



adidas Group Response to KnowTheChain Apparel & Footwear benchmark

Name of company:	adidas Group
Name of respondent:	William Anderson
Position of respondent:	Vice President Social & Environmental Affairs
Respondent's contact information:	william.anderson@adidas-group.com

Documents

Q1. Please share links to any policy statements, reports, or other documents that you would like to be taken into account in a review of your company's approach to managing forced labor risks in the supply chain.

ANSWER: Key documents which you should refer to, include adidas Group's:

- *Forced Labour and Human Trafficking Policy* at http://www.adidas-group.com/media/filer_public/e9/7e/e97e2802-b085-4374-a967-6e28784e1716/jan_2016_policy_on_forced_labour_and_human_trafficking.pdf
- *Summary of Efforts to Tackle Modern Day Slavery in 2015* http://www.adidas-group.com/media/filer_public/0a/74/0a74e1dc-6b9f-45f9-8367-9d2a02cab649/ongoing_efforts_modern_day_slavery_jan2015.pdf
- *Corporate Human Rights Benchmark Submission, 4 May 2016* at http://www.adidas-group.com/media/filer_public/fb/93/fb936185-06f4-4c9c-b0ba-c0d960cba411/adidas_group_corporate_human_rights_benchmark_submission_4may2016.pdf
- *Workplace Standards and related Guidelines on Employment Standards* at <http://www.adidas-group.com/en/sustainability/supply-chain/standards-and-policies/>
- *Annual Sustainability Reports* at <http://www.adidas-group.com/en/sustainability/reporting-policies-and-data/sustainability-reports/>

Commitment and governance

Awareness and commitment

Q2. Has your company made a formal commitment (e.g. adopted a policy) to address human trafficking and forced labor? Please include a link to the commitment.

Related to indicator A.1.2 of the CHRB

ANSWER: Yes, this can be found at: http://www.adidas-group.com/media/filer_public/e9/7e/e97e2802-b085-4374-a967-6e28784e1716/jan_2016_policy_on_forced_labour_and_human_trafficking.pdf

Supply chain standards

Q3. Does your company have a supply chain standard that requires suppliers to uphold workers' fundamental rights and freedoms, including the elimination of forced labor? Please include a link to the standard, and provide information on how frequently the standard is updated.

Related to indicator A.1.2 of the CHRB

ANSWER: Yes. Our *Workplace Standards* and associated *Guidelines on Employment Standards* (including sections dedicated to the topics of forced labour and migrant labour rights) can be found at: <http://www.adidas-group.com/en/sustainability/supply-chain/standards-and-policies/>

The *Workplace Standards* are updated periodically to ensure alignment with our Charter obligations to the Fair Labor Association (of which we are a founding member), the Model Code of Conduct of the World Federation of Sporting Goods Industries, and to reflect any ongoing development in international norms or laws. The *Workplace Standards* were first issued in 1999 and were last updated in 2016. The supporting guidelines are also periodically updated, to match current best practice and international standards. The latest versions of the Forced Labour and Migrant Labour sections of our *Employment Guidelines* were independently reviewed by a former UN Human Trafficking expert.

Management

Q4. Who within your company is responsible for the implementation of your company's supply chain policies and standards relevant to human trafficking and forced labor? Please indicate the committee, team or officer, and describe the scope of their responsibility and how they interact with other internal teams, groups or departments

Related to indicator B.1.1 of the CHRB

ANSWER: We have a global inspection team (Social and Environmental Affairs, or SEA) which monitors labour standards and our suppliers' workplace conditions. The monitoring team seeks to identify and remedy any unfair employment practices or potential situations of exploitation, including forced labour. Where non-compliances are found we work with our supplier partners to develop, execute and track corrective action plans.

SEA is part of the adidas Group's Legal & Compliance Division. Accountability for supply chain compliance rests ultimately with the Group's General Counsel, who is our Chief Compliance Officer. He reports directly to the CEO. Operationally the SEA department is managed regionally, with a Vice President responsible for the Americas and another for Asia Pacific/Europe Middle East and Africa. SEA's

monitoring teams operate with a high degree of autonomy, but to ensure close internal engagement, and leverage, auditors are co-located with Sourcing colleagues in each of the main production locations. SEA's Global Director is based in our headquarters in Germany. He reports directly to the Group's General Counsel and engages closely with other members of the Executive Management Team and the Supervisory Board.

Training

Q5. Does your company conduct training programs for internal decision-makers and suppliers' management teams on risks, policies and standards related to human trafficking and forced labour (this may include training on elements such as passport retention, payment of wages, and vulnerable groups such as migrant workers)? Please describe.

Related to indicator B.1.5 (internal training) and B.1.7 (training of suppliers) of the CHRB

ANSWER: All new adidas Group employees are given induction training to familiarize them with adidas Group policies and procedures, including our *Workplace Standards*. Employees and responsible decision-makers are also provided briefings by individual Group functions, including Social & Environmental Affairs. Specific briefings and engagement has taken place with our Divisional Sourcing Heads and other senior sourcing managers on the risks of modern day slavery, including the topics of forced labour and migrant labour.

We have also provided training for thousands of individuals within our suppliers on the practical application of our Employment Standards and Guidelines (including forced labour and migrant labour). Such training is given each year either through in-house programmes provided by SEA, or through external training providers approved by SEA. See our published *Sustainability Progress Reports* which describe these training activities. See <http://www.adidas-group.com/en/sustainability/reporting-policies-and-data/sustainability-reports/>

To complement factory-level training, a more general briefing on the risks of "modern day slavery" in global supply chains has been given to the owners and general managers of our strategic suppliers. These briefings were provided as part of general awareness-raising during our Annual Supplier Summits in 2013 and again in 2015.

Stakeholder engagement

Q6. In the last three years, has your company engaged on human trafficking and forced labour, especially as it relates to the supply chain a) with local stakeholders such as NGOs, trade unions or policy makers or b) in multi-stakeholder initiatives? Please describe with whom your company has engaged, the purpose of the engagement and how it relates to forced labour and human trafficking in the supply chain, and your company's role and level of engagement.

Related to indicator A.1.4 of the CHRB

ANSWER: We have engaged with various stakeholders, including policy makers, international agencies and civil society groups (unions, labour rights advocates, etc.) at different times over the past 18 years on different aspects of forced labour and migrant labour rights, including concerns over human trafficking.

In the past 3 years we have engaged with:

- **AFBCF** – Member of the modern slavery sub-group, part of the larger Hong Kong based Apparel & Footwear Brand Coalition Forum, a network of brands that convene periodically to engage on social and environmental affairs in global supply chains. As members of the sub-group we are collaborating with other brands in examining ways to jointly address slavery risks.
- **Amnesty International** – specific engagement on migrant labour rights in relation to the construction of the stadia for FIFA 2022 World Cup in Qatar, the role of sponsors, legal reform and independent monitoring of forced labour situation in the country. We are linked to these issues and civil society concerns by our corporate sponsorship of FIFA.
- **Better Work, Jordan** – adidas Group sources apparel from suppliers that are enrolled in the Better Work programme. ILO has launched a pilot project on fair recruitment for workers of Jordan's apparel industry. It aims to build the capacity of partners from Nepal's private employment agencies to construct a fair recruitment corridor from the country of origin. We are tracking this initiative, as a model for use in other countries.
- **Better Cotton Initiative (BCI)** – multi-stakeholder initiative. adidas Group is a founding member of BCI. We have engaged with BCI on the creation of their employment standards and the monitoring of employment conditions (including potential risk of forced labour) in cotton growing areas around the world. By 2018 all conventional cotton sourced by adidas Group will be BCI cotton.
- **Cotton Campaign** – adidas Group has supported the Cotton Campaign in addressing the systemic use of forced labour in Uzbekistan and Turkmenistan. We have done so by co-signing letters sent by the Cotton Campaign to the respective national governments, and by directly engaging with the German Ministry for Economic and Foreign Affairs. adidas Group is also a signatory of the 'Cotton Pledge' with the Responsible Cotton Network (RSN). In making this pledge we have committed to not knowingly sourcing or permitting the use of Uzbek cotton in the manufacturing of our products. See: http://www.adidas-group.com/media/filer_public/2013/07/31/working_conditions_in_the_cotton_industry_en.pdf
- **Fair Labor Association (FLA)** – multi-stakeholder initiative and labour advocacy group. adidas Group is a founding member of the FLA and aligns its policies and code with the FLA Charter and Code of Conduct. We have been closely engaged with FLA in petitioning the Turkish Government to grant work permits to Syrian refugees and have sponsored the publication of a booklet in the Arabic language to inform Syrian refugees of their labour rights in Turkey.
- **Institute for Business and Human Rights (IBHR)** – adidas Group is a member of a multi-stakeholder Steering Committee which has been formed to examine the potential for an independent advisory centre on human rights for mega sporting events, including consideration of migrant labour rights and impact of constructing such events. IBHR acts as the Secretariat. We were previously engaged with IBHR over the creation of the Dhaka principles for migrant labour.
- **ILO Special Action Programme against Forced Labour, Bangkok** – specific engagement on forced labour and child labour concerns in relation to the Thai rubber industry. The ILO team has also provided guidance material to the adidas Group on forced labor in the Vietnam garment sector and a child labour guidance tool for business.
- **ILO Special Action Programme against Forced Labour, Geneva** - specific engagement on migrant labour rights in relation to the construction of the stadia for FIFA World Cup in Qatar. The Special Action Programme is also providing support to adidas Group on the development of training modules for forced labour indicators and fair recruitment practices in our supply chain.

- **International Employers Association (IOE)** - specific engagement on migrant labour rights in relation to the construction of the stadia for FIFA World Cup in Qatar. We are linked to these issues and civil society concerns by our corporate sponsorship of FIFA.
- **International Trade Union Confederation (ITUC)** - specific engagement on migrant labour rights in relation to the 2022 FIFA World Cup and the complaint lodged with the ILO about forced labour and working conditions in Qatar. We are linked to these issues and civil society concerns by our corporate sponsorship of FIFA.
- **Mekong Club** – is a not for profit organisation that uses a business-to-business approach to fight slavery. The adidas Group has been a member of the Mekong club for over 3 years and is part of a multi-brand Apparel & Footwear Group, which is working together to create a modern slavery risk assessment guide and stakeholder engagement toolkit.
- **Other engagements** – ongoing engagements with a range of other NGOs including Verite, Stop the TRAFFIK and Liberty Asia, over the development of training collateral and toolkits on Modern Day Slavery Outreach for stakeholders in our supply chain.

We have been assessing and addressing forced labour situations since the end of 1990's. We therefore have extensive experience in partnering with other stakeholders and forming collaborative approaches on all manner of issues, from questions of forced prison labour, to bonded labour, to the potential risks of slavery-like practices in the extended supply chain. For example:

- In 2010 we engaged with other brands, the Cambodian government's Ministry of Commerce, the Office of the UN High Commissioner for Human Rights, the Garment Manufacturers Association to dissuade the state prison service from introducing sewing as rehabilitation or vocational training programme. We highlighted the risks (should unauthorized subcontracting take place and find its way to sewing operation within a correctional centre) and the threat this would create to the integrity of the apparel export industry, which is a central pillar of the Cambodian economy. adidas Group strictly prohibits the use of prison labour in the manufacture of its product.
- Together with other concerned brands, in 2011 we engaged with the Minister of Labour, Invalids and Social Affairs, over credible reports that adults and children detained under in drug rehabilitation centres were being subjected to human rights abuses and were being forced to work to produce goods, including clothing. We called for an end to such practices and highlighted the potential risks posed to international brands and to the standing of Vietnam, should garments made under such conditions find their way, through unauthorized or illegal channels, into legitimate supply chains.
- During the period 2011 to 2012 we conducted field visits to several fabric mills in Tirupur, South India, to understand more about "Sumangali" schemes; an industry practice where young girls work in a factory for a fixed period, as per an agreement with the girl's parents. At the end of working period, the parents receive a lump sum payment to be used to pay the dowry for their daughter's wedding. We participated in various stakeholder engagements with other brands, local NGOs, trade unions, local government and industry associations, including Tirupur Spinning Mills Association, which came together to tackle this issue, educate families and rehabilitate the girls enrolled in these schemes. As the practice is a serious breach of our Workplace Standards, we do not permit our business partners to operate Sumangali schemes within our supply chain.

Traceability and risk assessment

Traceability

Q7. Please describe your company's supply chain tracing processes.

Does your company publicly disclose a) the names and locations of first-tier suppliers, and b) some information on suppliers beyond the first tier? If yes, please provide a URL.

Related to indicator D.2.3 of the CHRB

ANSWER: The adidas Group has mapped each supplier type/category across our global supply chain, for both our direct and indirect sourcing relationships. The mapping has included Tier 2 embellishers, packaging, and key materials suppliers for our footwear, apparel and accessories products. We have also mapped the general material flows, by country, for Tier 3 raw material sources with a specific focus on natural materials (cotton, leather and rubber) which are supplied from farms or plantations. See response to Q8 below.

The Tier 1 and Tier 2 suppliers which fall under our monitoring coverage are disclosed and recorded in the Fair Factories Clearinghouse (FFC) database; a not for profit compliance data sharing platform. The FFC provides vital information on the adidas Group's supply chain, including the primary production locations for our licensees and agents.

The adidas Group discloses its global supplier list – which includes primary suppliers, subcontractors and licensee' suppliers – twice a year: in January and again in June. See <http://www.adidas-group.com/en/sustainability/supply-chain/supply-chain-structure/>.

All key suppliers operating wet processes (primarily material suppliers, such as mills and dye houses) have been disclosed separately there, too.

Risk assessment

Q8. Please describe your companies' risk assessment processes. Please include specific examples of when your company has conducted forced labor risk or impact assessments focused on a particular commodity, region or group (e.g. migrant workers in a specific context), as well as the forced labor risks identified through these risk assessment processes (e.g. high risk commodities or high risk sourcing countries).

Related to indicator B.2.1 of the CHRB

ANSWER: Risks are identified and managed through multiple tools and processes, as summarized below.

Country Risk Assessments (CRAs) - completed annually, these CRAs include a review of salient human rights issues at a national level, they incorporate local stakeholder feedback and reference available published information from government and non-government sources, such as ILO reports, US State Department Human Rights Country Reports, etc. These assessments inform work priorities and guide prevention and mitigation strategies, especially in relations to our supply chain compliance monitoring. These CRAs are internal documents; they are not publicly disclosed.

In those cases where we plan to enter a new sourcing country, additional in-depth assessments may be warranted, as took place prior to production commencing in Myanmar. A *focused review* was conducted to evaluate human rights and socio-political issues and risks. The process ran for 2 years and involved extensive engagement with key stakeholders, and resulted in the adoption of new tools and approaches to prevent harm to rights-holders. See <http://blog.adidas-group.com/2015/02/made-in-myanmar/>

For new supplier relationships we have a well-developed pre-screening tool which we call *Initial Assessments (IAs)*. Through IAs we evaluate prospective suppliers against a set of Zero Tolerance Issues and Threshold Issues, including forced labour. The general findings from our IAs is published in our annual Sustainability Progress Reports and can also be viewed under the header 'Dealing with Non-Compliances' at <http://www.adidas-group.com/en/sustainability/supply-chain/monitoring/>

Compliance Monitoring (CM) – key industry risks such as child labour, excessive hours, forced labour, freedom of association, health and safety, and women's rights are already deeply embedded in our monitoring programme, which seeks to uphold our *Workplace Standards* and supporting policies and guidelines which have been built around human rights norms and international labour standards. Our supply chain monitoring includes direct auditing, worker feedback mechanisms, partnerships with external organisations (such as ILO, Mekong Club, Fair Labor Association, etc.) and stakeholder outreach, including close engagement with government regulators and civil society groups at a country level. For more information on stakeholder outreach please see our answer to Q6 above. The results of our compliance monitoring efforts are publicly disclosed. For further details see <http://www.adidas-group.com/en/sustainability/supply-chain/monitoring/>

Modern Day Slavery Supply Chain Evaluation – In 2016 we launched a Modern Day Slavery Outreach programme to identify risks of forced labour, child labour and human trafficking in our extended supply chain, that is, those parts of our supply chain which fall outside our normal monitoring coverage for social compliance. The Modern Day Slavery Outreach programme involves forging partnerships with our Tier 1 suppliers to support targeted training for Tier 2 suppliers and subcontractors; direct training on forced labour indicators for material Tier 2 suppliers and the development of collaborative models to address potential risks of forced labour and child labour in the Tier 3 raw materials supply chain with the targeted materials being conventional cotton, leather and natural rubber. This is a work in progress and we will publish shortly our general findings and work priorities.

Purchasing practices

Purchasing practices

Q9. Does your company make an effort to avoid purchasing practices that increase the risk of human trafficking and forced labor in the supply chain (e.g. short-term contracts, excessive downward pressure on pricing, sudden changes of workload?) Please elaborate.

Related to indicator D.2.2 of the CHRB

ANSWER: For the past decade we have been consolidating our supply chain, such that today more than 90% of our production is made in less than 300 factories – factories which are owned and managed by our so-called “strategic suppliers”. In essence we “source” rather than buy products, as is explained here: <http://www.adidas-group.com/en/group/stories-copy/commitment/the-dilemma-of-sourcing-globally/>.

We favour stable, long-term business relationships over short-term contracts. We also reward suppliers with more orders when they demonstrate that they are compliant and have developed sound social and environmental management systems.

For more information on our Responsible Sourcing practices, please see our answer to Q.11 below.

Supplier selection

Q10. Does your company assess risks of forced labor at potential suppliers prior to entering into contracts with them (this may include aspects such as passport retention and payment of wages)? Please describe.

Related to indicator B.1.7 of the CHRB

ANSWER: Yes, forced labour and migrant labour concerns are included in our pre-screening or Initial Assessments of prospective suppliers. We set a high bar for entry: some 50% of all prospective suppliers fail to pass our Initial Assessments. In our pre-screening, forced labour is treated as a “Zero Tolerance” area, including any case where we see clear evidence of debt bondage, or exploitative labour practices associated with the hiring of migrant workers.

Q11. How does your company take into consideration the capacity of suppliers to meet fluctuating demands (to reduce the risk of undeclared subcontracting)?

ANSWER: The adidas Group has a number of long-standing *Responsible Sourcing Practices* that are implemented within our direct supply chain relationships and aligned with human rights considerations. These include:

- Costing policies that acknowledge the cost of labour and time to produce the item i.e. Standard Minute Values
- Buy Ready policy that mitigates the need for last minute changes in the development process.
- Effective forecasting system that enables the suppliers to do effective planning
- Systematic dialogue with suppliers on their capacity that enables level loading during peak months
- Strategic supplier programmes developed for long-term business relationships

For our strategic partners, who account for more than 90% of global production, we have established social and environmental KPIs. Through this mechanism our strategic suppliers are positively incentivized, with higher KPI scores resulting in consistent and / or increased order volumes.

For external business partners, such as licensees, the adidas Group has developed a *Responsible Sourcing Guideline* that sets out our expectations. Adherence to the guidelines is evaluated annually, as part of our licensee’s performance review and report card.

Integration into supplier contracts

Q12. Does your company integrate its supply chain standards addressing forced labor and human trafficking into supplier contracts?

Related to indicator B.1.4.b of the CHRB

ANSWER: Yes. All suppliers to the adidas Group are required to sign a Manufacturing or Supplier Agreement which confirms their commitment to compliance with the adidas Group *Workplace Standards*, including the prohibition of any type of forced labour and human trafficking. These legal agreements must be signed by a duly authorized officer of the supply company. Signed agreements must be in place before any production orders are placed with a supplier.

Similarly, all licensee and agents and their subordinate suppliers must also comply by our *Workplace Standards*, and supporting guidelines and policies. This obligation is written into their licensing or agency agreements.

Cascading standards

Q13. Does your company have a process to cascade standards on forced labor down the supply chain (e.g. requiring first-tier suppliers to ensure that their own suppliers implement standards that are in line with the company's standards)? Please describe.

Related to indicator A.1.2 of the CHRB

ANSWER: We encourage our main business partners to share our *Workplace Standards*, policies and practices with their subordinate relationships, including external service providers (catering services, security firms, etc.). And where a strategic business partner achieves “self-governance” status under our social compliance KPI system, we expect that they also audit and monitor their subordinate suppliers.

However in those cases where a supplier subcontracts its main (logo-bearing) production activities to another business, the subcontractor automatically falls within adidas Group’s monitoring coverage and an Initial Assessment must be conducted to determine their compliance with our *Workplace Standards*, including consideration of forced labour and human trafficking. Only approved suppliers are permitted to receive adidas Group orders. Depending on the location and country risk, other subordinate processes, such as embellishing, printing and packaging, may also fall within SEA’s direct monitoring coverage.

Recruitment

Recruitment approach

Q14. Please describe your company's recruitment approach, including a) whether your company requires recruitment agencies in its supply chain to uphold workers' rights (this may include aspects such as written contracts, access to passports, and regular payment of wages), b) whether it has a policy on direct employment (i.e. a policy prohibiting suppliers in its supply chain from using recruitment agencies), and c) whether it requires suppliers to disclose to the company the recruiters that they use.

Related to indicator D.2.5.b of the CHRB

ANSWER:

- a) We have detailed guidance on the use of recruitment agencies and what are and are not acceptable recruitment practices, including the payment of fees, hiring practices, employment contracts, etc. See Section 5.1.1 ‘Use and Management of Recruitment Agents’ in our *Employment Guidelines*.

- b) We favour direct permanent employment, wherever this can be achieved, but do not prohibit the use of recruitment agents. In some countries, such as Malaysia, direct hiring was favoured by suppliers for many years but government intervened and mandated the use of intermediaries to hire overseas workers. The imposition of middlemen reduced the overall transparency of the recruitment process. It is the responsibility of the supplier to “know and show” that the recruitment agents they employ are following a fair recruitment process. Our expectations are detailed in our *Employment Guidelines*.
- c) Where we are investigating migrant labour issues as part of our general monitoring activities, or in response to a complaint, we do require our suppliers to disclose the recruitment agencies being used, the fees which are being paid and the hiring practices which are being followed.

Recruitment fees

Q15. Please describe your company’s approach to recruitment fees in the supply chain, including whether your company requires that no fees be charged to supply chain workers during recruitment processes, and whether and how your company ensures that fees paid by workers are reimbursed.

Related to indicator D.2.5.b of the CHRB

ANSWER: adidas Group’s approach to the recruitment fees was first developed in 2003-2004 and has evolved over the past 12 years. Our policy and approach has been informed and shaped by our management of individual worker cases, primarily in relation to the employment of migrant labour in Malaysia, Thailand and South Korea. Those cases addressed the imposition of levies by governments, the cost of food and passage to and from sending countries, the cost of medical screening, visa processing fees, as well as fees incurred by migrant labourers who have secured work through recruitment agents or labour brokers. This led to our “no fees” approach, which is also mirrored in our FLA obligations.

Our specific policy is detailed in our *Employment Guidelines*.

Our standard practice for reimbursement of any type of fee, levy or other cost wrongfully incurred is through retroactive payment to the worker. The amounts to be reimbursed is calculated and agreed with the responsible supplier, and may be added to the monthly payroll or paid as a one off sum of money. Workers must acknowledge payment.

The greatest challenge lies in achieving the necessary level of transparency, accuracy and proper documentation over the recruitment fees which have been paid, which may have forced workers into debt. We generally deal with non-compliance on a case-by-case basis, given the complexities of disclosure, information on the agent and other middlemen in a process, what monies have changed hands, what has been settled and agreed with the worker and with the suppliers, etc. Often there is debate over what constitutes a “recruitment fee”.

Recruitment audits:

Q16. Does your company audit recruiters used in its supply chain, to assess risks of forced labor and human trafficking, and/or require suppliers to audit their recruiters?

ANSWER: At times, yes, we have required suppliers to assess their recruiters to determine what level of fees were paid and the nature of the communication which took place with workers over the terms of their employment contracts. This is practical for new hires, where the agent is known to the supplier.

However we often see recruitment of foreign migrants taking place through informal channels where there is no identifiable broker, or the worker has been rehired many years after the initial involvement of a recruiter.

We have also engaged at a high level with governments over their policies and practices related to employment of foreign migrants and the application of foreign worker schemes. For example in 2006-8 we lobbied the Japanese International Cooperation Training Organisation to provide more safeguards for foreign workers hired as technical trainees in the garment sector in Japan, the majority of whom are Chinese nationals. Similarly we have engaged with government officials in Malaysia and Thailand on a similar basis, and with diplomatic offices in the countries of manufacture.

Worker voice

Communication of policies to workers

Q17. Please describe how your company communicates its human trafficking and forced labor related policies and standards to workers in its supply chain, and whether your company makes its policies and standards available in the languages of suppliers' workers (including migrant workers).

Related to indicator B.1.4.b of the CHRB

ANSWER: adidas Group sources from 61 countries globally and more than 1100 factories. In the initial years of our social compliance programme we placed local language posters, describing our *Workplace Standards*, in every factory. However, practical experience has shown that is a very ineffectual way of communicating rights to workers. Workers did not understand or fully comprehend the code (which reflected ILO standards), or the role of the brand played in protecting their rights. We therefore changed our policy and approach by placing more emphasis on building a greater level of local empowerment (both for suppliers and workers), providing supporting guidance (including SMS messaging services and training, tailoring information to focus on local labour law (sponsoring booklets, videos, etc.), or targeting specific topics, for example migrant labour rights and effective communication by factories when employing foreign workers, as well as building more grievance channels.

Local language posters appear in every factory notice board, providing workers with a hotline number and local contact with adidas Group, asking them to inform us if there are unable to resolve issues and complaints with their employer. These hotlines are manned by SEA or by NGOs; see our answer to Q20 below.

For foreign migrant workers we also conduct targeted interviews (in their own language) to both understand their issues and concerns, but also share our approach and role in providing remedies. We will also consult with consular staff in their local embassies, to understand the support mechanism they provide to their nationals working in a host country.

Worker voice

Q18. Please describe how your company engages with workers in its supply chain on labor related issues and rights outside of the context of the factories/farms in which they work? (whether directly or in partnership with stakeholders).

Related to indicator B.1.8 of the CHRB

ANSWER: We have engaged with workers through various initiatives over the years which have reached beyond the factory gate, including pre- and post-natal care for mothers, the development of community based clinics, and worker empowerment programmes, developed in partnership with local and international NGOs.

Perhaps the best example is our long standing support for improved access to education (to address child labour issues) as well as opportunities for women's empowerment in impoverished rural communities in Sialkot, Pakistan. See 'Empowering People in Pakistan' at <http://www.adidas-group.com/en/sustainability/community-engagement/projects/#/>

Worker empowerment

Q19. Please explain how your company encourages its suppliers to ensure workplace environments where workers are able to organize, including through alternative forms of organizing, where there are regulatory constraints on freedom of association.

Related to indicator D.2.6.b of the CHRB

ANSWER: Our suppliers are contractually bound to uphold our *Workplace Standards* and associated guidelines and policies, including those related to Freedom of Association. 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 our suppliers breach 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.

Please see our *Employment Guidelines*, which includes examples of non-conformance and best practice guidance (See <http://www.adidas-group.com/en/sustainability/supply-chain/standards-and-policies/>) and our *General Approach to FOA and Industrial Relations* (see <http://www.adidas-group.com/en/sustainability/supply-chain/critical-issues-copy/#/fair-wages/freedom-of-association-and-industrial-relations/>).

There are many barriers to the formation of trade unions, not least being that two of the largest sourcing countries globally, 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 direct worker-led 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 at a minimum, 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 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 in the negotiations or collective agreements that take place between independent unions and factory management – which may develop specific rules and procedures, or 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 also set safe spaces for the appropriate actors to engage.

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), to sponsoring briefing sessions in partnership with trade unions and labour officials in the Philippines, to the development and dissemination of materials on strike management in Vietnam with the ILO.

Together with Oxfam, we have collaborated closely with local trade union federations in the development of a *Freedom of Association Protocol* for Indonesia. The adidas Group 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. The provisions in the protocol aim to 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.

As a remedial requirement we have required suppliers to issue “Right to organize guarantees” to workers, declaring their freedom to form and join unions of their own choosing. We have done so where we have found evidence of a direct infringement of rights or a potential interference with workers freedom to exercise this right. Such guarantees have been issued in the past by suppliers in Indonesia, Sri Lanka, the Philippines, El Salvador and Honduras.

Grievance mechanism

Q20. Please describe your company's grievance mechanism, and clearly indicate whether it is available to workers in the supply chain, and how it is communicated to workers in the supply chain. Please also note whether you require your suppliers to establish a grievance mechanism, and to convey the same expectation to their suppliers.

Related to indicator C.1 and C.5 of the CHRB

ANSWER: We have a very mature grievance channel available for workers – through worker hotlines in each country, manned either by internal staff or independent NGOs, who speak the workers’ local language. The hotline services have been the subject of regular reviews and assessments to understand their efficacy and value. These services are communicated to workers through the posting of hotline numbers in prominent places in our suppliers’ factories; providing hotline number to workers during worker interviews and broadcasting our hotline number through the SMS Hotline System, which is described below.

We have been continuously upgrading these reporting channels and have introduced an SMS complaint mechanism for adoption by our suppliers. This is being progressively rolled out across our supply chain and to date around 58 of our strategic suppliers in Vietnam, Indonesia and Cambodia, with the total workforce of around 270,000, have adopted the system. Dozens more suppliers will adopt this system in China in 2016. See <http://blog.adidas-group.com/2013/05/marking-a-new-milestone-in-the-management-of-our-supply-chain-%E2%80%93-the-sms-worker-hotline-project/> and <http://blog.adidas-group.com/2015/04/how-we-bring-factory-management-and-workers-closer-together/>

Individuals, worker representatives and worker rights organisations, can also access the *adidas Group Third-Party Complaint Process*, as well as the independently managed FLA Third Party Complaint Process (see http://www.adidas-group.com/media/filer_public/3a/a8/3aa87bcf-9af9-477b-a2a5-100530e46b19/adidas_group_complaint_process_october_2014.pdf).

With respect to farm level production, workers have access to the complaint mechanism designed by the Better Cotton Initiative in each of the countries where it operates. We are not currently operating other forms of farm level monitoring or grievance mechanisms in our supply chain.

Monitoring

Auditing process

Q21. Please describe your company's supplier auditing process including whether the process includes a) scheduled and non-scheduled visits, b) a review of relevant documents (documents may include wage slips, information on labor recruiters, contracts, etc.), and c) interviews with workers.

Related to indicator B.1.6 of the CHRB

ANSWER:

- a)** Both scheduled and non-scheduled, i.e. unannounced, visits take place at supplier factories. Unannounced audits are preferred, for example, when we are responding to a complaints or where the planned visit is to investigate a specific issue, such as excessive overtime. At times, night-time monitoring may also take place.
- b)** For each country where we have production there is a standard list of documents, including specific types of permits and approvals that must be checked as part of the monitoring activities. Normally the auditors will be seeking to cross-check and triangulate between written documentation (say payroll records, pay slips, production information, etc.), workers recollection and feedback, and the factory management's explanations of their processes.
- c)** Workers are interviewed both on and off-site, and the structure of the interviews will depend on the nature of issues under investigation. All worker interviews are conducted in their mother tongue.

See a general description of our monitoring approach in our submission to CHRB, Section B.1.6 at http://www.adidas-group.com/media/filer_public/fb/93/fb936185-06f4-4c9c-b0ba-c0d960cba411/adidas_group_corporate_human_rights_benchmark_submission_4may2016.pdf

Audit disclosure

Q22. Does your company disclose

- a) the percentage of suppliers audited annually*
- b) the percentage of unannounced audits*

- c) information on who carried out the audits (this may include further information on the expertise of auditors such as relevant certifications, in cases where third-party audits are used, the names of the auditors, and in cases where internal auditors are used, details on department/team/group within which the auditor(s) sits), and
- d) a summary of findings, including details of any violations revealed?

Please provide a URL with the relevant information.

Related to indicator B.1.6 of the CHRB

ANSWER:

- a) Yes, we disclose the actual number of suppliers audited each year and the percentage these represent of all suppliers which fall within our monitoring coverage. These figures are reported in our annual *Sustainability Progress Reports*.
- b) We conduct both announced and unannounced audits, but we do not disclose the specific percentage or breakdown of the type of audits conducted. In addition to our own unannounced audits, our suppliers are subject to randomized unannounced audits by the Fair Labor Association. To explain: as an FLA participating company, the adidas Group's compliance programme and supply chain is the subject of independent checks and validation by the FLA. The FLA evaluates the adidas Group's programmatic activities for compliance with forced labour code elements and selectively audits our supply chain to ensure that compliance as well as compliance with all other adidas and FLA standards. When necessary, the FLA helps us address any forced labour issues in the supply chain. The verification audits by the Fair Labor Association are all unannounced.
- c) We disclose the number of audits conducted internally by SEA with respect to our direct supply chain, and those conducted by third party auditors commissioned by licensees or agents with respect to our indirect supply chain. These figures are reported in our annual *Sustainability Progress Reports*; and
- d) We do not publish summaries of the findings from our general audits, but we do provide a summary of the pattern of violations found in our pre-screening of prospective supplier who are subject to Initial Assessments. This information is presented in our annual *Sustainability Progress Reports*. All SEA audits and corrective action plans are available to the FLA. The findings from the unannounced FLA verification audits (referred to in b) above) together with the suppliers' corrective actions are fully disclosed. These are posted on tracking charts that can be found at FLA Website: <http://www.fairlabor.org/tracking-charts>

Our programmatic activities for auditing, monitoring, training, and rating our supply chain, as well as the verification work by the Fair Labor Association are described in our annual *Sustainability Reports*. Copies of these reports from 2000 forward can be found on our corporate website at: <http://www.adidas-group.com/en/sustainability/reporting-policies-and-data/sustainability-reports/>

Remedy

Corrective action plans

Q23. Does your company have a process for creating corrective action plans when violations are discovered through an auditing process? Please describe this process and the elements of a corrective action plan.

Related to indicator B.1.6 of the CHRB

ANSWER: Yes, Corrective Action Plans (CAPs) are a standard requirement where a non-compliance with our *Workplace Standards* has been identified. The CAP states the non-compliance which has been found, details a suggested remedial action, the responsible party and a timeframe to complete that action. The supplier's specific proposals in the CAP are then tracked and the appropriate documentation, or remedial action(s), reviewed to close-out the non-compliances. CAPs are normally developed through engagement with the suppliers, to define expectations and negotiate appropriate timelines. Where a formal audit has been conducted the audit closing meeting with a supplier will already disclose areas of concern which need to be addressed through the development of a CAP.

Although CAPs are a standard tool applied by compliance auditors, adidas Group's social compliance programme has matured, whereby our focus is more on preventive steps rather than on corrective actions (see Remedy below), although CAPs are still very much in use at the pre-screening stage for new suppliers.

Remedy

Q24. Does your company have a process to provide remedy to workers in its supply chain in cases where violations are discovered, including for responding to instances of forced labor and human trafficking? If yes, please provide examples of outcomes.

Related to indicator C.7 of the CHRB

ANSWER: Yes.

Our *Employment Guidelines* describe what constitutes non-compliances or bad practices and how these should be remedied, and also provide examples of best practice and case studies. Please go to: <http://www.adidas-group.com/en/sustainability/supply-chain/standards-and-policies/>

To be of lasting value, remedies must tackle the root causes of non-compliant activities.

Initially our social compliance work focused on immediate solutions through corrective actions, but as our programme developed and matured we recognised the need for longer term and more sustainable compliance that can be delivered through proper management and measurement systems, be this related to employment practices (pay, working hours, hiring, firing, disciplinary action, etc.), occupational health and safety, or environmental concerns.

For example, we require our strategic suppliers, who make 90% of our product, to develop rolling three year Sustainable Compliance Plans and we link these to formal key performance indicators (KPIs) to track the performance of their human resource management systems, training, grievance handling, transparency, etc. Effective management processes guard against any forced labour situation by ensuring on-time and in-full payment of wages, controlled working hours, voluntary overtime, freedom of movement, clear contract terms, properly enforced disciplinary procedures that tackle any abuse or harassment in the workplace, the retention of qualified HR managers, supervisory training, etc., etc.

Our long term strategic suppliers must also disclosure each month their working hours including overtime, and where exceptional situations arise through production issues (late deliveries, stoppages and strikes) or force majeure (floods, earthquakes, etc) any make-up work involving additional working

hours must be disclosed and reviewed by SEA to ensure that it is legally permissible and is aligned with our *Workplace Standards*.

We do not favour short term contracting, and have a proactive policy to support and encourage permanent long term employment within our contract supplier factories. However where short term contracts exist, we ensure that the wages, benefits and working conditions are the same for permanent and temporary staff alike. We have also developed specific guidance for the handling of labour contractors, to ensure that our main business partners are clear about their duties and responsibilities for all workers employed within the factory premises.

Within our *Enforcement Guidelines*, systematic harassment, abuse or coercion - whether physical or otherwise - is treated as a Zero Tolerance issue. Where we have clear evidence of such abusive behavior we will terminate a business relationship and, where appropriate, bring these issues to the attention of regulatory agencies and law enforcement. Our *Enforcement Guidelines* can be viewed at:

<http://www.adidas-group.com/en/sustainability/supply-chain/standards-and-policies/>

With respect to migrant labour, we have been involved in remedying a number of issues over the years. Examples are given below:

- In the initial period of our work on migrant labour (between 2001-5) we focused on the relocation and rehousing of migrant workers in Malaysia, South Korea and Taiwan who had been facing substandard living conditions, the return of passports to workers to ensure freedom of movement (and identifying the best ways of safekeeping documents and valuables), launching complaint handling systems, developing standard contract terms that were written in the workers in their own language(s), eliminating unreasonable or unacceptable fees or levies.
- Over the period 2003-4, we worked closely with management of an apparel factory in Mexico to ensure the return of passports to foreign workers to ensure freedom of movement and identifying the proper and legal means to safeguard their documents and valuables.
- Following a coup d'état in Madagascar in 2009, the US government imposed sanctions on the country and suspended its preferential trade benefits under AGOA. As result, one factory producing for adidas Group was forced to close its operation. During the closure process, we worked with the consular services of the Chinese, Philippines and Indian embassies to ensure the safe repatriation of their nationals, who had been employed as migrant employees. The workers also received the outstanding wages owed to them by their employer.
- Following on-the-ground investigations, in 2013 and 2014 we highlight the needs for our suppliers in Taiwan to improve working condition for migrant workers employed on fixed term contracts from the Philippines. We engaged with the suppliers to eliminate wage deductions made by employment agents, return passports and bank books and relocate the migrant workers to safer and better quality dormitories. A new employment agency arrangement was established, that offered greater transparency and a better commitment to handling the employment needs of the migrant workers.
- In 2013, we conducted an investigation into a report by Malaysia Trade Union Congress on Burmese migrant workers and the risk of debt bondage due to recruitment fees. We consulted with various stakeholders, including the State of Selangor's Labour Department, to support our business partners remediate this issue and compensate migrant workers. We have also used this case to lift the standards for all migrant workers employed by our suppliers in Malaysia, asking

each factory to go beyond the requirements of the law and to shoulder the cost of a levies and fees imposed by the government, and others, on migrant workers.

- In 2014, we engaged with a local trade union and migrant labour NGOs in Malaysia, to secure the release and reinstatement of foreign workers who had been wrongfully arrested by the police in raids conducted by the government against illegal migrants. The workers held valid employment visas and were in legitimate employment in the garment sector.
- Recently we conducted an assessment of the labour risks in Mae-sot, a thriving industrial area located on the northern border of Thailand and Myanmar. It had been proposed as a potential apparel sourcing location. We examined the risks from the free-flow of Burmese migrant workers across the border, the reported presence of criminal gangs and people traffickers, and the lack of any meaningful monitoring or control by the local authorities. We judged the potential risk of exploitation to be severe, including the likelihood that garment manufacturers in the area were employing illegal or non-registered migrant workers, retaining passport and IDs and paying workers below the legal minimum wage. We concluded that Sourcing should ban any prospective production from this area, until such time there is a systematic improvement and better control by the labour and immigration authority over illegal and trafficked migrants.

The above remedial actions have been built against a backdrop of longstanding efforts to improve transparency, forge meaningful collaborations and stakeholder processes, and build grievance channels which address labour rights concerns. For example, we were instrumental in the founding of the *Fair Factory Clearinghouse*, a sharing platform to increase transparency and disclosure of global supply chains. We are also a founding member of the *Better Cotton Initiative*, which tackles labour rights and environmental issues at a farm level in the cotton growing regions around the world, as well as the *Fair Labor Association*, which for nearly two decades has championed worker's rights.
