

Written evidence submitted by adidas UK (FL0008)

adidas submission to the Business, Energy and Industrial Strategy Committee, UK Houses of Parliament

We thank the Business, Energy and Industrial Strategy Committee for the opportunity to submit information on how we conduct human rights due diligence and prevent the use of forced labour in our supply chain.

adidas is a global leader in the sporting goods industry with locations in over 70 countries and a presence in the UK for more than 30 years.

To assist the Committee, adidas has prepared its summary position and detailed responses to the six questions, as set out below.

- We run a comprehensive supply chain due diligence program that is fully integrated into our business model and is based on dialogue and transparency.
- We apply a consistent set of standards based on international norms and conventions, including the prohibition of forced labour, in all countries where we have business operations.
- We monitor workplaces through our own team and independent organizations and take steps of enforcement, where necessary.
- We have been recognized as a leader in sustainability, supply chain due diligence and transparency, for example, by the Dow Jones Sustainability Index, the Corporate Human Rights Benchmark and KnowTheChain.
- We have never manufactured products in the XUAR. In addition, we held no active relationship with any of the businesses named in the ASPI report.
- As a company, we strictly prohibit the use of all forms of forced labour, including prison labour, in our supply chain. The use of forced labour by any of our partners will result in the termination of the partnership.

To provide you with additional context into our operations and the answers to your questions we have shared a summary of our supply chain organization. In 2019 adidas worked with 631 independent factories from around the world that manufacture our products in more than 52 countries. Our supply chain is multi-layered, with many different types of business partner, some of whom are directly contracted and others who are not. We only hold direct contractual relationship with our main manufacturing partners - those who make our product. We call these our Tier 1 suppliers.

We refer to the businesses that supply goods to our main partners, such as fabrics, zippers, etc. as Tier 2 materials suppliers. We do not hold a direct business relationship with the Tier 2 material suppliers. Upstream from the T2 suppliers are the raw materials, be they natural or synthetic. The raw materials suppliers are Tier 3 in our supply chain and include commodities such as leather, rubber and cotton, as well processed yarn. We hold no direct contractual relationship with Tier 3 raw material suppliers. Where we do not hold direct relationships, we employ controls, processes and commitments including, but not limited to, regular assessments, extensive training, supporting on the ground partner initiatives and outreach programs.

1. Do any of your organisation's value chains link directly or indirectly to the Xinjiang Uyghur Autonomous Region (XUAR) of China, and what steps are you taking to ensure that you have visibility of your entire value chain?

adidas can confirm it has never manufactured products in the XUAR.

There have been indirect linkages with the Xinjiang region with respect to the production of yarn. We have however eliminated those linkages, through the following actions:

- a) In Spring 2019 we required all Tier 2 material suppliers to stop sourcing processed yarn from Xinjiang. This action was taken following our investigations into claims of links to forced labour at Huafu Textiles, a Tier 3 spinning mill located in Aksu, Xinjiang
- b) In parallel with the above, we supported a decision by the Better Cotton Initiative – which is the primary supplier of cotton to adidas globally - to end its licensing of Better Cotton production in Xinjiang.

In its communications, the Committee has referred to research conducted by the Australian Strategic Policy Institute (ASPI) which highlighted the exploitation and adverse treatment of Uyghur workers, including those employed outside of the XUAR.

adidas treated the allegations detailed in ASPI's March 2020 report very seriously. adidas does not permit its suppliers to hire dispatch workers, or other forms of labour, through government-managed schemes in China. This has been our approach for more than a decade and is an integral part of our labour monitoring practice in the PRC.

We conducted follow-up investigations and within two weeks made public our findings. See https://www.adidas-group.com/media/filer_public/da/ba/dabafa86-7450-48ea-a75c-5258bf710fb8/2020_adidas_position_on_research_findings_published_by_the_australian_strategic_policy_institution_aspi.pdf. Based on those investigations, we confirmed that we held no active relationship with any of the businesses named in the APSI report.

In short, none of the named suppliers were manufacturing adidas products.

The above actions form part of our ongoing efforts to ensure that there are no supply chain linkages to forced labour in XUAR, or to the export of forced labour from this region.

We continue to work diligently towards that goal and through our regular program of China-based audits, we have found no evidence of Uyghur workers employed in the factories making our finished goods, or fabrics.

2. Do you identify sourcing geographies for the delivery of services or the manufacturing of goods where there is a high risk of human rights abuse?

Yes, we conduct an annual review to identify potential adverse human rights impacts in the countries where we manufacture our products. This is part of our standard human rights due diligence process.

In conducting such a review, we consider sources of information from a variety of sources, from advocacy groups, international agencies and government publications, for example, US Department of Labor annual child labour and forced labour reports, as well as current and upcoming regulatory requirements, including any sanctions that may apply to specific entities and geographies.

Over the years we have taken proactive steps to reduce the risk of indirect exposure within our supply chain to state-sanctioned forced labour. For instance, in 2011 we signed an NGO-developed pledge not to source cotton from Uzbekistan. In 2018, we signed a similar pledge against the use of forced labour in the cotton sector of Turkmenistan. In 2017, we conducted an in-depth due diligence process globally to fulfil US government' sanctions, introduced to prevent the exploitation of North Korean workers.¹

With respect to Xinjiang, we have engaged extensively with our China suppliers and reiterated our strict prohibition on all forms of forced labour, including prison labour. We have conducted due diligence to ensure that suppliers are not linked to entities suspected of involvement in serious human rights harms or forced labour.

3. What actions are you taking to prevent modern slavery and human rights abuses within your organisation and its value chains?

adidas' Workplace Standards mirror International Labour Organization (ILO) core conventions and fundamental rights at work and includes a prohibition on all forms of forced labour, including prison labour. Please see our Workplace Standards and our Modern Slavery Policy, here: <https://www.adidas-group.com/en/sustainability/reporting/policies-and-standards/> .

For our direct supply chain, where we monitor our contract manufacturing partners' Tier 1 production facilities, the use of forced labour by any of our partners will result in the termination of the partnership. If there are any findings or indications of forced labour, triggered through audits or third-party complaints, we follow-up with in-depth investigations to determine the facts and possible remedial steps. Our Enforcement Guidelines can be found here:

https://www.adidas-group.com/media/filer_public/2013/11/25/enforcement_guideline_nov_2013_en.pdf

We also recognize that the potential risks of forced labour can also be found in the upstream supply chain, where we have no direct contractual relationships. We have therefore focused on targeted modern slavery trainings and capacity building programs for our Tier 2 fabric mills, and other materials suppliers, to help them identify and remedy unscrupulous employment practices. A great deal of our work around forced labour risks is focused on migrant labour and fair recruitment processes. These activities have been undertaken in partnership with the IOM – the UN's International Organisation for Migration.

We have also conducted assessments of our Tier 3 raw material sources, such as leather, rubber and cotton, and have worked with industry partners and civil society, to identify and address risks of modern slavery. Our roadmap for addressing such risks - through a rolling three-year 'modern slavery outreach program' – and progress against targets has been shared publicly. See Business & Human Rights Resources website at: <https://www.business-humanrights.org/en/latest-news/adidas-invitation->

¹ Section 321(b) of the *Countering Americas Adversaries Through Sanctions Act*, 2017 restricts entry into the United States of goods made with North Korean labor, wherever located, and imposes sanctions on foreign persons that employ North Korean labor.

[for-stakeholder-engagement-on-modern-slavery-risks-in-hot-spot-countries/](#) which provides links to all reports.

Our program of work on modern slavery and forced labour is described more fully in our annual Modern Slavery Transparency Statement. Our Statement can be found at https://www.adidas-group.com/media/filer_public/02/e5/02e51e8a-220e-4dbb-9291-bdc33921f4cd/modern_slavery_act_transparency_statement_2018.pdf.

4. What evidence can you supply of compliance with all applicable labour, procurement and anti-slavery laws?

Compliance with the law is the overriding principle by which adidas operates as a company. It is also the first principle of the adidas' Workplace Standards, which requires our supply chain partners to "comply fully with all legal requirements relevant to the conduct of their businesses." As outlined in this submission, compliance is achieved through the exercise of appropriate due diligence, by identifying and preventing adverse impacts, seeking out effective remedies, and committing to transparent reporting.

In this regard, we have documented our efforts to address forced labour in our global supply chain and we have shared this publicly.

For example, through the publication of our Modern Slavery Statement (in compliance with the UK Modern Slavery Act), our periodic reports on the scope and progress of our Modern Slavery Outreach Program, the disclosure of our global manufacturing supply chain, and the independent accreditation of our social compliance program by the Fair Labor Association. See <https://www.fairlabor.org/report/adidas-assessment-reaccreditation-october-2017>

Where we have received third party allegations or complaints of forced labour in our supply chain, it is our practice to conduct investigations and publish our findings in short order, as in the case of the ASPI research referenced earlier.

5. What are your human rights due diligence processes in respect of your workers and value chains?

adidas has a long-standing commitment to uphold the OECD Guidelines for Multinational Enterprises and we have modelled our human rights due diligence approach on the OECD's revised 2011 guidelines.

Our human rights due diligence approach targets those high-risk locations, processes or activities that require the closest attention and where we are able to apply influence to mitigate or remediate issues, where they occur. We also seek to extend our reach by cascading responsibilities to our partners, to capture and address potential and actual human rights issues upstream and downstream of our product creation. Finally, to complement these processes, we have put in place dedicated third-party grievance channels to respond to complaints.

Core to our human rights approach is adidas' commitment to ensuring fair labour practices, fair compensation and safe working conditions in factories throughout our global supply chain. Our active efforts are guided by the adidas' Workplace Standards and our supply chain code of conduct. adidas regularly rates factories on their ability to comply with these standards by means of conducting announced and unannounced audits. According to the results, and the nature of the issues to be addressed, we then decide on the appropriate course of action, ranging from the determination and implementation of training needs or other improvements, to applying enforcement actions up to termination of contracts. When non-compliances are identified, we normally give suppliers a certain timeframe for remediation.

Further detail on our human rights due diligence approach is described here. <https://www.adidas-group.com/en/sustainability/managing-sustainability/human-rights/#:~:text=Core%20to%20the%20human%20rights,supply%20chain%20code%20of%20conduct.>

6. What action does your organisation take - beyond publishing a Modern Slavery Statement and including contractual obligations with suppliers - to ensure modern slavery compliance in your value chain?

adidas' Workplace Standards mirror International Labour Organization (ILO) core conventions and fundamental rights at work and includes a prohibition on all forms of forced labour, including prison labour. We employ a team of 50 specialists around the world, who work daily toward more sustainable business practices in our supply chain. Those efforts include the monitoring of labour rights in each of our suppliers' factories.

For our direct supply chain, where we monitor our Tier 1 contract manufacturing partners, forced labour by any of our partners will result in the termination of the partnership. If there are any findings or indications of forced labour, triggered through audits or third-party complaints, we follow-up with in-depth investigations to determine the facts and possible remedial steps.

We recognize that the potential risks of forced labour can also be found in the upstream supply chain, where we have no direct contractual relationships. We have therefore focused on targeted modern slavery trainings and capacity building programs for our Tier 2 material suppliers, to help them identify and remedy unscrupulous employment practices. A great deal of our work around forced labour risks is focused on migrant labour and fair recruitment processes. These activities have been undertaken in partnership with the UN's International Organisation for Migration. See <https://www.iom.int/news/adidas-iom-partner-promote-responsible-recruitment-fair-treatment-migrant-workers-garment-and>

We have also conducted assessments of our Tier 3 raw material sources and worked with industry partners and civil society, to identify and address risks of modern slavery. For example, we have engaged with the Fair Labor Association on working conditions in the rubber industry in Vietnam. We have mapped and evaluated forced labour risks in the leather supply chain in South America. adidas has committed to source 100% of our cotton through sustainable sources, including Better Cotton – a multi-stakeholder initiative involving brands, farmers and NGOs, funded by international donor agencies. We continue to work closely with the Better Cotton multi-stakeholder initiative on its Decent Work agenda and forced labour assurance system.

Submitted by adidas (UK) Limited

Appendix

Please find a summary list of independent third party ESG performance reviews and relevant alliances.

ALLIANCES

Organization	Type	Member since	Status	Reason for participation
<u>Apparel and Footwear International RSL Management (AFIRM) Working Group</u>	Industry Association	2004	Founding member and participating company.	Industry-leading group that strives to reduce the impact of harmful substances and tracks regulatory compliance.
<u>Better Cotton Initiative (BCI)</u>	Multi-Stakeholder Organization	2004	Founding member and participating company.	Promotes measurable improvements in the key environmental and social impacts of cotton cultivation worldwide.
<u>Fair Labor Association (FLA)</u>	Non-Profit Organization	1999	Founding member and participating company; Board seat.	Provides independent accreditation and oversight of our internal programs.
<u>International Labor Organization (ILO) Better Work</u>	Tripartite Organization	2012	Participating company in mandatory country-based programs e.g. Better Factories Cambodia.	Partnership between the International Labor Organization (ILO) and the International Finance Corporation to improve social dialog and productivity in supplier factories.

Organization	Type	Member since	Status	Reason for participation
<u>World Federation of the Sporting Goods Industry (WFSGI)</u>	Industry Association	1985	Founding member and participating company; Chair of CSR Committee.	Represents the sporting goods industry in various venues and drives alignment among members.

Further information on our alliances can be found here: <https://www.adidas-group.com/en/sustainability/managing-sustainability/partnership-approach/alliances/#/>

ESG PERFORMANCE

- **Fair Labor Association Accreditation:** In 1999, adidas joined the Fair Labor Association (FLA), a non-profit multi-stakeholder coalition of private corporations, non-governmental organizations and universities. As a member, adidas is subject to external monitoring by independent monitors, participation in the FLA third-party complaint system and public reporting. In 2017, for the third time, the company received accreditation for its social supply chain program by the FLA. Our program was first accredited by the FLA in 2005, then reaccredited in 2008 and 2017. adidas is currently preparing for its fourth accreditation due in 2020. [Click here](#)
- **Corporate Human Rights Benchmark:** In the 2019 Corporate Human Rights Benchmark (CHRB) evaluation adidas maintained its overall leadership position. The CHRB rates the top 500 globally listed companies on their human rights policy, process, and performance. [Click here](#)
- **Know the Chain Benchmark:** In 2018, adidas ranked first out of 44 apparel and footwear companies in the KnowTheChain evaluation and was recognized for its programs to address Forced Labor risks in its supply chain. [Click here](#)
- **Stop Slavery Award:** In 2017, adidas was announced as the overall winner of the second Thomson Reuters Foundation Stop Slavery Award in London. The award celebrates businesses that excel in identifying, investigating and rooting out forced labor from their supply chains. adidas was praised for its transparent audits, strong responsible sourcing guidelines and robust tools to trace higher-risk supply chains. [Click here](#)
- **Dow Jones Sustainability Indices:** [In September 2019, for the 20th year in a row, adidas has been included in the Dow Jones Sustainability Indices \(DJSI\)](#), which evaluate the sustainability performance of the largest 2,500 companies listed in the Dow Jones Global Total Stock Market Index. In the “Textiles, Apparel & Luxury Goods Industry”, adidas was ranked best in its industry in the criteria of Brand Management, Information Security/Cyber Security & System Availability, Environmental Policy & Management Systems, Operational Eco-Efficiency, Social Reporting and Talent Attraction & Retention. [Click here](#)
- **FTSE4Good Index Series:** In 2019, adidas was again included in the FTSE4Good Index. FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that adidas has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products. [Click here](#)

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