June 1, 2010

Summary Report:
Third Party Complaint Regarding Chi Fung, El Salvador

Complaint

On March 1, 2010, the Fair Labor Association (FLA) received a Third Party Complaint (3PC) from several workers (who requested that their names remain confidential) regarding the factory Chi Fung S.A de C.V, in San Salvador, El Salvador. The 3PC alleged a range of violations of labor standards and of the FLA Workplace Code of Conduct at the factory.[1] In particular, the complaint alleged non-compliances with the following FLA Workplace Code of Conduct Elements and relevant Compliance Benchmarks:[2]

- Forced Labor [Benchmarks F.13 and F.14];
- Harassment and Abuse [Benchmark H&A.11];
- Health and Safety [Benchmarks H&S.22, 23, and 24];
- Wages and Benefits and Overtime Compensation [Benchmark WBOT.8].

The complaint identified FLA-affiliated companies adidas (Reebok) and M. J. Soffe as being active in Chi Fung.

In accordance with the FLA Third Party Complaint Procedure, the FLA assessed the complaint and made the determination to accept it for review and to move it to Step 2 of the Procedure.[3] On March 11, adidas and M. J. Soffe were notified about the acceptance of the 3PC.

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[1] The specific allegations mirrored those contained in a report of labor conditions at the factory by the National Labor Committee (NLC) dated February 4, 2010, which can be found at http://www.nlcnet.org/admin/reports/files/NFL_Reebok_Fumble_2010-1.pdf. The Business & Human Rights Resource Centre compiled statements and responses from the NLC, the brands, and the factory, surrounding this case, which can be accessed at http://www.business-humanrights.org/Documents/NLCreportreChiFung.

[2] Go to http://www.fairlabor.org/images/WhatWeDo/compliance_benchmarks.pdf to view the FLA Workplace Code of Conduct and Compliance Benchmarks.

[3] Step 2: Informing the Company or Licensee--The Executive Director will inform the company that a complaint has been filed against it and provide the company with the information supplied by the complainant. The FLA will also provide a preliminary indication as to which Workplace Standards are potentially non-compliant. The company then has up to 45 days either to request that the process go

Assessment by Companies

adidas and M. J. Soffe separately investigated the Third Party Complaint. adidas commissioned an investigative team on February 23 consisting of independent experts on law and legal procedure, records review, business administration, health and safety, and psychology; it conducted its work from February 26 to March 18. The investigative team was provided access to the factory as well as to factory management, records, and workers for confidential interviews. The work of the investigative team confirmed a number of the allegations raised by the complainants. In particular, the report issued by the investigative team[4] found:

- Violations of national law regarding overtime compensation for some workers;
- Mandatory overtime work;
- Verbal harassment of workers by supervisory staff;
- Unkempt bathrooms, insufficient supplies of toilet paper and soap, and numerous other health and safety violations throughout the factory;
- Coaching of workers by supervisors prior to audits by the brands; and
- Savings plan inconsistent with national law and irregularities in the process of repayment of loans.

Based on the companies' findings, adidas and M. J. Soffe worked with Chi Fung management to develop a joint remediation plan to address the non-compliances. During the week of May 10, adidas representatives discussed the plan in San Salvador with stakeholders, including the local representative of the NLC.[5]

Conclusion and Next Steps

On May 15th, FLA staff met in San Salvador with the complainants and discussed in detail the findings of the report commissioned by adidas and the remediation plan that had been developed by the brands and the factory. The complainants expressed satisfaction with the outcome of the investigation and the content of the remediation plan. They mentioned that positive changes in the factory stemming from the implementation of the remediation plan had already occurred. In subsequent communications with the FLA, the complainants restated the positive changes at the workplace and asked the FLA to continue to provide oversight over the implementation of the remediation plan to avoid potential backtracking.

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directly to Step 3 or to investigate the alleged noncompliance internally. More information about the steps involved in a Third Party Complaint investigation are described in the FLA Charter available on the FLA Web site at: http://www.fairlabor.org/about/charter.

[4] Copies of the original report in Spanish and of an English translation presented to the FLA by adidas are being made available publicly for transparency purposes. This report was commissioned by adidas.

[5] On May 4, 2010, the NLC published a short report discussing the findings of the investigative team and presenting highlights of the remediation plan. See http://www.nlcnet.org/alerts?id=0012. The full remediation plan in English and Spanish, as submitted by adidas and M. J. Soffe to the FLA, is also being made available publicly for transparency reasons.

Based on feedback from the complainants and implementation of the corrective action plan, the FLA decided to terminate the case at Step 2 of the FLA Third Party Complaint process. Nevertheless, the FLA recommends that adidas and M. J. Soffe take steps to assure the implementation of the action plan. For its part, the FLA will maintain its due diligence over the application of remedial actions and may reopen the 3PC in part or in whole if necessary.