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3<sup>rd</sup> September 2007

Dear Mr. Anderson,

Thank you for your correspondence from the 22<sup>nd</sup> of June. We appreciate the time adidas was able to give us in our meeting in Jakarta on the 25<sup>th</sup> of May.

The purpose of this letter is to address the key points in your June 22 correspondence and request that adidas step up its efforts to resolve outstanding issues with regard to your Dong Joe, Spotec Tong Yang and Panarub supplier factories in Indonesia.

Our meeting on the 25<sup>th</sup> of May resulted in several steps forward in the cases relating to Dong Joe, Spotec and Panarub. We understand that the following was achieved during this meeting:

- That adidas will accept job applications / workers Bio-data from Spotec, Dong Joe workers directly to the adidas' Jakarta office and adidas will make sure that adidas supplier factories receive these applications. Adidas will continue to actively encourage its supplier factories to take on workers who have lost their jobs.
- Adidas will ensure that job opportunities for workers and union officials from Dong Joe and Spotec are protected (for example: that applications will not be rejected because the workers come from Spotec and Dong Joe or because they were active in a union in these factories).
- Adidas will pay extra attention to the applications / bio-data from union officials, because they understand that it would be extra difficult for union officials to be accepted into other factories.
- In response to a request for vocational training, adidas will consider a proposal for Spotec and Dong Joe workers when the union/s put forward a proposal.
- Adidas will protect the employment opportunities for the Perbupas union officials who were unfairly dismissed from Panarub who want work in adidas supplier factories. In your June 22 correspondence adidas committed to "monitor this to ensure that their applications are treated in a transparent and non-discriminatory manner".

Oxfam Australia welcomes these commitments however adidas has the power to do more to ensure workers labour human rights are upheld.

Oxfam Australia remains concerned about and would like to see resolved:

1. The 4,500 Dong Joe factory workers, who have still not been paid their severance and legal entitlements, many of whom still need employment;
2. The 6,000 Spotec factory workers, who have still not been paid their severance and legal entitlements, many of whom still need employment;
3. The outstanding case of the Perbupas union at Panarub and the union's requests. We would like you to outline the steps adidas have taken since our meeting on May 25 to solve this problem of the lack of verification of Perbupas (SBGTS) at Panarub.
4. The 9,000 Tong Yang factory workers are still waiting to learn if they can keep their jobs or else be paid the legal entitlements they are owed.

## **1. The Dong Joe factory workers, who are still lacking their entitlements and need employment**

We are concerned adidas' buying practices contributed to instability in this factory. It is our understanding that in mid 2006 adidas/Reebok placed a large order into PT Dong Joe. The factory only had capacity for 400,000 pairs per month, which was made known to adidas at the time. This large order stretched the existing capacity of the factory and incurred increased production costs for the management, which resulted in the hiring of new staff and long hours of overtime work for existing workers. We understand that existing staff at Dong Joe worked up to 19 hours in per shift to fill this expanded order from adidas/Reebok.

In addition this, we understand that adidas/Reebok also required the Dong Joe factory to pay more than \$11,000 USD to carry out lean training during this busy time.

We believe the lean production training combined with the pressure to fill an order beyond the capacity of the factory, both required by adidas contributed to creating chaos in the Dong Joe factory.

Despite Dong Joe's bankruptcy being overturned, the workers have been left in the lurch, having still received no severance, back pay or their other entitlements owed to them.

We understand, from documentation provided to us, that adidas/Reebok owes Dong Joe an outstanding amount of more than \$85,000 USD for shoes that were made for adidas/Reebok.

We also know adidas is also concerned about these issues and we urge you to take concrete positive action to resolve them. We also urge continued action by adidas to reform your purchasing practices so they don't undermine workers trade union rights.

We note recent reports (Bloomberg, 8 August) indicate that Adidas has seen a 27 percent rise in profit since the purchase of Reebok International Ltd and that this widening profit margin has been attributed by adidas to your company's ability to demand price cuts from your suppliers.

Oxfam Australia believes that adidas' purchasing practices were inappropriate in Dong Joe case. Additionally adidas has a financial responsible to the workers, who have been producing for Reebok/adidas for sixteen years and who have suffered as a result of this collapse.

Oxfam Australia recommends adidas resolves this situation by:

### Enabling PT Dong Joe to re-open

- Enable PT Dong Joe to re-open
- If re-opening is not possible, then adidas should create a fund for the workers to receive the entitlements owed to them (supporting workers could include paying the outstanding debt adidas/Reebok owes to current Dong Joe administration, so that they can pay the workers).

### Supporting the reemployment of workers

- If re-opening is not possible, ensure that all PT Dong Joe workers who want jobs at other adidas suppliers are given every opportunity to gain such employment. In Oxfam Australia's meeting with Adidas on the 25<sup>th</sup> of May in Jakarta, adidas suggested that ex-Dong Joe workers should send their Bio-data (Curriculum Vitae) straight to the adidas Jakarta office and this that this information would then be sent directly to adidas suppliers in Indonesia.

In your June 22 correspondence you refer to a job placement programme that is being monitored by your staff. Can you tell us how many workers have been successfully reemployed, to date, as a result of this programme?

## **2. The Spotec factory workers, who are still lacking their entitlements and need reemployment**

Spotec workers continue to be without their entitlements and many are without employment.

Oxfam Australia recommends adidas resolves this situation by:

### Ensuring Ex-Spotec workers receive employment with PT Garda/Cing Lung Indonesia

- We understand PT Spotec has been bought at auction by Taiwanese investors that adidas has a close relationship with and that the new factory presently goes under two names – Pt Garda and Cing Lung Indonesia. We very much welcome the news by adidas that they will be placing into PT Garda/ Cing Lung Indonesia and that adidas will also ensure ex Spotec workers are given preference in hiring at Pt Garda/Cing Lung Indonesia. Oxfam Australia expects ex Spotec workers will be re employed in the first hiring and we will be in touch soon with a suggested process for the rehiring.

- If there are not enough jobs at Pt Garda / Cing Lung Indonesia for all ex Spotec workers then as per previous discussions with adidas ex Spotec workers should be found jobs in other adidas supplier factories. In Oxfam Australia's meeting with Adidas on the 25<sup>th</sup> of May in Jakarta, adidas suggested that ex-Spotec workers should send their Bio-data (Curriculum Vitae) straight to the adidas Jakarta office and this that this information would then be sent directly to adidas suppliers in Indonesia.
- We expect that adidas will fulfill it's commitment to facilitate the reemployment of these workers through this process proposed by adidas.

#### Ensuring payment of severance pay and other legal entitlements

- Adidas should create a fund for the workers to receive the severance pay and entitlements owed to them. Whilst adidas may not wish to use 'direct means' (adidas letter 22 June) to ensure the settlement of back-pay or severance, your company could nonetheless provide a solution to the workers immediate fiscal hardship. This solution would require paying the workers a sum which would cover the amount that they have been left without (namely their entitlements).

Oxfam Australia notes a research, evaluation and remediation initiative entitled "Puduli Hak: Caring for Rights" that was conducted in PT Tong Yang and PT Dong Joe by adidas/Reebok<sup>1</sup> in 1999 found that in both Tong Yang and Dong Joe "management responses (to adidas/Reebok's investigation) went beyond minimum requirements with a positive attitude and a commitment to make lasting improvements."<sup>2</sup> The report found the factories improved their communication with workers and ensured, through its training effort that workers understood their conditions of employment and their basic rights in the workplace. Additionally both factories responded to the investigation by, for example: replacing hundreds of chairs; introducing more appropriate protective equipment and constructing additional toilets.

Oxfam Australia suggests that adidas/Reebok should have rewarded these outstanding factories with further orders and support rather than adidas, after its purchase of Reebok, withdrawing orders which ultimately led to these workers losing their livelihoods. It is disappointing that these exemplary factories were thrown into disarray following Adidas' purchase of Reebok last year.

### **3. The outstanding case of the Perbupas union at Panarub**

#### **➤ The employment opportunities of union officials from Panarub who were unfairly dismissed**

In our meeting with you on the 25<sup>th</sup> of May at your offices in Jakarta you gave a commitment that adidas would ensure that "the employment opportunities" of union officials would be protected. We understand that adidas was recently sent a list of the names and details of 28 of these unfairly dismissed union officials who want work in other adidas supplier factories. Oxfam Australia expects adidas to honour it's commitment to ensuring that the employment opportunities of these unfairly dismissed worker are protected.

#### **➤ Union verification process at Panarub**

The new leadership of the Perbupas (SBGTS) union at Panarub is still waiting for adidas to fulfill your commitment to a fair verification process. A fair union verification process remains an outstanding recommendation from Workers Right Consortium (November 2005) on Panarub. We understand that a new Department of Manpower regulation in Indonesia will make the verification process mandatory in the Panarub and we are concerned that this process is fair and transparent.

We'd be grateful if you could outline the steps adidas have taken since our meeting on May 25 to solve this problem of the lack of verification of Perbupas (SBGTS) at Panarub?

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<sup>1</sup> Insan Hitawasanya Sejahtera "Peduli Hak: CARING FOR RIGHTS: An intensive research, evaluation and remediation initiative in two Indonesian factories manufacturing Reebok footwear", Social Science research & consultancy. Jakarta, Indonesia October 1999 online at: [http://www.reebok.com/Static/global/initiatives/rights/pdf/peduli\\_report.pdf](http://www.reebok.com/Static/global/initiatives/rights/pdf/peduli_report.pdf)

<sup>2</sup> Ibid, p. 7

#### 4. Ensuring the rights of workers at the Tong Yang factory

Workers in the Tong Yang factory are still waiting to learn if they can keep their jobs or else be paid the legal entitlements they are owed.

We know adidas is also concerned about these issues and we urge you to take concrete positive action to resolve them. We also urge continued action by adidas to reform your purchasing practices so they don't undermine workers trade union rights.

We would like to direct you to the appendix attached to this letter which, in reference to your June 22 correspondence, outlines Oxfam Australia's outstanding concerns regarding adidas' broader and ongoing purchasing practices.

In conclusion, we look forward to adidas taking action on our outstanding concerns relating to the individual factories (Dong Joe, Spotec, Panarub and Tong Yang) as well as on adidas' general purchasing practices. Oxfam Australia understands that adidas is also concerned about these issues and we urge you to take concrete positive action to resolve these outstanding concerns as well as reforming your purchasing practices so they don't continue to undermine workers trade union rights.

Yours Sincerely,



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Cc: Adidas Sourcing Asia

Serikat Pekerja Nasional (National workers union)

PT. Spotec

Perkumpulan buruh-Buruh Pabrik Sepatu (Shoe workers union)

PT. Spotec

Federasi Serikat Buruh Karya Utama (Karya Utama workers union)

PT. Spotec

Clean Clothes Campaign

## **APPENDIX 1**

### **Adidas' general purchasing practices**

#### **Disclosure of Suppliers**

Oxfam Australia anticipates the public release of a full list of factories that produce for adidas.

#### **Withdrawing orders from unionized factories**

We note your statement that adidas do not specifically favour the retention of unionized factories, over factories which are non-unionized. By adidas' own admission (June 22) only a small percentage of the orders that adidas withdrew from the Spotec and Dong Joe factories were re-allocated to Indonesian factories. Some of the orders were moved to countries where freedom of association and the right to organize are restricted. Additionally both the Spotec and Dong Joe factories were unionised.

Oxfam Australia is concerned about this apparent trend away from manufacturing in both countries and factories where workers' rights are fully respected.

#### **Key Performance Indicators and providing incentives**

It is encouraging that adidas tracks the performance of your suppliers through Key Performance Indicators, including an indicator for social and/or labour and HSE compliance (June 22 letter).

We also note that one of adidas' key targets for 2007 is to 'ensure Sourcing decisions are increasingly informed by the rating the supplier achieved in our Key Performance Indicator (KPI)' (adidas social and environmental strategy, 2006).

Can you inform us about the specifics of what is included in your social and/or labour HSE compliance KPI?

Are the right to Freedom of Association and the right to organize part of this KPI?

We would furthermore be interested to learn what occurs when an individual factory scores highly on FOA under this KPI?

#### **Encouraging suppliers to offer workers secure, long-term employment status**

We welcome (June 22) that adidas encourages suppliers to offer permanent full-time employment to workers. We would like to see this encouragement translated into concrete policy by adidas and communicated to suppliers. Any such policy should make clear that adidas expects short term contracts to be severely restricted and that no core jobs should be offered on short term contracts.

Adidas should strongly discourage the use of short-term labor/ temporary workers as this status undermines factories ability to comply with Indonesian and international standards on freedom of association, as well as undercutting all employee rights and benefits. Adidas would agree that abuses of short term contracts by factory management means that workers are less likely to be able to exercise their basic human rights to organise out of real fear that their contracts will not be renewed.

#### **Provide worker representatives with information about the unit price adidas pays to suppliers to have sportswear produced**

Adidas have reiterated on several occasions that disclosure of information about the unit price that adidas pays to suppliers for shoes would be in breach of the confidentiality agreements in place with your business partners.

Adidas, however, has a relationship with both the workers who make your shoes as well as the factory management who employ these workers. As such, adidas has a responsibility to give workers, through their union representatives, access to pricing information so that the unions can effectively negotiate collective bargaining agreements. Without this information, it remains extremely difficult for workers to negotiate on an equal basis with employers and workers will continue to be denied their rights.

Oxfam Australia suggests that a solution to this problem would be to change your confidentiality agreements with factories to allow for them to disclose this information, on a restricted basis, to the union representatives in their factory.