



FAIR LABOR  
ASSOCIATION®

## INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANIES: adidas  
COUNTRY: China  
ASSESSMENT DATE: 09/17/20  
ASSESSOR: Openview  
PRODUCTS: Apparel  
NUMBER OF WORKERS: 1229

## Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

FLA Code Element	Number of Violations
Compensation	1
Hours of Work	3
Employment Relationship	4
Health, Safety, and Environment	6
Nondiscrimination	2

## Findings and Action Plans

### FINDING NO.1

#### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Recruitment, Hiring & Personnel Development

##### Finding Explanation

1. The job application form includes questions regarding age and gender, which may lead to discrimination during the recruitment process. There has been no evidence of discrimination in practice. [ND.2.1]

##### Local Law or Code Requirement

The China Labor Law, Article 12. FLA Workplace Code (Non-Discrimination Benchmark ND.2)

##### Recommendations for Immediate Action

1. Remove discriminatory questions from the job application form. Employment decisions are to be made solely on the basis of a person's qualifications and abilities.

### FINDING NO.2

#### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Compensation

##### Finding Explanation

1. There are a total of 1,452 workers including 39 retired but re-recruited and 89 new hires in the factory. The factory provides five types of social insurances, including work-related injury, unemployment, medical, maternity and pension insurances, to all 1,324 eligible workers. However, the factory contributes to the five types of social insurances based on the local minimum requirement of CNY 2,593

(USD 381) per month, which is not in line with the legal requirement of contribution based on workers' average monthly wage of the previous year. About 50% of workers' average monthly wages of previous year were higher than the local minimum contribution base, ranging from CNY 2,600 (USD 382) to CNY 6,000 (USD 882). [C.10.1]

2. The factory does not provide the legally required Housing Provident Fund to all eligible workers. According to Housing Provident Fund receipt and name list for August 2020, the factory contributed to the Housing Provident Fund for 43 out of 1,324 eligible workers (3%). [ER.22.1]

3. The contribution base of the Housing Provident Fund is not in line with the legal requirement. The factory contributes to Housing Provident Fund based on CNY 1,480 (USD 219) per month, which is not in line with the legal requirement of contribution based on workers' average monthly wage of previous year. All 43 workers' average monthly wages of the previous year were higher than CNY 1,480 (USD 219), ranging from CNY 3,000 (USD 444) to CNY 6,000 (USD 888). [ER.22.2]

#### Local Law or Code Requirement

Social Insurance Law of the PRC, Article 12 and Article 60; Regulations on Management of Housing Provident Fund, Article 15 and Article 16. FLA Workplace Code (Compensation Benchmark C.10; Employment Relationship Benchmark ER.22)

#### Recommendations for Immediate Action

1. Contribute to social insurance based on workers' average monthly wage of previous year.
2. Provide all workers with the legally required Housing Provident Fund.
3. Contribute to the Housing Provident Fund based on workers' average monthly wage of the previous year.

### FINDING NO.3

#### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Hours of Work

##### Finding Explanation

1. Overtime hours exceed the legal limit of 36 hours per month. Time records for the period from September 2019 to August 2020 and worker interviews indicate that the monthly overtime hours for 50% to 90% of workers exceeded 36 in all reviewed months except February 2020, with a maximum of 98 hours in August 2020. [HOW.1.1, HOW.8]
2. Working hours exceed 60 hours per week in the past 12 months. Time records for the period from September 2019 to August 2020 and worker interviews indicate that about 90% of workers worked 66.5 hours in the week from January 13 to 19, 2020. As per factory management, it was because of the tight production schedule before the Chinese New Year holiday. [HOW.1.3, HOW.8]
3. The factory did not provide workers with one day off in one week in the past 12 months. Time records for the period from September 2019 to August 2020 and worker interviews indicate that about 90% of workers worked ten consecutive days from January 13 to 22, 2020. As per factory management, it was because of the tight production schedule before the Chinese New Year holiday. [HOW.2]
4. The factory sets the production plan based on 48 to 60 hours per week (2 overtime hours per day on up to 5 workdays and 8 to 10 overtime hours on Saturday). Factory management sets production targets and production system at a level that workers need to work 8 to 12 overtime hours per week. [ER.24]

#### Local Law or Code Requirement

The China Labor Law, Article 38 and Article 41. FLA Workplace Code (Employment Relationship Benchmark ER.24; Hours of Work Benchmarks HOW.1, HOW.2 and HOW.8)

#### Recommendations for Immediate Action

1. Ensure overtime hours do not exceed the legal limit of 36 hours per month.
2. Ensure total working hours do not exceed 60 in a week.
3. Provide workers with at least one day off (24-consecutive hours of rest) for every seven-day work period.
4. Set the production plan based on regular working hours. Adjust production targets so that workers do not need to work overtime to meet them.
5. Ensure that overtime is not included as a general practice into the factory's production planning. FLA affiliate Company's Sourcing and Social Compliance teams should:

- 1) Implement FLA Principles of Fair Labor and Responsible Sourcing and

2) Accordingly coordinate on the topics mentioned below to help the factory address its excessive hours issue:

a. How to provide better order forecasts to the factories;

b. Possible workshops/consultancy for the factory on how to improve productivity/quality;

c. Clear guidelines on how to extend shipment deadlines in case of contingencies;

d. Steps that factory management must follow if overtime is inevitable (steps for how to communicate with the brand's Sourcing and Social Compliance teams);

e. Clear guidelines on the calculation and setting of reasonable production targets that will not demand work beyond regular working hours or during breaks;

f. Clear guidelines on how and when the factory can use subcontractors and/or temporary workers to avoid excessive overtime.

## FINDING NO.4

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Industrial Relations

##### Finding Explanation

1. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All-China Federation of Trade Unions (ACFTU). According to the International Labor Organization (ILO), many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements. [FOA.2, FOA.10]

##### Local Law or Code Requirement

FLA Workplace Code (Freedom of Association Benchmarks FOA.2 and FOA.10)

## FINDING NO.5

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Health & Safety

##### Finding Explanation

1. The factory has not installed the exit sign or emergency light at one out of three emergency exits in the raw material warehouse. In addition, the factory has not installed emergency lights for the three outdoor evacuation stairways in both dormitory buildings. [HSE.5.1, HSE.25.1]

2. The factory has one 2-story dormitory building and one 2-story dormitory and canteen building. The factory has not centralized the two fire alarms in the dormitory and canteen building. In addition, all fire alarms in both buildings are without backup battery power. [HSE.5.1, HSE.25.1]

3. One evacuation aisle in the cutting workshop is blocked with the cutting machine and heating equipment. [HSE.5.1]

4. The factory has provided PPE training to workers and installed eye shields on all sewing machines. However, about 10% of workers

move the eye shields away when operating sewing machines. [HSE.14.2]

#### Local Law or Code Requirement

The Code of Design on Building Fire Protection and Prevention, Article 10.1.6 and Article 10.3.1; The China Fire Prevention Law, Article 28; The Code of Design of Manufacturing Equipment Safety and Hygiene, Article 6.1.6. FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.5, HSE.14 and HSE.25)

#### Recommendations for Immediate Action

1. Install exit signs and emergency lights on all emergency exits in the raw material warehouse. Install emergency lights for all three outdoor evacuation stairways in both dormitory buildings.
2. Install the centralized fire alarm system with backup battery in the dormitory area.
3. Ensure all evacuation aisles are unblocked and free from obstruction.
4. Provide more training on machine safety and supervise workers to use machine safety guards properly during working hours.