

WRC Comments on adidas' Recent Communication to Universities Concerning Labor Rights Violations at PT Kizone

October 5, 2012

On September 27, 2012, adidas released a statement to universities regarding the workers' rights violations at PT Kizone. In this document, the WRC addresses the claims made in adidas' statement.

Please note: Adidas' original text is in black. WRC comments are in red.

Background on PT Kizone

In June 2010, PT Kizone told the adidas Group they would no longer accept production orders so they would have capacity to accept additional orders from another manufacturer. By November 2010, all of the adidas Group's orders had been shipped. The owner of PT Kizone fled the country in January 2011 and our former buying agent Green Textile kept the plant running and workers paid until March 2011, permitting its other customers' orders to be shipped. PT Kizone closed in April 2011, more than 5 months after the relationship with adidas ended.

As the WRC has previously reported to our affiliate universities,¹ the violations of workers' right to legally mandated compensation at PT Kizone began in September 2010, while adidas was producing goods at the factory. Adidas continued to produce at the factory for months as these violations worsened. Adidas took no steps to address these violations and claims not to have been aware of them, although university codes require adidas and other licensees to monitor their suppliers' labor practices.

Adidas has repeatedly provided inaccurate and misleading information to universities and the WRC concerning its relationship with this factory. Originally, adidas claimed that it had no dealings with PT Kizone as of August 2010. In an email communication to the WRC on April 12, 2011, the head of labor compliance for adidas/Reebok operations in Asia stated the following:

*“Our relationship with this supplier ended last year. The brief history is as follows: in mid 2010 our agent Green Textile was asked by the factory management not to place additional orders for Reebok at PT Kizone, as they wanted to free capacity to accommodate orders from other buyers. No further orders were placed and **the responsible Reebok business unit de-activated PT Kizone in August 2010**”* (emphasis added).

Only months later did adidas admit that it has produced at PT Kizone **through November**. The timing is significant, because the severance violations began in September, three months before adidas now says it left the factory.

¹ See, WRC Memo, “WRC Update: Adidas' Relationship with PT Kizone,” January 5, 2012, at <http://www.workersrights.org/university/memo/010512.html>.

As this latest adidas communication indicates, the company continues to provide misleading information, in this case by again citing the date of the factory's closure in April 2011 as if this date had relevance to adidas' code of conduct obligations. The violations at Kizone began in September 2010, while adidas' goods were on the factory floor. Adidas' obligation to identify and remedy those violations was triggered at that point, seven months before the factory closed. The date that matters is the date the violations began, not the date the factory finally closed. We understand why adidas seeks to obfuscate this point, but this is not honest and it is not fair to the workers whose rights were being violated long before PT Kizone shut its doors.

It is also worth noting that by the time the factory closed in April, the press in Indonesia had already been reporting for months on the factory's theft of workers' compensation – and adidas had for months been commenting publicly on the crisis.²

The issue of workers left without severance when their employer flees the country is, unfortunately, a problem. In Indonesia, it is part of a wider issue of underpayment of severance by employers, with only one-third of legally eligible employees receiving any form of payment after job separation. In recognition of this, during our 4-year relationship with PT Kizone, we regularly monitored the factory and remediated any threshold issues identified by our monitors.

We do not understand how adidas can claim its monitoring was effective when that monitoring failed to detect or address the violations. It is undisputed that these violations began in September of 2010. Now that adidas has acknowledged that its products were in the factory at least through November of that year, it is also undisputed that these violations happened on adidas' watch. Clearly, adidas' monitors did not get the job done.

Adidas has been one of the biggest producers of apparel and footwear in Indonesia for two decades and during that time there have been numerous cases in which adidas supplier factories have denied legally mandated compensation to workers. In 2007 alone, nearly 20,000 workers were denied legally mandated terminal pay by factories producing for adidas. At every one of the factories involved, adidas was the primary or sole buyer. Adidas failed to achieve remediation in any of those cases.

Adidas' track record with respect to monitoring and remediation of severance violations in Indonesia is exceptionally poor.

adidas Group's Leadership in Workplace Standards

As you may already know, adidas is a global leader in socially conscious business practices. Today, as we have since 1997, we work to identify root causes of breaches of workers' rights, and to develop effective and sustainable resolutions. We work with hundreds of factories in our supply chain every year to ensure fair, healthy and safe working conditions. We measure factories' performance, as well as our efficacy in resolving these issues. We do this in collaboration with other brands, the Fair Labor

² See, e.g., "PT Kizone Tidak Produksi Garmen Reebok," February 16, 2011, *Tempo Interaktif*.

Association, governments and regulatory authorities, and civil society groups. Because of our approach to these issues, our programs are recognized as best practice by leading socially responsible investment agencies like the Dow Jones Sustainability Index and the FTSE4Good index. In fact, earlier this month, for the 13th consecutive time, the adidas Group was included in the Dow Jones Sustainability Index and was rated as the industry leader in sustainability issues and corporate responsibility in the Clothing, Accessories and Footwear category. Regardless of this recognition, we always strive for increasingly effective ways that influence change.

The issue at hand is the violation of the rights of the workers of PT Kizone and the failure of adidas to remedy. Adidas' overall approach and track record on labor rights is a separate matter. It should be noted that adidas' self-assessment, as outlined above, is at sharp variance with the evaluation of leading labor and human rights organizations concerning the company's performance; however, this is not the appropriate venue for a discussion of adidas' broader labor rights record.

We care about the situation facing the former PT Kizone workers and their families and we have taken steps to assist these workers. We provided \$250,000 to a local organization to deliver food aid to 2,800 former workers during the important Islamic holiday of Idul Fitri. We understand that workers' primary concern has been to find reemployment and we have encouraged local suppliers and others to extend preferential hiring to former PT Kizone workers. We also retained the services of a local recruitment consultant PT Lidi to assist workers and the plant union with job placement.

The primary concern of the PT Kizone workers is to be paid the money they earned but were illegally denied, something worker representatives have made clear to adidas. Ensuring that workers are treated and paid in accordance with the law is also adidas' obligation under university codes of conduct. The workers did not ask adidas to set up a job placement program, one that has in any case been ineffective.³ The workers did not ask adidas to set up a food aid program; in fact, they specifically rejected this idea.⁴ Other forms of aid to the workers, if provided in a manner that is agreed with legitimate worker representatives, would be appropriate **in addition** to ensuring that workers are first paid all of the money they are legally owed. However, such programs cannot – from a legal, moral or code of conduct standpoint – be used as adidas is trying to use them: as a substitute for paying workers the money they legally earned.

We have pressured the Indonesian regulatory agencies, trade associations and their Korean counterparts to mitigate and prevent the flight of foreign employers from their legal and financial obligations to employees. As a result of our pressure, on August 6, 2012, an MOU on Corporate Responsibility was signed in Jakarta by the Korean

³ While adidas has continued to present the job placement program as a productive one to its university partners, it has been forced to admit in Indonesia that the program has failed. In a letter distributed to workers dated July 9, 2012, adidas stated "Unfortunately, this program has not demonstrated satisfying results because the location of the jobs is outside the area desired by the workers." Only a tiny percentage of PT Kizone workers have received any useful assistance from this program.

⁴ The food aid effort is even more problematic, as we will discuss in a forthcoming analysis.

Chamber of Commerce, the Indonesian Government and the employers' association, and the International Labor Organization, witnessed by the Trade Minister and Korean Ambassador.

Adidas has, by its own acknowledgement, been well aware for at least 15 year of the chronic problem of non-payment of legally mandated severance in Indonesia. Adidas is also well aware that factory owners from South Korea have been prime violators, like the owners of two adidas footwear factories that closed in 2007, robbing thousands of workers of compensation they were legally due. It would therefore be reasonable for universities to wonder why it was not until this year that adidas pressed for the MOU it mentions in this communication. Leaving aside the question of whether this MOU will be effective in any way, an evaluation we cannot make since adidas has shared no information on its contents, it will do nothing to remedy the code of conduct violations that were committed at PT Kizone and bring about payment to the workers of the money they have earned.

adidas Group's Sustainable Solutions

Protecting the interests of global workers involved in producing our footwear and apparel is an ongoing priority for the adidas Group because it is critical to our business. It is also the right thing to do. In addition to the job placement program and the \$250,000 food aid program we have already established, we are committing another \$275,000 in humanitarian aid in recognition of the continuing hardship faced by former workers and their families. Although the adidas Group had no business relationship with the factory at the time of its closure, we are the leaders in the industry and, accordingly, the adidas Group has directly dedicated more towards the former PT Kizone workers than any other brand. Our \$525,000 in humanitarian aid underscores our commitment to promoting global workplace standards.

The workers of PT Kizone are owed, at present, \$1.8 million in legally mandated compensation, out of \$3.4 million originally owed. They have to date received more than \$1.5 million in cash, as a result of large payments by Nike, and by Green Textile acting at Nike's behest, and a small payment by the Dallas Cowboys. To date, the workers have received nothing from adidas, save food vouchers from an Indonesian supermarket chain that worker representatives explicitly rejected as an appropriate form of compensation. As adidas is aware, workers in Indonesia are paid in cash, not in food vouchers. If adidas wishes to fulfill its code of conduct responsibilities, it will pay workers the funds necessary to make them whole and will do so in cash and pursuant to a distribution plan agreed with legitimate worker representatives. To date, adidas has made no progress toward fulfilling this obligation.

Please find [here](#) a letter to adidas, which was shared with the WRC by the representatives of the PT Kizone workers, conveying their objections to adidas' food voucher scheme.

Additionally, our focus continues to be on collaborating with labor groups and the industry to create sustainable business practices for all supply chain actors. The global market economy and global supply chains are complicated by lapses in governance and

these gaps pose real risks to all stakeholders – investors, buyers, workers and consumers. One of the critical gaps is that many countries have legislation providing for severance pay, but very few require the employer to make provision for eventual severance obligations. We are currently leading an effort to review the viability and implementation of a private fund or insurance product – what we’ve termed a Provident Fund – that would provide coverage to workers affected by factory closures and non-payment of wages and benefits. At our request, the Global Forum for Sustainable Supply Chains has agreed to facilitate a discussion and evaluate options for a private fund for workers’ severance and unemployment insurance. We are looking forward to meeting with the group of international financing institutions, insurance experts, companies and brands, and civil society October 23 in Switzerland to discuss solutions.

The WRC has been engaging with adidas on illegal factory closures for ten years. We and many other groups have repeatedly pressed adidas (and other major brands) on the need for aggressive action to establish a system where funds are set aside for workers in protected accounts to prevent such abuses. To date, adidas has not taken any meaningful steps toward this goal.

Periodically, when there has been a high profile incident in its supply chain leading to public embarrassment or university pressure, adidas has announced, as it does in this communication, a new initiative that will ostensibly advance meaningful reform. None of these announcements has been followed by any concrete progress.

For example, amidst criticism of the company’s failure to secure payment of legally mandated severance to workers at the Hermosa factory in El Salvador, adidas’ CEO announced in the company’s 2007 “Corporate Responsibility Report” that a breakthrough had been achieved. He stated:

“...We published an open letter to the El Salvador government in two national newspapers. In the letter we asked the government to reopen discussions about the Hermosa factory case... And I am pleased to report that the letter had the desired effect: discussions were reopened in December 2007 and we are hopeful that the ex-workers at Hermosa will receive the severance pay and health care coverage they are due.”

As universities are aware, his optimism proved unfounded: the Hermosa workers never received their severance.

In view of this record, we cannot advise our university affiliates that the announcement of a discussion session is a meaningful development. Moreover, adidas apparently organized its October 23 meeting without any involvement from representatives of the workers in its supply chain who have been affected by severance violations. The exclusion of such worker representatives from the process is extremely inappropriate. Finally, this meeting will not address the mass breach of severance law at PT Kizone and is therefore irrelevant to adidas’ ongoing failure to comply with its university code of conduct obligations.