




March 13, 2007

TO: Labor Licensing Policy Committee

FROM: John D. Wiley 
Chancellor

I have received your letter regarding the resolution unanimously passed by the Labor Licensing Policy Committee, advising me to initiate termination of both our sponsorship and licensing agreements with Adidas. You have recommended this action in response to Adidas' failure to remediate what you perceive to be material breaches of our Code of Conduct. I have carefully considered your resolution, in consultation with the university's lawyers and business officers, to make certain that we do not proceed in a way that in itself violate of university legal obligations or established business practices.

I will not try to summarize here all of the considerations that inform my response to your letter/resolution, although I welcome the opportunity to discuss them in specific detail if you are interested. I do find significant areas of concern, which I will address; I also find that numerous instances cited in the resolution are not subject to our Code of Conduct, and/or are not germane to claims that Adidas has materially breached the two agreements. I must begin by noting, however, as recognized by the committee, that both as a matter of contract and business practice, the UW-Madison does not move presumptively toward termination of contracts for breaches of material conditions. Always, the emphasis is on working with the contractual partner to 'cure' the identified failures in performance, assuming that (1) the specified failures have occurred, and (2) they demonstrably constitute violations of stated contractual obligations. This approach has been true of every other licensee with which we have identified concerns relating to our Code of Conduct, and is the standard by which all UW-Madison contracts are administered; not coincidentally, and again as noted by the committee, it is an approach embodied in the current agreements through language such as 'notice and opportunity to cure' any claimed breach, and provisions for mediation in the event of dispute.

After discussion with the university's lawyers, I am not prepared to assert that Adidas has breached any material conditions of the two agreements. I am prepared, however, to pursue my very grave concern about what has happened with the Hermosa facility directly to the senior management of the company, and to pursue other measures designed to bring further information to bear. Bottom line, if there has been a breach, I intend to do everything necessary to confirm it, and to address the problem immediately; if there hasn't been a breach, I intend to do everything possible to encourage Adidas to take more corporate responsibility for the Hermosa situation.

To date, most of the information available has come from either Adidas personnel or the Workers Rights Consortia (WRC). I now intend to remove the "middle men" and ask questions directly of the workers affected. In April, Dawn Crim of my office will be deployed to El Salvador with a delegation of the WRC to meet with former Hermosa workers, to talk with non-governmental organizations in the region, and to visit several factories where Adidas and other licensees hold contracts. It is my expectation that, through Dawn's observations and fact finding, we will become more informed as an institution on the Hermosa situation and better equipped to advise Adidas on effective solutions to remediate the situation. As I intend to be in

Office of the Chancellor

Bascom Hall University of Wisconsin-Madison 500 Lincoln Drive Madison, Wisconsin 53706-1380
608/262-9946 Fax: 608/262-8333 TTY: 608/263-2473

communication with the senior leadership at Adidas well before Ms. Crim returns with her direct observations and report, this improved understanding will complement a dialogue I expect to already be well underway.

With your support, encouragement and insistence, the UW-Madison consistently has strived to have its logoed apparel made under the best possible conditions. In support of this objective, we have tried to forge partnerships with licensees who understand our principles and are willing to work conscientiously to uphold them. Necessarily, we have put our faith in organizations like WRC and FLA as monitoring organizations to uphold the Code of Conduct, assist us with licensees' accountability, and provide overviews of the apparel industry landscape. But, in a global marketplace where competition is fierce and complex production structures exist, these monitoring organizations are faced with significant challenges, and generating accurate on-scene information is one of them. I applaud the WRC for taking the initiative to conduct a more intense evaluation of the Hermosa situation on-scene, and appreciate very much that Ms. Crim is able to accompany that effort.

In addition to the difficult questions of legal obligations and possible breach of contract, there are significant practical challenges present. Despite the discouraging condition of the apparel industry, it is a factual reality that our student-athletes have to be clothed and equipped for competition. We selected Adidas as a licensee, and a sponsorship partner, specifically because we understand the company's serious institutional philosophy on labor rights issues. While we all can wish that more would be done, and more quickly, to remedy global labor rights issues, the fact is, Adidas represents a leader in the apparel industry that we can hold to high standards, and which, in turn, can help us to influence the industry. Adidas already has given us an unprecedented level of access to its internal documents, and I expect to achieve a similar level of access in terms of direct discussion.

Finally, as you are aware, we are not simply putting all of our faith in monitoring organizations or current licensees. We welcome the opportunity to evaluate new proposals like the Designated Suppliers Program and other proposals that will help us reach our desired and stated goals of better labor conditions; also, we will continue to pursue partnerships with companies like Fair Indigo and Counter Source Inc.; companies that share our social conscience principles and address workers rights issues at the forefront of their business practices.

I am committed to maintaining our high standards and will use future discussions with Adidas' senior leadership to further that objective. I also will share with you all information obtained by Ms. Crim regarding the Hermosa situation, as part of what I hope will be a constructive and continuing discussion about how to proceed in terms of the existing agreements that we have with Adidas. Also, I am familiar with the content of the letter sent by Georgetown officials to Adidas, and plan to express personally the same sentiments to Adidas' leadership at the earliest opportunity.

As noted previously, I will make myself available to meet with the committee regarding this response if you are interested.
