



6 December, 2017

Dear Business and Human Rights Resource Centre,

Thank you for providing us with an opportunity to comment on the Clean Clothes Campaign's (CCC's) recently published 'Made in Europe' report. Below you will find a brief description of our general approach to fair wages - which is the central issue in the CCC report - and an explanation of the wage-setting processes we have pursued in Georgia and the Ukraine.

General Approach

At adidas we are committed to ensuring fair labour practices, fair wages and safe and environmental friendly working conditions throughout our global supply chain. With respect to our suppliers, we follow a well-developed and progressive *Fair Compensation Strategy*.

Our Fair Compensation Strategy requires that we:

1. do not infringe on the rights of workers, their employers and governments to set fair wages as a minimum;
2. conduct due diligence and act when business partners are not compliant with the law or our Workplace Standards; and,
3. facilitate positive wage progression and fair wages in our supply chain.

The idea of a living wage is that workers and their families are able to afford a basic, but decent, standard of living that is considered acceptable by society at its current level of economic development. Fair compensation goes deeper. It considers the fairness of the wage that a worker is paid by benchmarking whether wages: are paid regularly and on time, include the legal minimum, allow decent living standards, reflect a worker's performance and skills, reward overtime, follow price increases paid for the products they are making, are linked to their employer's profits and sales, reflect changes in work technology, are negotiated individually or collectively with workers, are clearly and formally communicated to workers.

As a responsible business, we do not want the workers employed in our supply chain to face hardship in their daily lives. Our aspiration, as set out in the core principles of our Workplace Standards, is that workers earn enough for their basic needs and also have income remaining to cover their discretionary spending as well as savings. We seek business partners who progressively raise employee living standards through improved wage systems, benefits, welfare programmes and other services which enhance quality of life.



Wages in Eastern Europe

We have sought to address and improve supplier wages in Eastern Europe through wage assessments and in-country collaborations. To illustrate this, we have set out below our approach to wage-setting in Ukraine and Georgia; two of the countries highlighted in CCC's 'Made in Europe' report.

Several years ago, a decision was taken to source apparel from Georgia. This triggered a due diligence process, which considered working conditions and wages in the country. Our pre-production risk assessment flagged that the legal minimum wage had not been updated by the government since 1996. That was unacceptable to us and we reached out to other brands actively sourcing in Georgia, and to the FLA, to help us define a decent wage for our prospective suppliers. The pool of stakeholders was further expanded to include the American Embassy, Georgian Ministry of Labour, Georgian Ministry of Economics, ILO, and the trade union confederations in the country. The final outcome was the fixing of an industry wage for our newly onboarding suppliers, which was 12 times higher than the government-mandated minimum wage. To complement these actions, we also offered guidance to the Ministry of Labour on ways to improve the national labour law and provided training to their labour inspectors, again in collaboration with ILO, FLA and other leading brands.

We have conducted a similar wage benchmarking exercise in the Ukraine. Our focus on wages in Ukraine was triggered by the introduction of a new military tax and currency fluctuations (primarily devaluation) due to unrest in the country. We reached out to the Ukrainian statistics office to obtain nationwide wage data and, in parallel, conducted wage surveys in each of our partner' factories. From the combined data, we created a wage map. The mapping showed that our manufacturing partners were already paying a prevailing industry wage, one that was significantly higher than the legal minimum wage. The research also confirmed that our suppliers had taken it upon themselves to absorb the costs of a mandatory 'war tax' that was being levied against employees. They did so, to safeguard the workers' take-home pay.

We trust these examples demonstrate the positive approach we take to the question of fair wages in our supply chain in Eastern Europe.

Sincerely,

William Anderson
Vice President
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