

FINAL REPORT

Third Party Complaint; Troon Manufacturing (Nicaragua)

December 21, 2016



FAIR LABOR
ASSOCIATION™

On March 7, 2016, the newly formed Carlos Fonseca Amador union at Troon Manufacturing (also known as Pinehurst Nicaragua), located in Tipitapa, Nicaragua, filed a Third Party Complaint with the Fair Labor Association (FLA). The union alleged a number of violations of freedom of association, including management favoring one worker's organization over another and interfering in the formation of a union; hiring discrimination against union members; a bonus system that discriminates against certain workers; and verbal abuse and harassment by supervisors and members of the management team against workers affiliated with a union.

The allegations appeared to violate a number of FLA Compliance Benchmarks in the areas of Freedom of Association, Harassment or Abuse, and Compensation.¹ Adidas-Group, a Participating Company of the FLA, sourced from Troon Manufacturing at the time of the filing of the complaint.

The FLA accepted the case for review, informing adidas-Group of the action,

¹ For example, Freedom of Association Compliance Benchmarks FOA.5, Anti-Union Discrimination/Dismissal, Loss of Other Union Rights and Blacklisting; FOA.12, Employer Interference/Registration; and FOA.13, Employer Interference/Favoritism; Harassment or Abuse Compliance Benchmarks H/A.5, Discipline/Verbal Abuse; and H/A.8.1, Violence/Harassment or Abuse; and Compensation Compliance Benchmark C.19, Compensation Disputes.

and moving the case to Step 2. Pursuant to Step 2, the Participating Company or College or University Licensee has up to 45 days to investigate the alleged noncompliance internally and develop a robust remediation plan.

ADIDAS-GROUP ASSESSMENT AND REMEDIATION PLAN

Adidas-Group conducted an assessment of the allegations. The findings of the assessment, the recommendations for remedial action, and the proposed remediation are as follows:

1. Management favoring one worker's organization over another and interfering in the formation of a union.

The assessment by adidas-Group did not confirm that management – through the Human Resources Department – obstructed the creation of the Carlos Fonseca Amador union and favored another union (“Hasta la Victoria Siempre”) to the detriment of the Carlos Fonseca Amador union. It should be stressed that the Carlos Fonseca Amador union faced a great deal of difficulty in obtaining the requisite recognition from the Directorate of Union Registration within the Ministry of Labor. Despite the lack of formal recognition, Troon Manufacturing management nevertheless maintained a dialogue

with the Carlos Fonseca Amador union and allowed the latter union to post posters and banners during certain holidays to promote its existence.

2. *Discrimination in hiring against union members.*

The adidas-Group assessment concluded that the process of advertising for openings could be improved and made more inclusive, although no evidence of discrimination in employment against former union members was confirmed.

3. *The bonus system discriminates against certain workers.*

In 2015, the factory restructured its bonus system and included a quality component. Although the new system mirrored the system that had already been approved in the collective bargaining agreement in the Pinehurst facility in Honduras, the implementation of the system at Troon Manufacturing was not sufficiently explained to workers. Moreover, because the pay system at the Nicaragua facility was somewhat different from the one in Honduras, adjustments were made to it that were not sufficiently explained to workers.

4. *Verbal abuse or harassment by supervisors and members of the management team against union members.*

Adidas-Group's investigation confirmed allegations of abusive language used by some supervisors and members of the management team, and threat of retaliation against union members. Factory management

has investigated each of the specific allegations brought to its attention, taken remedial action to address supervisor misbehavior, and developed training for supervisors to prevent harassment and abuse.

FLA ASSESSMENT

Since the filing of the Third Party Complaint, the relationship between the Carlos Fonseca Amador union and Troon Manufacturing management improved significantly. The union informed the FLA that management investigated allegations of verbal abuse against workers and provided training to workers and managers on preventing and detecting harassment or abuse. The union also informed the FLA that the concerns about the payment of bonuses had been addressed. Finally, the union informed the FLA that management kept it informed about the economic situation of the factory and the difficult decisions that were impending as a result of sharp reductions in production orders since the first quarter of 2016.

RECENT DEVELOPMENTS

As a result of the aforementioned lack of demand for its products, in October 2016 the Ministry of Labor authorized Troon Manufacturing to lay off 120 workers. As the lack of demand intensified, on November 10, 2016, the Ministry of Labor gave permission to Troon Manufacturing to announce its closure based on economic conditions. Regrettably, on November 14, 2016, Troon Manufacturing management informed its labor force that it would close its doors and end its operations. On November 16, 2016,

the Ministry of Labor approved the permanent closure of the factory and termination of workers.

Troon Manufacturing management informed the workforce that it was committed to ensuring that workers receive all wages and benefits to which they were entitled. Moreover, factory management pledged that special attention would be given to pregnant workers to ensure they are provided with additional health coverage.

FURTHER INFORMATION FROM ADIDAS-GROUP

The FLA called on adidas-Group to work with Troon Manufacturing management to ensure that closure procedures met all requirements of local law and of the FLA Workplace Code of Conduct and periodically inform the FLA about compliance with these commitments.

On December 8, 2016, adidas-Group informed the FLA that, upon the closure of Troon Manufacturing, workers received payment of their outstanding wages and severance-related benefits, which were paid out on November 17-18, 2016. The members of the executive boards of the three trade union organizations recognized in the factory were terminated and were issued their severance payment on the factory's last day of operation, November 18, 2016.

The wages and benefits provided by the factory to workers as part of the severance package consisted of:

- Severance payment and accrued benefits as per Article 45 of the Nicaraguan Labor Code. Workers with less than a year of service received the

accrued proportion.

- Food baskets to each worker similar to what the factory provided during the Christmas season. This basket was also provided retroactively to workers who were retrenched in October.
- Extended medical coverage to 19 pregnant workers and three lactating mothers. Pregnant workers (and their babies), as well as the lactating mothers, would receive medical coverage during the length of the worker's pregnancy and up to six months post-delivery. This benefit will also include baby formula during the first six months of the baby's life.
- As part of their severance package, pregnant workers also received their monthly wages for the remaining term of their pregnancy. This benefit would also be honored for workers who can confirm to factory management that they became pregnant while working at the factory.

The factory will maintain a small local office to help workers find work and to manage benefits for pregnant workers.

CONCLUSION

Regrettably, the economic situation that reduced the demand for Troon Manufacturing's output resulted in the closure of the factory, undermining the work that Troon Manufacturing had carried out to remediate the issues raised in the Third Party Complaint. It is clear that the factory has taken steps to fulfill its obligations to workers pursuant to the closure. In view of these developments, FLA considers this case terminated.