

Our Ref: CLD-CSR-344

October 12, 2017

Mizuno Corporation

Subject: Our Response to Clean Clothes Campaign's Claim

The Clean Clothes Campaign (CCC) has published its claim in its website regarding a labor dispute in former PT Panarub Dwikarya Benoa, which was one factory of Panarub Group ("PDK"), used to be one of our suppliers of footwear in Indonesia on September 29, 2017 ("CCC1").

We state the following as our response to CCC1.

1. Main Documents Related

CCC et al. have sent us a letter of September 29, 2015 ("CCC2") and of November 9, 2015 ("CCC3") with related documents on severance or gratuity and compensation of this case.

We have posted our statement of March 17, 2016 CLD-CSR-308 titled "Our Comments on Industrial Dispute in Indonesia" ("M308") in Business & Human Rights Resource Centre website.

ILO Committee on Freedom of Association issued the Interim Report - Report No 380, October 2016; Case No 3124 (Indonesia) - Complaint date: 27-FEB-15 – Active ("ILO Report") on this issue.

We have sent our letter of October 12, 2016 CLD-CSR-325 ("M325") to CCC.

CCC has posted an open letter on its website calling for the payment of severance for 345 workers to adidas and Mizuno in July 2017. Adidas has issued its statement titled "adidas Response to Clean Clothes Campaign Open Letter on PT Panarub Dwikarya Benoa" ("AD ST") as its response to CCC's open letter.

2. Human Rights and Our Actions

CCC claims that "for years prior to the 2012 strike, the workers at the PDK factory, most of them women, experienced abusive and unlawful working

conditions” in CCC1.

We stated in M325 that regarding this case, our standpoint is based on the statement that we will promote our business activities in good faith, by conducting business activities in a transparent and fair way, adhering to laws and regulations and respecting social norms in all countries and regions, provided in the 2 of CSR Basic Philosophy, and that we are conscious of the social responsibility of corporation and act with due diligence to achieve the promoting cooperation with stakeholders and endeavoring to actively endorse a positive dialogue with them, provided in the 7 Consideration of stakeholders of “Mizuno Corporation Ethical Standards”.

The following on our actions are all described in M308.

Action Starting August 25, 2012

Based on the above policy, in 2012 responding to the request by CCC et al. in the letter of August 25, 2012 (“CCC12-1”), we have sent an inquiry by the system of open letter, which we cc to the party in case we make official inquiries to the other party from a transparency point of view, to grasp the reality.

We have sent the inquiry on August 27 (“M164”), October 19 (“M172”), and October 26 (“M178”) to PDK, and on August 27 (“M165”), October 18 (“M173”), and October 19 (“M177”) to GSBI-SBGTS PT Panarub Dwikarya (“SBGTS”) more than 3 months.

We have learnt by the inquiries that there is a possibility that the strike was illegal as the strike was implemented without prior notice and that it seems to be tough to affirm facts without court ruling if SBGTS’s evidences on unfair labor practice and/or obstruction consist of not physical evidence including documents, photos and transcriptions but only personal evidence with testimony. We also have learnt that a determination on workers being dismissed on the grounds of illegal strike action can only be made by a properly constituted court and this would be the Industrial Relation Court.

Accordingly, we have advised heartily the above points to PDK and SBGTS for their reference.

Action starting June 11, 2015

In 2015 we also have considered sincerely and have commented on June 11 (“M260”), June 19 (“M262”), June 26 (“M263”), July 10 (“M264”), July 24 (“M267”), and August 31 (“M271”) based on CCC’s request of June 11, 2015 (“CCC15-1”) more than 3 months.

We stated in M267 that the amicable negotiation seems to be difficult from the fact that the mediation starting October 18, 2012 by the third party failed by the difference of opinion between PDK and SBGTS on the settlement payment amounted about US\$0.70 million to workers.

Action Starting September 29, 2015

Further, we have made efforts to conduct an investigation of this case, including inquiries to PDK and CCC, more than 5 months to reach a settlement responding to the request by CCC et al. of September 29, 2015 (“CCC2”).

CCC et al. persisted the amicable negotiation in CCC2 and demanded IDR25,759,286,040 (US\$2.57million; US\$1=¥100, ¥1=IDR100) or IDR20,759,286,040 (US\$2.07million) as settlement payments in their letter of November 9, 2015 (“CCC3”).

We were shocked by the demanded settlement payments considering the result of the mediation starting October 18, 2012 and have explained accurately in our letter of November 24, 2015 (“M292”) that the demand by CCC et al. has no legal ground.

As CCC et al. changed the settlement payments to IDR7,329,722,564 (US\$0.73million) and requested us to contribute financially to the payments on February 8, 2016 (“CCC16-1”), we have answered that we cannot contribute with detailed consideration on February 29, 2016 (“M304”).

3. Legal Conclusion of Dismissal of Ms. Kokom Komalawati et al.

CCC states that “all of the incidents described clearly violate a vast array of international human rights principles and this was affirmed in a 2016 ILO report”.

ILO Report describes that “the Government states that in February 2012, 69 workers, including Ms. Kokom Komalawati, were dismissed for reasons of efficiency, out of which 68 workers claimed their rights and obtained compensation as stipulated in section 164(3) of Act No. 13 of 2003, while the dismissal process of Ms. Kokom Komalawati was conducted through the Industrial Relations Court because the worker refused the termination of her employment¹”. From the above description we can learn that Ms. Kokom Komalawati claimed her rights to the Industrial Relations Court.

ILO Report describes that “in a decision dated 10 July 2013, the Industrial Relations Court declared the termination of employment between the factory and Ms. Kokom Komalawati for efficiency reasons with effect from 10 July 2013 and ordered the factory to pay her compensation of Indonesian rupiahs (IDR) 37,240,910²”. From the above description we can learn that Ms. Kokom Komalawati’s compensation ordered by the Industrial Relations Court was IDR37, 240, 910 (US\$372.4; US\$1=¥100, ¥1=IDR100).

ILO Report also describes that “the worker appealed the decision to the Supreme Court on 19 August 2014 but, in a decision dated 19 February 2015, the Supreme Court declared the appeal not eligible due to its late submission exceeding 14 days from the enactment of the Industrial Relations Court decision, which thus became binding³”. From the above description we can learn that Ms. Kokom Komalawat failed to appeal to the Supreme Court from the late submission exceeding 14 days from the enactment of the decision.

4. Freedom of Association

CCC states that “in February 2012, the workers decided to form a new union to address these issues” in CCC1. With respect to the above, ILO Report describes in Para 579 that “the Government concludes by stating that as an ILO member State it remains committed to the fulfilment of the rights of workers and it has guaranteed the freedom of association in Indonesia, especially in the PT PDK company by ensuring the establishment of trade unions”. From the above, we are able to state that the Indonesian Government has judged that it has

¹ Para 577, ILO Committee on Freedom of Association, Case No. 3124 (Indonesia)
Complaint date: 27 Feb 2015, Interim Report - Report No 380, October 2016

² *ibid*, Para 577

³ *ibid*, Para 577

guaranteed the freedom of association in PDK.

5. Legal Conclusion of Strike

CCC claims “in July 2012 the PDK workers decided to protest the poor working conditions and low wages by going on strike, an unequivocal right under international human rights norms”. With respect to the above, ILO Report describes in Para 578 that “the Government states that the strike undertaken by Ms. Kokom Komolawati and other employees can be considered as illegal because it did not correspond to the procedure of strike implementation as stipulated in section 140 of Act No. 13 of 2003⁴”. From the above, we are able to state that the Indonesian Government has judged that the strike by Ms. Kokom Komolawati et al. can be considered as illegal.

6. Gap in Expectations of the Two Parties

In connection with these claim and description, AD ST states that “Panarub’s position was that the strike was not lawful, and on this basis workers were treated as having resigned when they did not return to work within the time specified by the law” and that “hence Panarub’s initial offer of payment to the workers matched those amounts for a worker resignation, not for a situation of dismissal, or severance, or any subsequent claims for other material impacts” and finally concludes that “for the past 5 years, this has been the central issue which has driven a clear and, to date, unresolvable gap in the expectations between the two parties”.

We have received CCC2 demanding IDR25,759,286,040 (US\$2.57million; US\$1=¥100, ¥1=IDR100) and CCC3 demanding IDR20,759,286,040 (US\$2.07million). For example, multiply IDR37, 240, 910 (US\$372.4; Ms. Kokom Komolawati’s compensation in the Industrial Relations Court) by 346 persons equals IDR83,354,860(US\$128, 850; US\$0.13 million). From the above we can grasp that there is a significant gap on compensation amount between CCC and the Industrial Relations Court and that the reason is from recognition whether the strike was lawful or not. Therefore, we at Mizuno fully agree with AD ST’s

⁴ ILO Report describes that “it further indicates that the employees who were on strike from 12 to 23 July 2012 were encouraged by the factory to return to work on 12, 13, 16, 17 and 18 July 2012. Since they ignored the company’s appeal to return to work, they were later qualified as resigned employees in line with section 168 of Act No. 13 of 2003,” *ibid*, Para 578

conclusion.

7. Views on Dispute

We believe that the best way should be in accordance with the laws and regulations or a special alternative framework in Indonesia though we still hope that the parties reach a settlement in any way.