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		01	Approval Date: July 01, 07
	Social & Environmental Affairs Factory Termination Standard Operating Procedure		Effective Date: Dec 01, 07
			Effective Until Replaced

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Departments Affected:
Global Operations
All adidas Group Sourcing entities including licensees and agents
SEA staff

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01	July 07	All new	all

Notes:

1 Purpose

The Social & Environmental Affairs (SEA) department’s work is remedial in nature. SEA does not use punitive action as the first step for non-compliance. Many opportunities are given to a supplier to remedy compliance issues before SEA recommends to Sourcing that they should terminate a business relationship. The termination of a supplier solely for poor compliance is therefore infrequent and is usually the result of long-term non-performance or the breach of specific Zero Tolerance issues.

Most decisions to significantly reduce or cancel orders, or terminate a business relationship, are due to actions taken directly by the adidas Group Sourcing entities.


No matter what the reason for the termination of a supplier relationship, or however it is phrased (i.e. downsizing the supply chain, phasing out, or consolidation), the SEA team should always be notified in advance as it may result in substantial lay-offs or the closure of a factory.

Poorly managed closures may trigger worker protests or trade union action. Poorly handled closures or downsizing may lead to complaints to government agencies, to international bodies such as the ILO or the OECD, or trigger NGO or activist campaigns all of which will lead to adverse publicity and impact on the reputation of the adidas Group and its family of brands. Responsible planning with SEA engagement will minimise this risk.

The purpose of this SOP is to describe the key requirements to be followed when terminating a business relationship and to ensure that the actions are undertaken in a transparent and ethical manner.

2 Scope

This procedure is applicable to all adidas Group Sourcing entities, agents and licensees that hold direct business relationships with suppliers and factories.

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3 Procedure

3.1 Early Notification to SEA

Termination or Closure

Whenever adidas Group Sourcing managers, our agents or our licensees terminate a factory relationship, or are notified by a supplier that they are closing a factory for business or financial reasons, SEA should be notified immediately. Please e-mail the SEA Head for your region, or contact the SEA staff member assigned to work with your business unit.

The responsible business unit should then work with SEA to identify the impact on the factory's workforce, and take appropriate action to make sure that the termination or closure minimises any negative impact on workers.

Downsizing Orders

Where a factory is not directly being terminated (and orders are to be significantly reduced) but there exists a high degree of dependence on adidas Group entity orders, then SEA should also be consulted. Please e-mail the SEA Head for your region, or contact the SEA staff member assigned to work with your business unit.


As a rule of thumb, annual order volumes that exceed 15 to 20% of a factory's annual capacity indicate a high level of dependence.

3.2 Letter of Expectations

If the planned termination or downsizing is likely to result in worker lay-offs or factory closure, SEA will normally issue a letter to the supplier, asking them to investigate all possible alternatives to lay-offs or closure, and detailing both our expectations and legal requirements for the ethical treatment of workers. Our expectations include:

1. Ensure laid-off workers are selected objectively. Criteria for selecting employees to be laid off must not infringe upon accepted international or national labour standards. These include union membership or activity, pregnancy, race, sex, age, or religion. Criteria generally accepted to be fair include length of service, skills and qualifications.
2. Ensure workers receive full and timely payment of all monies owed to them (wages, unused leaves, social security, severance, retirement, etc.) by the date of termination, in accordance with contract terms and local law.
3. Notify workers in advance of the factory closure, both orally and in writing. Communication must include the anticipated closure date and relevant factory policies and procedures surrounding the closure, as well as worker rights and responsibilities under the process.
4. Suppliers shall ensure that the factory maintains all required and relevant documentation necessary to demonstrate and verify compliance with contract terms and local law for worker wages, worker benefits and termination practices.
5. Where relevant, worker representatives should be consulted on all aspects of the factory closure.
6. While the factory continues to operate, the supplier must meet the compliance requirements outlined in the adidas Group Workplace Standards.

The above expectations may also be written into the formal termination notices which are prepared and issued by the adidas Group's Legal teams, when notifying a supplier, agent or licensee of the termination of a business relationship.

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3.3 Proper Management of a Closure

When a factory is terminated, important SEA considerations are:

1. Proper internal communication with the workers and trade union, if one exists.
2. Legal obligations under existing contracts and collective bargaining agreements.
3. Termination pay (severance) and other benefits due to the workers.
4. The schedule for the lay-offs.
5. Final implementation of important SEA action plan items for factories that will continue their operations despite an end to business with the adidas Group.

Whatever the cause for a factory closure, we expect the factory management to act responsibly and fully comply with the local labour law, and in terms of the notification and payment of severance to the workers and other employees, e.g. administration staff or management personnel. We would also expect that they consider other possible steps or actions to ease the situation for the workers who are being made redundant. An example would be to extend medical care or medical insurance or other benefits for workers and their families for a period after the closure or downsizing.

3.4 Information to be Submitted to SEA


Where a factory closure or worker lay-offs are unavoidable, SEA expects the following information and plans to be prepared by the supplier and shared with SEA field staff.

1. **Employee Details:** A full list of the permanent employees and/or contract workers who will be affected. These lists should detail the age and marital status of the workers and their length of service with the factory. In addition, we would like to know whether there are any married couples who are employed by the factory. If they both lose their jobs they may face special hardship.
2. **Severance Plan:** A calculation of the pay and benefits to be paid to each employee or contract worker based on their length of service at the proposed date of closure.
3. **Communication Plan:** Describing when and how the workers will be notified of their redundancy. How will the message be delivered – by letter, following an announcement and a meeting? Who will counsel the workers and answer their questions? Will the Personnel Manager play this role?
4. **Crisis Plan:** Outlining the actions the management would take, for example, if the workers protest about the closure or approach the media.

SEA field staff will monitor the closure and verify the actions taken by the factory management through a review of documents and interviews with workers and worker representatives. When necessary and where agreed to by SEA, the monitoring of the closure and impact on workers may also be undertaken by a third party monitor or NGO.

3.5 Engagement with Government, NGOs and Others

Where large-scale factory closures take place, the SEA team may work with the relevant business entity to develop specific communication plans and media strategies, with support from adidas Group Corporate Communications. In complex cases, an internal Crisis Management Team may be formed with the business entity and external PR consultants retained to support and advise on local media relations in the country affected by the closures.

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Based on assessment of the risks presented to the Group, SEA may directly engage with the local government, trade unions, NGOs and seek the support of consulate staff from the US and German Embassies or the expertise of the ILO or other international agencies.

In most if not all instances, we will engage with, or report to, the Fair Labor Association (FLA) and complete the obligations of FLA Participating Companies.

3.6 Other Special Measures

It is the adidas Group's position not to accept responsibility for the legal duties and obligations of our business partners. Where a factory closes, or where workers are to be laid off, it is the individual factory which is responsible for the payment of severance and for any other legal benefit owed to their workers. In exceptional circumstances, however, SEA may recommend that a Sourcing entity provide emergency relief, medical care, or other forms of humanitarian aid to workers and their families. In such cases, SEA will work with the Sourcing entity and local NGOs to design and deliver such aid.

4 Related Policies and Procedures

This procedure describes the SEA protocol for terminating a factory and should be read in conjunction with the SEA Enforcement Guideline which defines the ground for SEA-recommended terminations.

5 Definitions and Abbreviations

Abbreviation	Full Name
FLA	Fair Labor Association
ILO	International Labour Organisation
LO	Liaison Office
NGO	Non-Governmental Organisation
OECD	Organization for Economic Cooperation and Development

6 Appendices

None.

7 Key Words

SEA; Factory Termination; Closure; Factory Downsizing; Order Cancellation