



Dear colleagues,

I'd like to extend my gratitude to Fair Wear and the larger anti-sweatshop community in Australia. Your patience, as our little company has attempted to grapple with the issues of transparent verification of an international supply chain, has been much appreciated. The fact that we built this supply chain on a shoestring certainly hasn't helped expedite matters. The many delays caused by limited resources, inexperience & the difficulties of working across great geographical & cultural differences might have appeared to be stonewalling. Precisely because we are an ideologically motivated company, some of the longest delays arose from uncertainty & internal debate as we attempted to reconcile the practical & the ideological. Thank you for extending us the benefit of the doubt. At this juncture, I'd like to share our conclusions w/ you.

The Bata factory in Jakarta that produces our sneakers is no sweatshop. The audit team of 2005 acknowledged that benefits & pensions at Bata well exceeded the legal requirement. The auditors, after personally inspecting four pay stubs, suggested that Bata might be paying less than legal minimum wage. This May, we asked Urban Community Mission (UCM, a local NGO that had done the rest of the worker surveys for the audit team and has done considerable research in the field) to conduct a broader review of Bata wages. Their study is attached above. On the basis of 40 pay stubs examined and tabulated, UCM concluded that Bata wages were 14% higher than minimum wage. Factoring in the significant rice allowance wage, wages are about 39% above minimum. And the generous rice allowance is just one of many benefits not required by law. Our confidence that this factory is significantly better than the rest of the South East Asian shoe industry has been confirmed. Unfortunately, it appears practically certain that we have to stop sourcing from this good factory. Because of the audit process and its aftermath, the relationship between No Sweat & Bata Management has deteriorated to a point that we cannot continue to do business together. We intend to shift production as quickly as possible to a worker owned cooperative in Argentina. Until then, we will continue to sell from our existing stocks of sneakers from Jakarta in Australia and New Zealand, with full confidence that our commitments to our workers & consumers are being met.

The more difficult and subjective issue is the one of work place democracy and what precisely defines an independent trade union. The audit team was hampered in their work by the fact that my company hadn't established clear standards for what constitutes an independent trade union or even standards for what constitutes an independent audit team. We have subsequently done so, in consultation with leadership from the anti-sweatshop movement, including a member of the audit team.



To meet No Sweat's standards for independent trade unions, the union must:

- **Operate in a competitive national labor environment, with multiple trade unions recognized and operating freely by law.**
- **Have current collective bargaining agreement or union contract available for No Sweat's staff to review.**
- **Have regularly scheduled elections held by secret ballot that are open to monitoring by the ILO (or similarly recognized entity) upon request. Elections should have an open nominating process that is effectively communicated to the membership.**

• No Sweat shall affirmatively determine whether the audit team members are "independent" and free from bias by applying the following criteria:

- **Auditors demonstrate adequate training and proficiency as well as a level of expertise in the particular areas that they are investigating.**
- **Auditors are not directly affiliated with the company or factory that they are inspecting/monitoring.**
- **Auditors cannot have a direct interest (in fact or in appearance) in the outcome of the investigation/monitoring activity, that includes, but is not limited to, being a member of the union at the factory that is being audited, a member of any competing unions, a family member of persons affiliated with any unions present or competing at the factory, a person with an ownership interest in the factory, a friend or family member of a person with an ownership interest in the factory, etc.**
- **Auditors are simply providing contractual rights to No Sweat and are free to own and publish their investigation and findings.**



The SPSI-TSK union local at Bata is definitely an *independent* trade union. It has operated independently of government support since the fall of Suharto in 1998. The Bata local has struck the factory at least once in the last five years. They successfully forced out the previous Bata director and got the workers paid in full for the week they were out on strike. Clearly, this union has the proven will and ability to challenge management.

Whether the union meets our basic standards for democratic function is still undetermined. They did agree with No Sweat and Bata Indonesia's former director (brought in after the last strike) to have ILO observers at their next election and we have unconfirmed reports both that they do and don't have secret ballots. The audit team insisted on the right to choose the ILO observers. The union rejected this demand, along with the contention that the audit team was "independent", noting that the Indonesian team leader was also a leader of a competing union with a long history of conflict with the leader of the SPSI-TSK local at Bata. Management agreed. The fact that the audit report had prominently insinuated that the wages might be less than minimum, when management knew for a fact (as UCM later confirmed) that wages were well above the legal minimum, did nothing to improve the credibility of the audit team in the eyes of Bata management. The insistence that management allow this audit team to conduct training on Bata premises in "workplace democracy" (including how to form a competing union), was regarded as a blatant attempt to involve management in local union politics, contrary to all *labor backed* norms of labor/management relations. It was about this time that some members of the anti-sweatshop movement began a fax campaign directed at CEO Tom Bata insisting that his company allow a leader of a competing union to conduct "worker training" on Bata premises. They also turned the audit team's insinuation into a direct accusation of systematically violating Indonesian minimum wage laws. Tom Bata concluded this was a lose/lose situation & replaced a very sympathetic, cooperative director (the son of a major Canadian labor leader, coincidentally) with its current director, who regards Jakarta as a hardship posting. All communications with Bata Indonesia have since broken down, coupled with rapidly rising prices & worsening terms. So what the ILO observers would have determined remains unknown, to date. It appears highly doubtful that No Sweat will be able to continue working with Bata long enough to answer this question.

Still, we have some anecdotal evidence of the level of worker discontent with the existing union from the audit team's Indonesian leader, Ari Sunarjati. After her



unpaid work as an auditor, Oxfam gave her a grant of \$8000 to conduct training in workplace democracy for the Bata workers. When Bata management decided that holding these on factory grounds would constitute undue interference in union politics, she attempted to conduct training outside the factory. Unable to find interested workers, she returned these funds in the beginning of 2006, claiming the workers were apathetic & uninterested in training because of the immanent closing of the Bata factory. Nine months later, the factory shows no sign of closing, nor have we even heard this rumor from another source. Perhaps the workers are apathetic towards being trained to form a competing union because they are basically content with their working conditions and the union whose collective bargaining team extracts regular improvements every three years. We would have preferred the opportunity to get less anecdotal evidence; ILO observers, for instance. But as mentioned above, it's not likely that we'll be sourcing from Bata when the next union election takes place.

Bata has an interesting history as a uniquely anti-fascist & pro-union company, dating back to middle Europe in the mid 1930s. It was a social enterprise before the term was coined. We had hoped, by our successful example, to help return this once great (and still quite decent) company back to its roots. To help transform the world's second largest shoemaker would have been a giant stride towards No Sweat's core objective—to actually help change the industry. We don't see fair trade primarily as a niche market to capitalize on. We believe the true potential of fair trade is to be a niche with the power to leverage & transform the larger marketplace. This is why we prefer a good solution for the many to a perfect solution for the very few. That's one place where ideology and practicality see eye to eye in this company. We retain our commitment to the belief that an empowered work force is the best hope for a real, long-term solution to the global sweatshop economy. Hopefully, our experience with Bata will prove useful in other difficult and challenging places we'll be sourcing from in the immediate future-- Palestine, Argentina & South Africa. Why go where it's difficult & challenging? That's where the problems are. As activist entrepreneurs, that's where we believe we'll find the real opportunities for growth, development & change.

Sincerely,

Adam Neiman, CEO