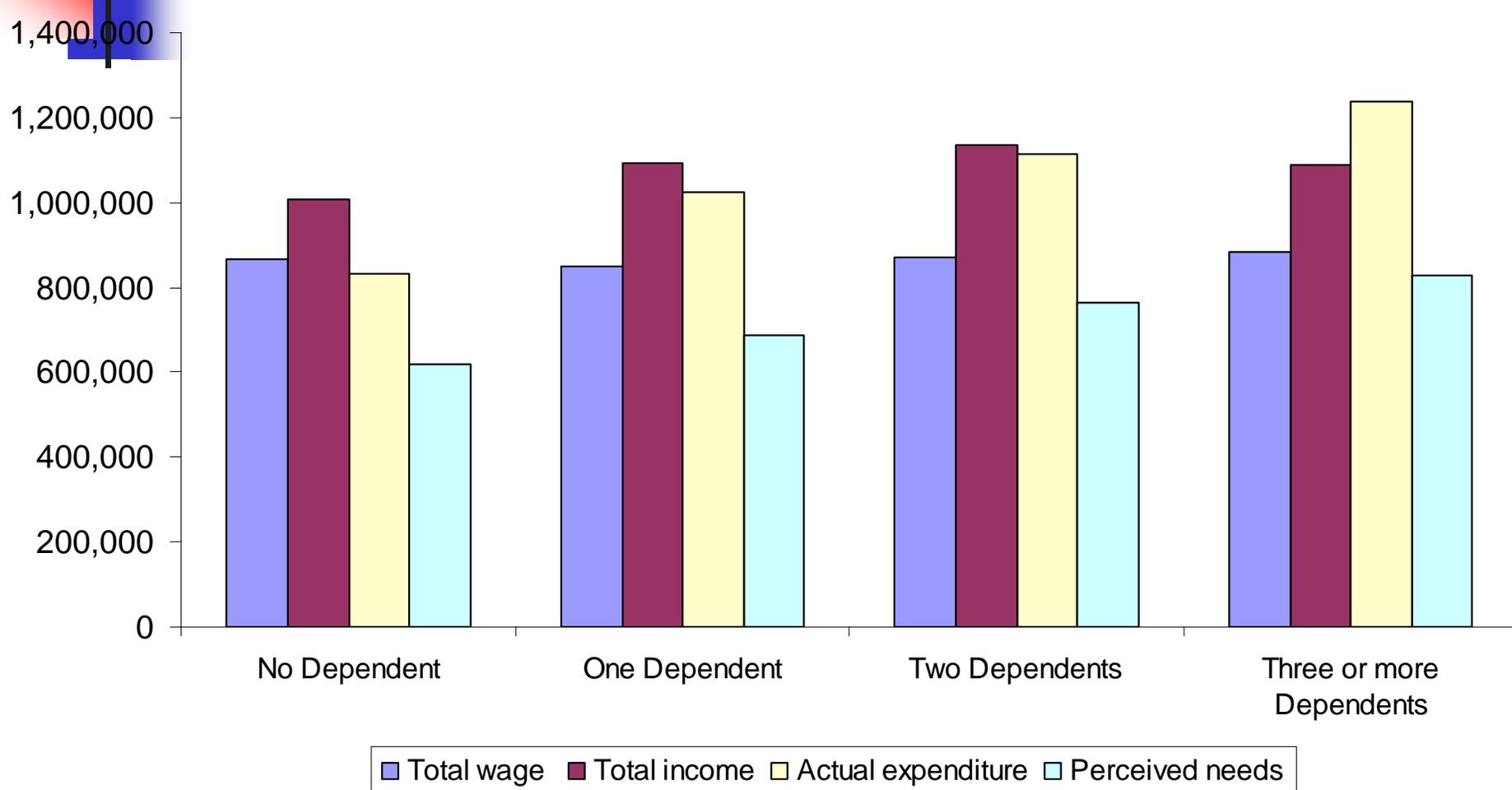
# Wage, Income, Expenditure, Needs by marital status and dependent



# Wage, income, expenditure and needs by number of income earners

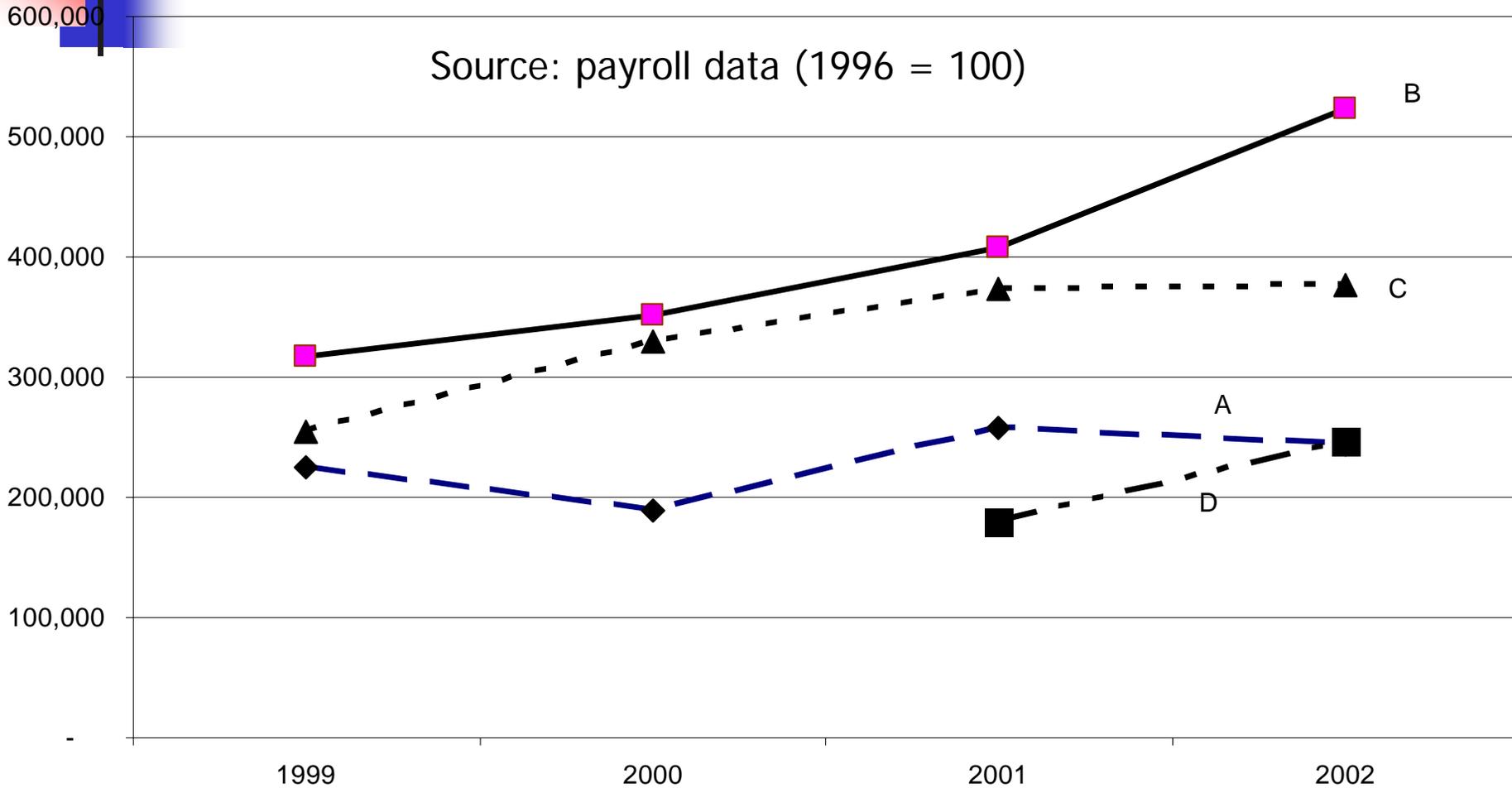


# Wage, income, expenditure and needs by number of dependents



# Real total wages (Rp/month)

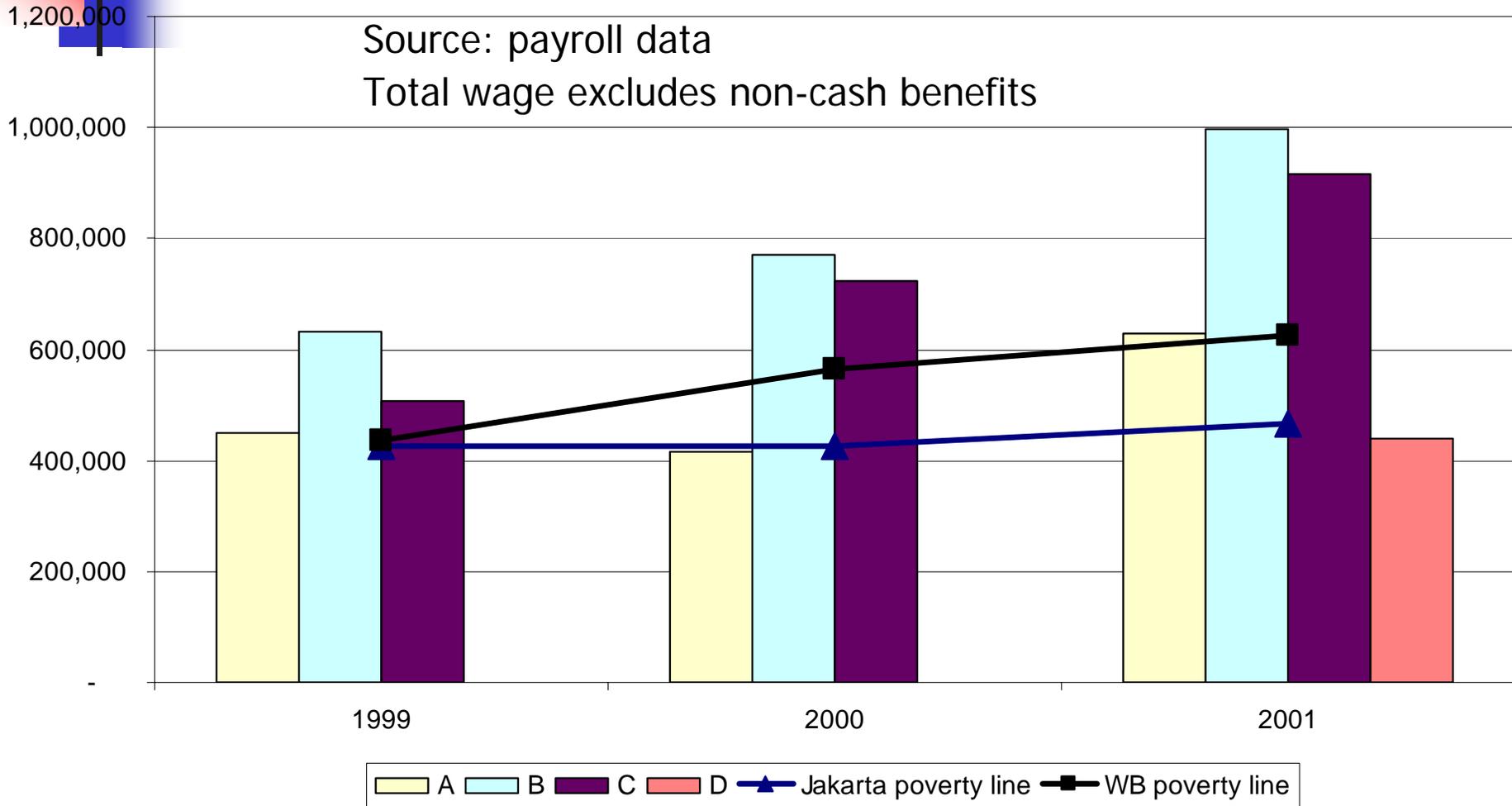
Source: payroll data (1996 = 100)



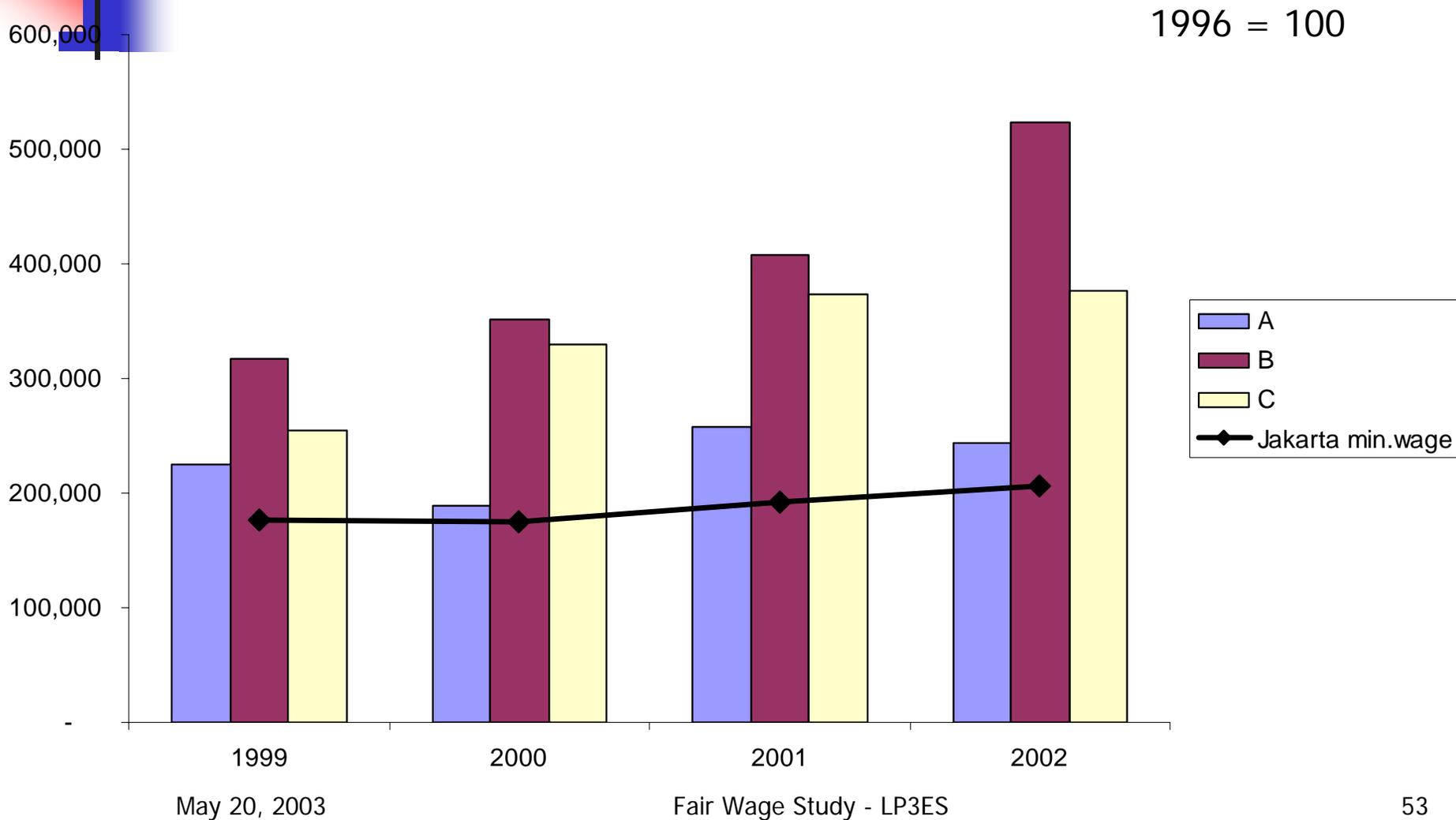
# Total wage vs poverty line

Source: payroll data

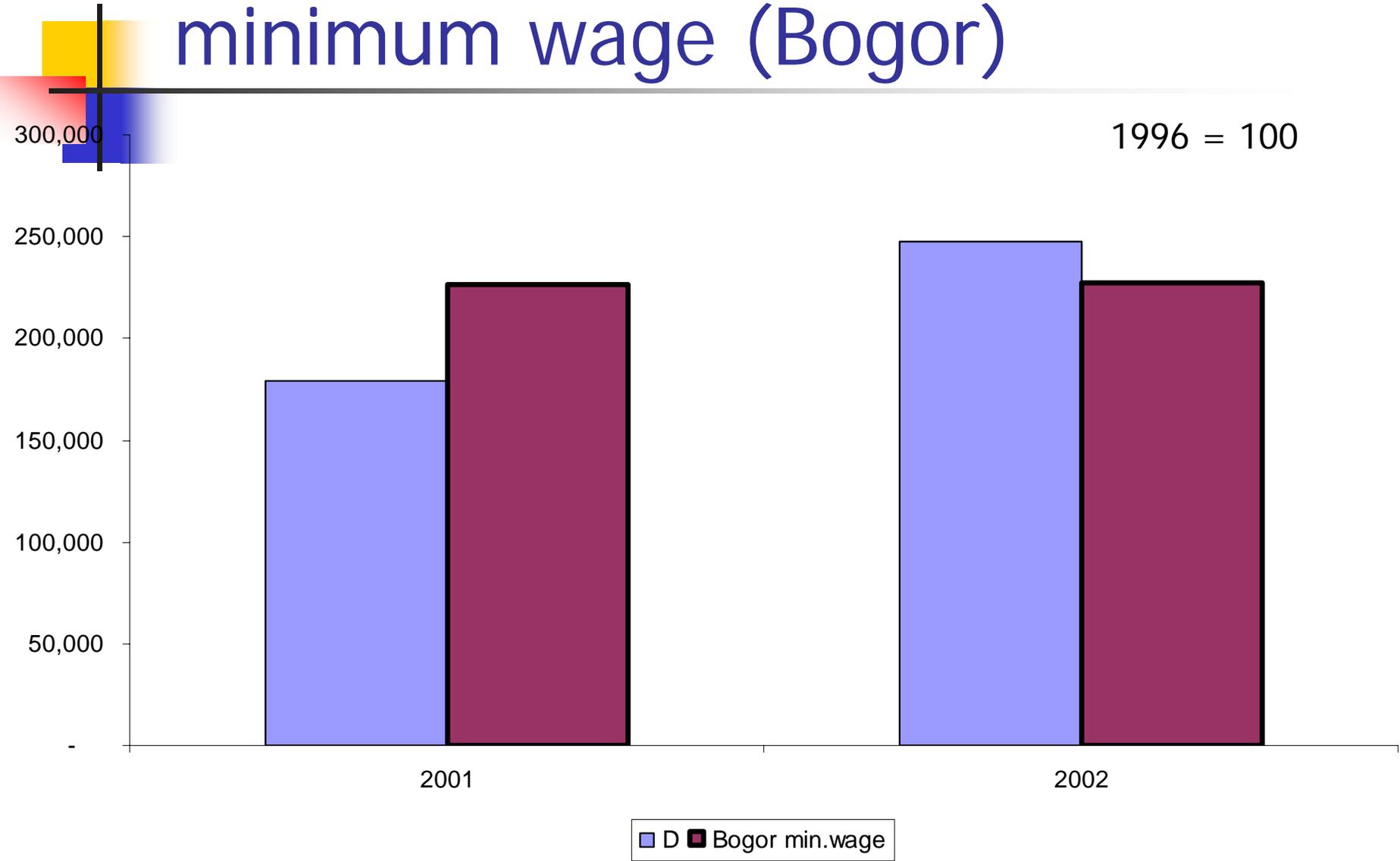
Total wage excludes non-cash benefits

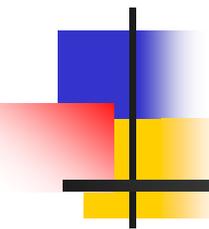


# Real basic wages vs government minimum wage (Jakarta)



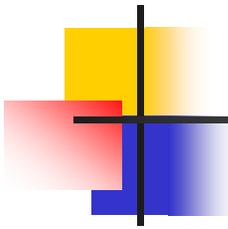
# Real basic wages vs government minimum wage (Bogor)





# FAIR WAGE

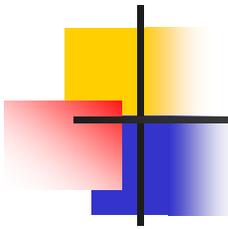
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# Fair wage

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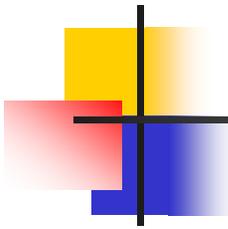
- LP3ES were asked to compare the study results with other standards to measure fair wage
- Other standards:
  - Workers Rights Consortium
  - Household Livelihood Security Framework (HLSF)



# Workers Rights Consortium

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- Living wage: “a fair and decent level of income that would enable workers to meet their basic needs”
- Basis:
  - costs of basic needs of a family
  - % of income to save



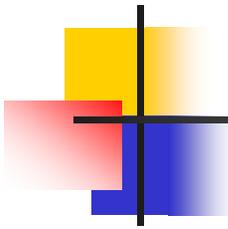
# Workers Rights Consortium

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**Take-home wage (net wage) =**

[average family size/average number of adult wage-earners] \*

[cost of nutrition + clothing + healthcare + education + potable water + childcare + transportation + housing + energy + saving]



# Household Livelihood Security Framework (HLSF) by O'Brien

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- SA8000 requires companies to provide compensation that allows workers to meet their basic needs with an additional 10% left over for discretionary spending.
- Net salary + basic benefits + other income = basic needs + 10% discretionary spending

# Workers' Perception about Fair Wage

- FGD in factory "A"

Fair wage is basic wage and cash benefits with overtime received from factory that can match workers' basic needs and some discretionary.

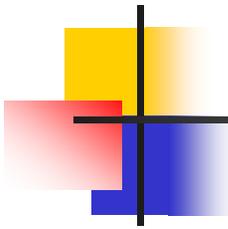
Specifically, fair wage equals minimum wage + Rp 50,000 + benefits without overtime + discretionary.

# Workers' Perception about Fair Wage

- FGD in factory "B"

Fair wage is wages and benefits that could cover needs and other needs, namely for recreation, savings, and also cover dependents, including send money to parents or relative. Wage is without overtime.

# Workers' Perception about Fair Wage

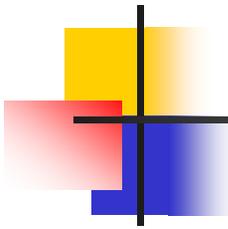


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- FGD in factory "C"

Fair wage is wages that can fulfill workers' basic needs and of their dependents, and there is portion left for savings for future use.

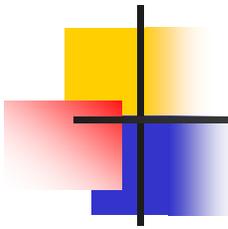
# Workers' Perception about Fair Wage



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- FGD in factory "D"

Fair wage is wages that can cover all current daily needs plus some left for savings.

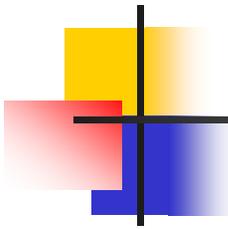


# Workers' Perception about Fair Wage

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- Fair wage:

- Consists of wage and cash benefits
- Without overtime
- Should be enough to cover their basic needs
- Some portion left over for discretionary spending



# Proposed Fair Wage Formula

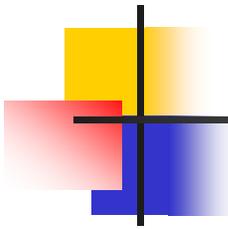
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## **FAIR WAGE**

= BASIC NEEDS + DISCRETIONARY  
SPENDING + DEPENDENTS

= exp. and DP for single worker +  
exp. and DP for dependent

DP = discretionary spending

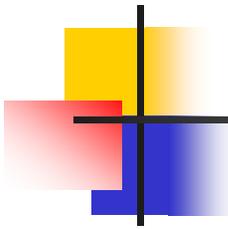


# Proposed Fair Wage Formula

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**Fair wage**

$$\begin{aligned} &= [115\% \times \text{basic needs}] + \\ &\quad [[15\% \times \# \text{ of dependents}] \times 115\% \\ &\quad \times \text{basic needs}] \end{aligned}$$



# Survey results

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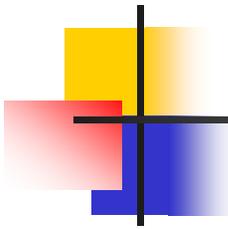
- Basic needs = Rp 562,679

(for a single worker, based on the survey result)

- Fair wage for a worker without dependent (2002):

$$= [115\% \times \text{Rp } 562,679] + [0 \times 15\% \times 115\% \times \text{Rp } 562,679]$$

$$= \text{Rp } 647,081$$



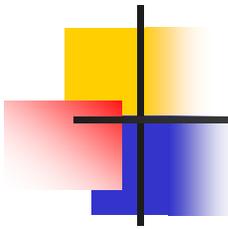
# Survey results

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- Fair wage for workers with one dependent (2002):

$$= [115\% \times \text{Rp } 562,679] + [1 \times 15\% \times 115\% \times \text{Rp } 562,679]$$

$$= \mathbf{\text{Rp } 744,143}$$



# Adidas “Definition” on Fair Wage

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*“The take-home pay and benefits received by a worker during a legal work week which allow the worker and their dependents to meet basic needs and save a certain portion for long-term planning and emergencies. Basic needs include food, housing, education, childcare, health care, clothing, energy, water, and transportation.”*

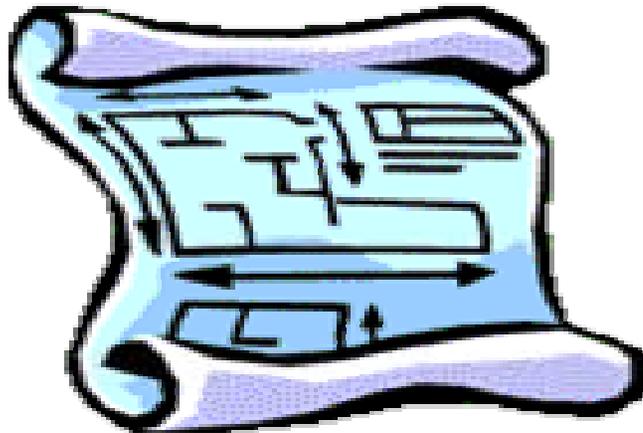
# Comparison of results

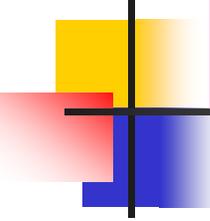
Type of wages	Study Result	(SAI)		
		WRC	HLSF	KHM
Basic wage for a single worker (Rp)	562,679	n.a.	525,087	535,087 <sup>1</sup>
Fair wage for a single worker (Rp)	647,081	632,939	577,597	n.a.
Fair wage for an average worker, incl. family (Rp)	873,236	886,113	1,366,512	n.a.

Average family size = 2.50; number of wage earner = 1.40 (study result)

<sup>1</sup> Government's minimum living need (KHM) based on December 2001 in Jakarta

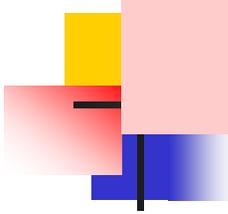
# Management Report





# Overview

- Evaluation of existing wage systems
  - Compliance
  - Competitiveness
  - Equity/Workers' perspective
- Practical solutions

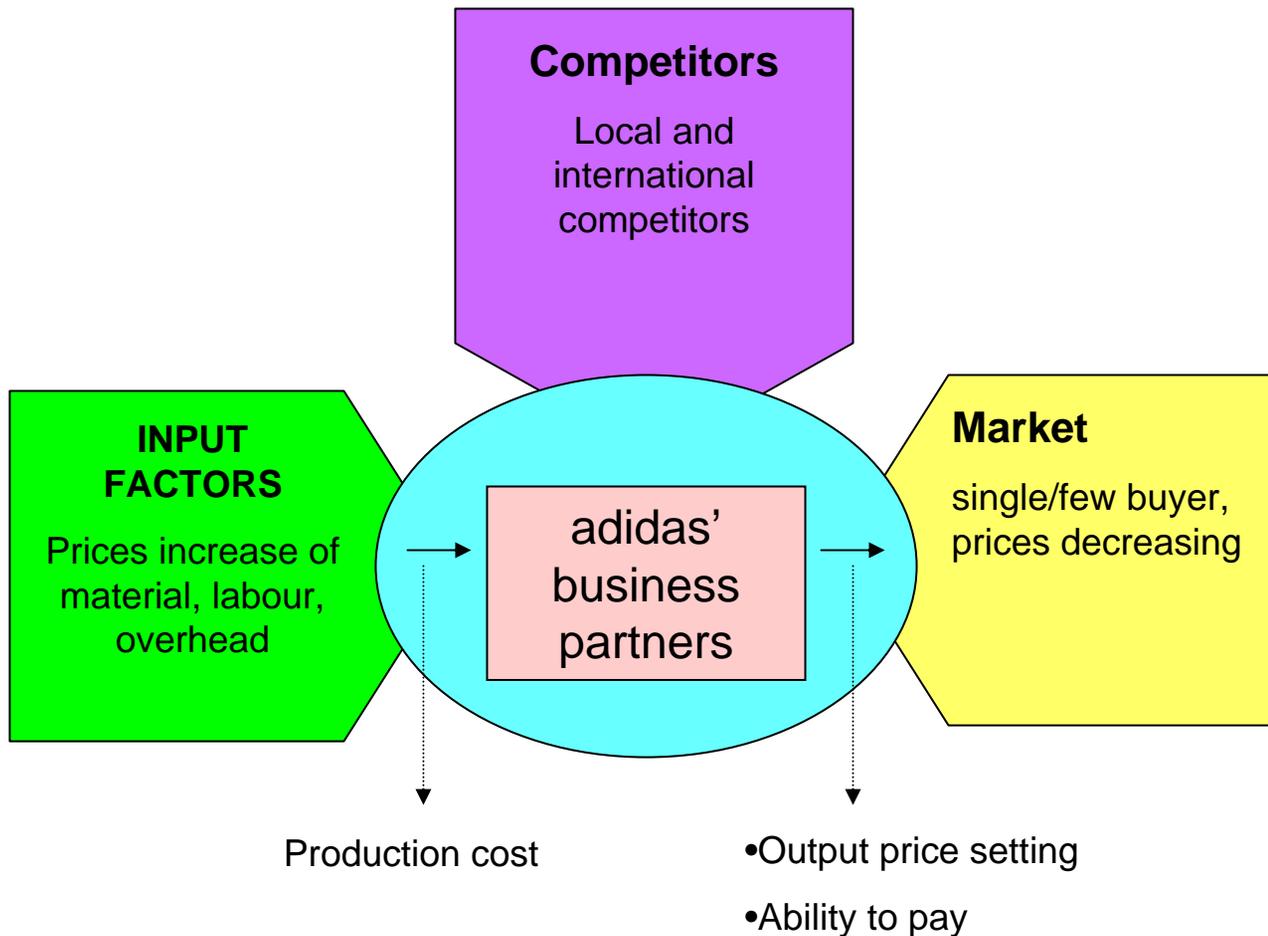


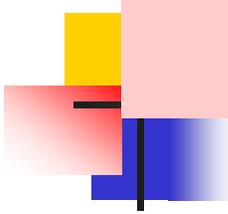
# Compliance

Toward minimum wage regulation:

- ❖ pay above minimum wage
- ❖ response it in positive way

# Competitive Environment



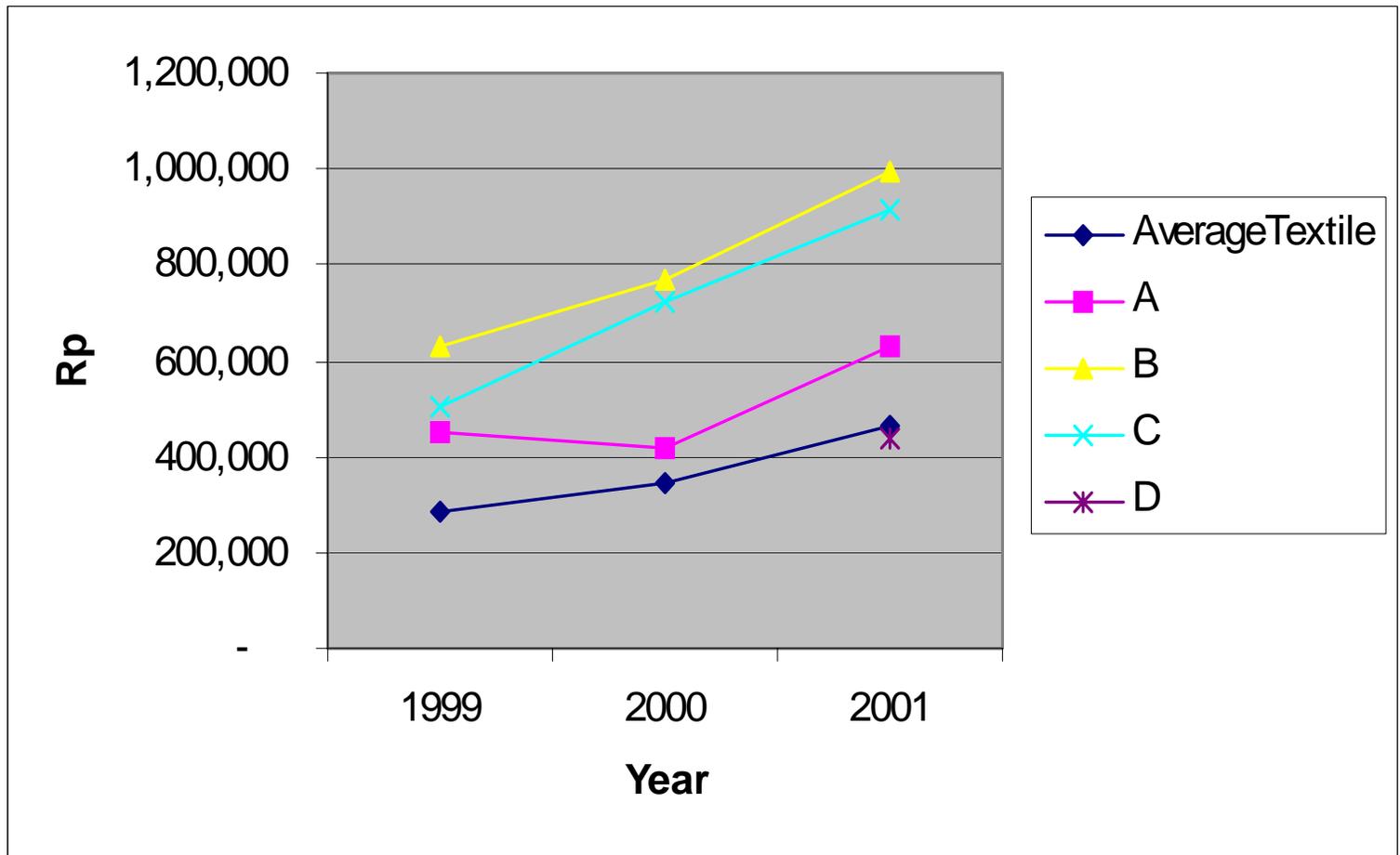


# Comparative Performance

A good above average performance compared with :

- ❖ GDP per capita
- ❖ Official poverty line
- ❖ Average industrial wage

# The factories' wages and average textile industry wage



# Workers perspectives

Current pay < workers' expectation

- ❖ single
- ❖ family

**Gap between current total wage\* and fair wage**

No. dependents	A	B	C	D
0 dependent	9%	5%	-2%	-29%
1 dependent	-5%	-7%	-14%	-39%
2 dependents	-15%	-18%	-24%	-46%
3 dependents	-24%	-26%	-32%	-52%

\* without overtime

# Strategic tensions

**Business constraints:**  
Input price increase,  
limited market,  
competition

**Higher  
Workers'  
Expectation**

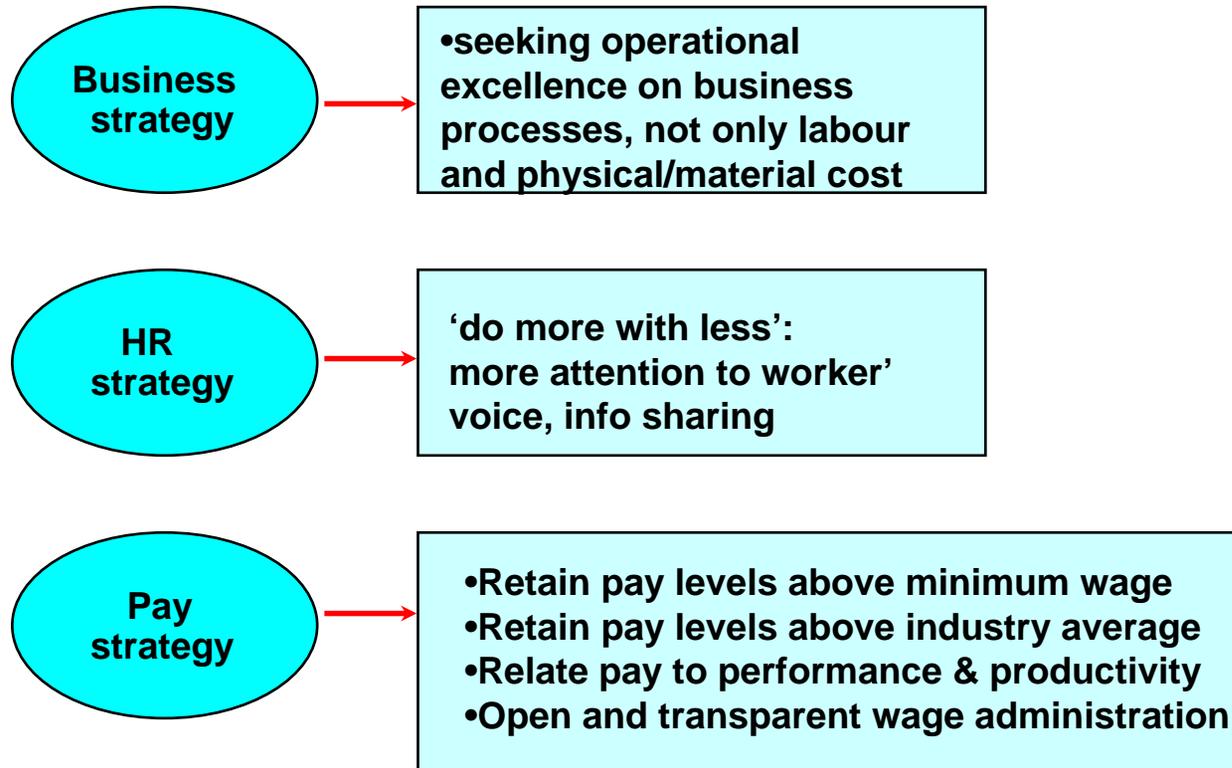
**adidas  
business  
partners**



Practical solutions

# Practical Solutions

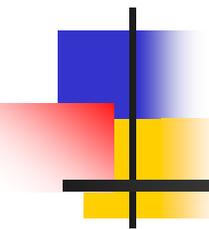
## Key strategic decisions



**Gap between total wage\* (January 2002) and fair wage  
(December 2001)**

No. dependents	A	B	C	D
0 dependent	37%	41%	29%	-6%
1 dependent	19%	24%	13%	-20%
2 dependents	6%	9%	0%	-28%
3 dependents	-4%	-1%	-11%	-36%

\* without overtime



THANK YOU

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Dear Workers,

Last year, two well-known companies - adidas and Reebok - came together as one company, the adidas Group. Your factory has been making our products and is an important part of our business. The work you do is not only important for your factory but also to the continued success of our company.

In the past, you may remember seeing posters from our companies on the walls of the factory explaining basic labour and health, safety & environmental standards that factories making our products must follow. We call these requirements the "Workplace Standards". These posters have been removed, because we expect our business partners to protect your rights through internal policies and practices. However, we still care very much about the working conditions in the factory and your well-being. We will continue to visit the factory to check conditions. We will continue to discuss improvements that need to be made with factory management. When we visit, we will also take the opportunity to speak with you privately, and get your feedback on the workplace, like we did in the past.

We expect factory management to follow all local laws and regulations. We expect factory management to treat employees fairly, and to value the contribution you make to the factory and to our company. We inform factory management about all our requirements relating to Workplace Standards in detailed guidelines. We will continue to train factory management, and to give them as much guidance and support as we can. This will help the management to keep making improvements in your workplace and to develop the training you need to do your job and protect yourself.

If you have any questions about our new company, our "Workplace Standards", or our expectations of factory management, or if you have any problems which cannot be solved by factory management, please contact us at:

- *Office telephone contact of the local SEA manager/person*
- *Local office address if available, ie LO or subsidiary*
- *Email address(Worker.Hotline@adidas-Group.com)*

Thank you for your valuable contribution to the factory and to our company.

Best regards,



Frank Dassler  
General Counsel  
adidas AG

# PERLINDUNGAN HAK BERORGANISASI

Sesuai Undang-Undang No. 21 tahun 2000 tentang Serikat Pekerja/Serikat Buruh, Perusahaan menjamin kepada setiap pekerja/buruh untuk membentuk atau tidak membentuk, menjadi pengurus atau tidak menjadi pengurus, menjadi anggota atau tidak menjadi anggota dan/atau menjalankan atau tidak menjalankan kegiatan serikat pekerja/serikat buruh