

## KNOWTHECHAIN | QUESTIONS REGARDING FORCED LABOUR RISKS IN YOUR COMPANY'S LEATHER SUPPLY CHAIN

In countries including but not limited to Pakistan, Bangladesh and India, leather processing is characterised by hazardous and poor working conditions, which may be early indicators or eventually lead to forced labour.<sup>1</sup> In countries including India and China forced labour risks have been documented. Through this questionnaire, KnowTheChain would like to get a better understanding of how your company is addressing risks related to forced labour specifically in its leather supply chain.

In answering these questions, please indicate where your company's policies or practices specifically apply to cattle sourcing, leather processing or leather goods manufacturing countries at risk of forced labour and human trafficking such as **Brazil, China and India**<sup>2</sup> or other countries where you might have identified forced labour risks.

*Please note the information in blue indicates relevant existing disclosure identified for your company.*

### Traceability:

#### 1. Leather goods manufacturing:

- a. In which countries does your company and/or your suppliers manufacture leather goods (option to indicate percentage or volume of supply from each country)?

- For footwear, adidas is primarily using leather in production facilities located in China, Vietnam, Indonesia, Myanmar, India and Cambodia. This covers more than 90% of our footwear production. Limited footwear manufacturing is also taking place in a few other countries such as Germany, Brazil and Argentina.

- b. What are the names and addresses of your company's and/or your suppliers' leather goods manufacturers? Please indicate the nature of your relationship to them, e.g. direct owned or purchasing only (option to indicate workforce data you deem relevant, such as workforce composition (e.g. percentage of informal/migrant/female workforce) or rate of unionisation). What are the names of the persons legally responsible for the production facilities?

- The vast majority (i.e. over 90%) of leather is used in making footwear, accessories (gloves, belts and bags) and hard goods (including football) products. All these **Tier 1 factories** are publicly disclosed, see: <http://www.adidas-group.com/en/sustainability/compliance/supply-chain-structure/> and for **T2 wet process suppliers** see:

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<sup>1</sup> Associated Press (2017) - [Report examines grim Bangladesh leather trade, links to West](#); India Committee of the Netherlands (2017) - [Do leather workers matter?](#); Undark (2017) - [Skin Deep: Feeding the Global Lust for Leather](#); SOMO (2016) - [Hell-bent for leather. Labour conditions in the leather industry in Pakistan](#); Human Rights Watch (2012) – [Toxic tanneries](#).

<sup>2</sup> The [US Department of Labor](#) identified risk of forced labour in the cattle industry in Brazil, the leather industry in China, as well as related to sourcing leather goods / accessories from India.

[http://www.adidas-group.com/media/filer\\_public/e1/be/e1bea106-29a3-41bd-8546-7d23108bc578/t2\\_suppliers\\_may\\_2016.pdf](http://www.adidas-group.com/media/filer_public/e1/be/e1bea106-29a3-41bd-8546-7d23108bc578/t2_suppliers_may_2016.pdf)

2. Leather processing / tanneries:

a. In which countries does your company and/or your suppliers process and produce leather?

- Hides are a by-product of slaughtering animals for meat. 85-90% of our leather consumption is on bovine hides sourced from USA, Argentina, Brazil, Paraguay and Uruguay. Another 10-15% is pig leathers from USA and Japan. 1% is from Europe. The volume tanneries that source the bovine hides are in China, Vietnam, Thailand, Indonesia and Taiwan. They are the ones who finally deliver the leather to our Tier 1 footwear suppliers.

b. What are the names and addresses of your company's and/or your suppliers' tanneries? Please indicate the nature of your relationship to them, e.g. direct owned or purchasing only (option to indicate workforce data you deem relevant, such as workforce composition (e.g. percentage of informal/migrant/female workforce) or rate of unionisation). What are the names of the persons legally responsible for the production facilities?

- No tanneries are adidas-owned, nor do we purchase directly from them. We are one of the few companies in the industry that nominate exactly which tanneries our Tier 1 suppliers can purchase from – and do not allow them to purchase leather from non-approved suppliers. We have decades-long relationship with most of our tanneries.
- The leather tanneries are earmarked for inclusion in the labour monitoring audit scope from 2018 onwards and are already disclosed publicly, see [http://www.adidas-group.com/media/filer\\_public/e1/be/e1bea106-29a3-41bd-8546-7d23108bc578/t2\\_suppliers\\_may\\_2016.pdf](http://www.adidas-group.com/media/filer_public/e1/be/e1bea106-29a3-41bd-8546-7d23108bc578/t2_suppliers_may_2016.pdf)
- Note that we do not name specific factory managers/company directors in our disclosure processes as they can change over time.

Adidas has mapped the general material flows, by country, for Tier 3 raw material sources with a specific focus on natural materials (cotton, leather and rubber). The adidas Group uses processed leather materials primarily in footwear products and specifies its leather materials with leather suppliers.

The [India Committee of the Netherlands](#) notes that adidas is one of only two brands that publicly disclosed the tanneries on their corporate website.

Disclosure of supplier names, including in lower tiers: <http://www.adidas-group.com/en/sustainability/compliance/supply-chain-structure/>

**Purchasing practices:**

3. How does your company use its leverage to influence its leather supply chain with regards to labour practices and/or reward suppliers with good labour practices?

- The global leather industry tans about 20 billion square feet of bovine leather annually. In 2016, adidas purchased roughly 130 million square feet or 0.6% of the total. In addition, the hides account for about 5% of the revenue generated from the cattle at slaughter. So, the economic impact of our leather purchase is approximately 0.03% of the global bovine industry, spread across 5 sourcing countries, thus limiting our overall leverage to effect change. This is not unique to adidas. The leather industry as a whole has limited leverage at the farm level as the economic driver for raising cattle is the value of their meat, not in their hides.
  - We are not currently involved in the direct monitoring of labour conditions in this 3<sup>rd</sup> Tier of the supply chain, which is geographically dispersed and often lacks traceability to a ranch level. Multi-stakeholder collaboration is therefore the preferred approach, with close engagement with the intermediaries that process and supply raw materials, such as the main tanneries that produce leather from imported hides.
  - In 2016 we called for NGOs interested in forging partnerships to address forced labour concerns in the leather industry in Paraguay and Brazil (which are rated as the highest risk locations) to [reach out to us](#). We have also had engagement with NGOs and the government in Brazil which has as its focus forced labour in manufacturing supply chains. Further detailed mapping is required to scope the stakeholder landscape that is engaged in labour practices in this area. This will commence later in 2017.
4. How does your company ensure its labour standards are cascaded down its leather supply chain beyond tier 1 suppliers?
- Through direct engagement. See above.
  - adidas' Modern Day Slavery Outreach programme involves directly engaging with our material Tier 2 suppliers including tanneries who undergo direct training on forced labour indicators and how to address and manage these risks.
  - Our key T2 material suppliers from Taiwan and China have already undergone this training in 2016 and this will be progressively rolled out to other tanneries from identified hot spot (i.e. high risk) locations. And by 2018 our main tanneries will be incorporated into our mainstream labour monitoring programme.

**Worker voice:**

5. Grievance mechanisms: Does your company ensure workers in its leather supply chain have access to grievance mechanisms? If yes, please explain what mechanisms are available for workers in both owned and third party leather goods production facilities and tanneries. Please also explain how your company ensures those mechanisms fulfil the [effectiveness criteria under the UN Guiding Principles for Business & Human Rights](#), e.g., they are trusted and used by workers.

- We have a robust grievance mechanism that is operational globally, with hotlines operating in all our Tier 1 sourcing countries. We also have a general complaints mechanism available for any third party complaint related to human rights, labour rights or environmental issues linked to adidas. Workers and/or their representatives can also lodge complaints through the Fair Labor Association third party complaint mechanism, or the OECD MNC National Contact Points system. For more information, see: [http://www.adidas-group.com/media/filer\\_public/49/b3/49b3e456-5a3d-4439-a3cb-c37fe4c9e2f0/summary\\_of\\_third\\_party\\_complaint\\_process\\_adidasgroup\\_march\\_2017.pdf](http://www.adidas-group.com/media/filer_public/49/b3/49b3e456-5a3d-4439-a3cb-c37fe4c9e2f0/summary_of_third_party_complaint_process_adidasgroup_march_2017.pdf)
- In terms of fulfilment of the UNGP effectiveness criteria, we would note that that our own third party complaint mechanism was originally developed through an extensive stakeholder dialogue in the lead up to the 2012 London Olympics and based on that feedback was designed to be UNGP compatible. To our knowledge, we are the only company globally that discloses the specifics of each case it examines and we generate an annual report on progress; see Due Diligence Approach tab at: <http://www.adidas-group.com/en/sustainability/compliance/human-rights/#/richtlinien/>
- The Fair Labour Association third party complaint mechanism has operated for close to 20 years and has a good track record in terms of both independence and resolution of labour rights issues for workers. All of FLA's programmes have been independently reviewed for their alignment to the UNGP. See <http://www.fairlabor.org/blog/entry/implications-un-guiding-principles-business-and-human-rights-fair-labor-association>. The National Contact Points operate within the framework of the OECD's Multinational Guidelines, which incorporate the UN Guiding Principles.
- We are extending the scope of our mainstream labour monitoring and social compliance program to include Tier 2 suppliers in a staged manner. This would mean that workers are provided with grievance platforms to voice their concerns and suggestions with the factory management.

6. Worker engagement and empowerment: How does your company ensure that workers in its leather supply chain know about, and can exercise their rights (e.g. freedom of association or, where there are regulatory constraints for freedom of association, alternative means of organising)?

- Suppliers using leather in finished goods falls under our direct labour monitoring programme and are subject to regular engagement and training by our Social and Environmental Affairs department on labour rights and the need for this to be embedded in worker on-boarding processes. Tier 2 tanneries are included in our Modern Slavery Outreach programme that builds awareness and knowledge of

suppliers to ensure that they operate free of any forced labour or child labour. Tier 3 raw material suppliers are part of a modern slavery strategy with a multi-stakeholder focus. See response to Q.10.

**Monitoring / certification:**

7. Do you participate in sustainable leather sourcing / certification?

- adidas does not source raw materials from any endangered or threatened species, as defined by the International Union for Conservation of Nature and Natural Resources (IUCN) in its red list. And our policy also prohibits using leathers from animals that have been inhumanely treated, whether these animals are wild or farmed.
- The [Leather Working Group \(LWG\)](#) is a group of brands, retailers, product manufacturers, leather manufacturers, chemical suppliers and technical experts that was created in 2005 to develop an environmental stewardship protocol specifically for the leather manufacturing industry. Adidas was a founding member and is an active participant in the LWG. The environmental protocol that was developed for tanneries is updated regularly.
- Tanning is a key process of making leather from the skins of animals, the hides. The tanning process uses chemicals and considerable amounts of water. The Leather Working Group has developed guidelines for how our leather suppliers should measure the environmental performance of their tanneries. We require all our leather suppliers to use these guidelines, known as the 'audit protocol', and we also stipulate that audits are carried out at all tanneries that supply leather to us. Based on the outcome of this evaluation, they are rated as Gold, Silver or Bronze. We have made a commitment not to source from tanneries unless they have reached at least a Bronze level.
- LWG qualification is important for tanneries outside of heavily regulated and well-enforced regions in North America and Europe. In practice, any tannery in Asia must have an LWG medal rating – while it is not required for European tanneries because they are understood to be well managed and non-polluting. 99% of our total leather consumption (and 100% of our Asian-sourced leather) is tanned by facilities with a rating. More than 98% achieves gold or silver.
- It is important to note that there is no agreement on the definition of "sustainable leather." In the absence of this, the LWG enforces an environmental protocol.

8. If yes, how does the verification initiative/certification address labour rights, and how does your company ensure labour standards are adequately covered?

- The LWG is primarily geared towards environmental stewardship. We are currently in the process of identifying partners and/or multi stakeholder initiatives that are engaged in ensuring good labour practices on the ground.

- In the case of Brazil, leather suppliers need to ensure that leather only comes from cattle raised at farms which meet with the requirements of the country's *National Pact on the Eradication of Slave Labour*. Suppliers listed by the Ministry of Labour and Employment as being involved with employing slave labour on farms shall be suspended immediately. See <http://www.adidas-group.com/en/media/news-archive/press-releases/2009/updated-statement-sourcing-leather-brazil/>

Leather suppliers need to ensure that leather only comes from cattle raised at farms having signed Brazil's National Pact on the Eradication of Slave Labour, supported by the International Labour Organization (ILO). Suppliers listed by the Ministry of Labour and Employment as being involved with employing slave labour on farms shall be suspended immediately. (<http://www.adidas-group.com/en/media/news-archive/press-releases/2009/updated-statement-sourcing-leather-brazil/>)

**Stakeholder engagement:**

9. Does your company actively participate in one or more multi-stakeholder or industry initiatives focused on forced labour and human trafficking or work with peer companies to address risk in high risk regions/clusters of tanneries or manufacturers?
  - We are currently in the process of engaging with Solidaridad and the ILO to understand labour sustainability practices and explore areas for engagement around leather sourcing.
  - We are also trying to understand the role of multinational meat processing companies in driving responsible labour standards at large slaughter houses and tanneries where the first level processing of the hides take place. Post a recent engagement with JBS S.A., the largest meat processing company in the world, we have learnt from them the key issues on the ground which has further informed our approach and engagement strategies.
  - We have been a member of the Fair Labor Association since 1998 and our labour monitoring programme is accredited by the FLA. Although leather production has not been a focus area for the FLA, the organisation is very active in supporting labour rights in the Americas, Europe and Asia, in some cases to a farm level.
10. If so, please specify who you work with and how you address forced labour risk related to leather sourcing.
  - See above.
  - adidas' Modern Day Slavery Outreach programme involves forging partnerships with its 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. ([http://www.adidas-group.com/media/filer\\_public/52/da/52da31a6-93d0-4e01-a4d5-e3d96fef949/adidas\\_group\\_response\\_to\\_knowthechain\\_20june2016.pdf](http://www.adidas-group.com/media/filer_public/52/da/52da31a6-93d0-4e01-a4d5-e3d96fef949/adidas_group_response_to_knowthechain_20june2016.pdf))

- The programme includes forging multi-stakeholder partnerships and collaborations with Fair Labor Association, International Labour Organisation, civil society groups and other brands to jointly address risks associated with leather and rubber sourcing from hot spot countries. Hot spot countries identified in the extended supply chain include leather tanneries in Tier 2 in China, Indonesia and Vietnam, as well as leather hides suppliers in tier 3 in Brazil and Paraguay. See <https://business-humanrights.org/en/adidas-modern-slavery-summary-of-risk-assessment-and-invitation-for-stakeholder-engagement>

Supplier training and risk assessment:

Adidas' Modern Day Slavery Outreach programme involves forging partnerships with its 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. ([http://www.adidas-group.com/media/filer\\_public/52/da/52da31a6-93d0-4e01-a4d5-e3d96fef949/adidas\\_group\\_response\\_to\\_knowthechain\\_20june2016.pdf](http://www.adidas-group.com/media/filer_public/52/da/52da31a6-93d0-4e01-a4d5-e3d96fef949/adidas_group_response_to_knowthechain_20june2016.pdf))

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<https://business-humanrights.org/en/adidas-modern-slavery-summary-of-risk-assessment-and-invitation-for-stakeholder-engagement>

### **Additional information**

Please provide any additional information regarding how your company addresses forced labour risks in its leather supply chain (e.g. related to risk assessment and due diligence, supplier training, recruitment) or regarding your company's supply chain structure which you think is relevant.

### **Background information:**

This questionnaire has been sent to the following companies:

- Footwear companies: Belle International, adidas, Nike, Kering (Puma), VF (Timberland)
- Luxury brands: Hugo Boss, Prada, Kering (Alexander McQueen, Balenciaga, Brioni, Gucci, Saint Laurent Paris, etc.), Ralph Lauren, PVH (Tommy Hilfiger, Michael Kors, Calvin Klein)

Please note your response will be made public on the [Business & Human Rights Resource Centre website](#). In addition, KnowTheChain will publish a short analysis to highlight better practices, as well as companies and areas where disclosure is limited. For an indication of what KnowTheChain regards as better practices, please review the [methodology](#) and the [findings report](#) of [KnowTheChain's apparel & footwear benchmark](#).