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A NEW ECONOMY FOR ALL



OUT OF STEP:

How Skechers Hurts Its California Supply Chain Workers

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FOREWORD

By Peter Dreier

Skechers, one of America's largest footwear companies, can run but it can't hide.

With this report, ***Out of Step: How Skechers Hurts Its California Supply Chain Workers***, the Los Angeles Alliance for a New Economy (LAANE) has exposed the company's troublesome labor practices. It is not a pretty sight.

The report reveals, for the first time, the mistreatment of the workers who deliver Skechers' products – primarily shoes, apparel and luggage – from ports to warehouses to retail stores around the country and around the world. In doing so, ***Out of Step*** also exposes the huge gap between Skechers' carefully-crafted image as a hip retailer that has led it to become an \$1.8 billion corporation and the reality of a company for whom truck drivers and warehouse workers labor under harsh, stressful, and exploitative conditions.

With its headquarters in Southern California, Skechers strives to portray its shoe and apparel brands as a reflection of traditional California lifestyles, images and personalities. With endorsements that over the years have included celebrity Kim Kardashian, former NFL quarterback Joe Montana, even star racehorse California Chrome, Skechers has depicted itself as a company that defines the California Dream. Its commercials portray its customers as fun-loving, easy-living, athletically-inclined, well-conditioned

prosperous young adults.

That image is in sharp contrast to the lives and working conditions of the people who don't wear Skechers' products on their feet, but who haul them in their tracks and carry them on their backs. ***Out of Step*** tells the stories of people who came to California to work, and found jobs moving goods for Skechers, but whose low pay, scarce benefits, and dangerous working conditions make it almost impossible for them to realize the California Dream. Thanks to these hard-working laborers – many of them immigrants – Skechers had realized record profits. Its top executives make huge salaries, but the company does not share that prosperity with most of the workers who deliver its products.

Skechers has not taken responsibility for making sure that its contractors not only comply with the law, but also provide decent wages and benefits so these hardworking workers and their families can make ends meet.

Skechers is not the only California corporation whose business model fits this description. ***Out of Step*** is valuable not only because it pulls back the curtain on one company's abusive labor practices, but also because, unfortunately, Skechers is representative of the entire goods movement and logistics industry, which has become a critical part of California's economy and is characterized by low wages, few benefits, poor working conditions, and resistant to giving workers a voice at work.

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Out of Step reveals that the workers who Skechers depends on to move its products are subject to the latest in cost-cutting schemes, including independent contracting of truck drivers and warehouse workers, the latter often part-time and/or temps. Skechers has adopted the Walmart model of subcontracting. It increases its profits by reducing its costs – primarily by using subcontractors who pay poverty wages and subject their employees to harsh and dangerous conditions.

In addition, Skechers – like Walmart and other corporations – claims that it is not responsible for its subcontractors’ pay and working conditions. Consumers and the public must hold accountable the corporations that benefit from the work of these truck drivers and warehouse workers.

Skechers’ subcontractors have had difficulties staying within the boundaries of California and Federal laws. At the same time, truck drivers for Green Fleet Systems – a company that hauls 40 truckloads of Skechers products per day – are filing state wage claims against employer for massive wage underpayments. Warehouse workers who move Skechers backpacks at Olivet International in Jurupa Valley, CA face health and safety hazards that have led to serious citations from Cal/OSHA, the state agency responsible for enforcing workplace health and safety laws. Perhaps worst of all, these truck drivers and warehouse workers have faced massive retaliation, in some cases termination, just for speaking up about these

abuses.

California’s logistics industry – primarily trucking companies, warehouses, all the way to the stores, and other parts of the supply chain – is engaged in a dangerous race to the bottom. All Californians lose when we allow a major sector of the economy to drive down wages and exploit workers. If workers don’t have enough money to spend for basic necessities, it undermines the larger economy and everyone suffers. Except, of course, the richest 1% who benefit from the suffering of others.

Only when workers in the logistics industry earn a decent living will they be able to participate as consumers in our economy. Only when these workers receive health insurance and sufficient wages to raise a family will they no longer be forced to access public services and health care, just to stay afloat. Only when trucking companies begin paying taxes for truck drivers misclassified as “independent contractors” will the state budget receive the tax revenues it should get from hugely profitable California-based retailers like Skechers. Only when companies like Skechers agree to take the high road and require their contractors to follow the law and treat workers with respect, will the company truly reflect the California dream.

Skechers customers must ask whether these abusive labor practices are acceptable. Over the past decade, the anti-sweatshop movement has traced the abuses at overseas and domestic factories to decisions made at

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the corporate headquarters of major apparel and footwear companies like Walmart, Nike, and Gap. Likewise, in recent years worker organizations have connected retailers and brands to abuses in the domestic cargo chains. Worker and consumer groups have issued reports documenting abusive practices and sued companies to stop them from engaging in these serious human rights and workers rights violations. For example, Walmart was recently named a defendant in a suit brought by subcontracted warehouse workers alleging that it shared responsibility for millions of dollars in wage theft by one of its subcontractors – Schneider Logistics’ warehouse in Southern California. Walmart and Schneider settled with over 1800 workers for over \$21 million in damages, the first time a retailer has been held responsible for labor violations in their supply chains.¹

Consumers need to get informed and get involved if we are to stop Skechers and other corporations from profiting from these irresponsible labor practices. ***Out of Step*** makes an important contribution by providing the information that consumers and public officials need to hold companies like Skechers accountable and demand that they be responsible corporate citizens.

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1. Workers reach \$21-million Settlement against Walmart, Warehouses. Ricardo Lopez, Los Angeles Times, May 15, 2014.

INTRODUCTION

Skechers, the Southern California-based footwear company, seems to have hit its stride lately. Its sales, profits, and stock price are near record levels. Earlier this year, Skechers overtook New Balance to become the fifth largest athletic footwear brand in the country.¹ In April, Skechers' star runner won the Boston Marathon, which generated extensive publicity for the company's running shoes. In May, the company considered purchasing an ownership stake in the LA Clippers and added Hall of Fame quarterback Joe Namath to its extensive list of celebrity spokespeople. One industry analyst recently labeled Skechers the "hottest major brand in the U.S."²

Skechers, whose headquarters are in Manhattan Beach, California, has found success by following in the footsteps of the top athletic brands. Skechers has emulated competitors' styles over the years and structured its business in a similar fashion. Skechers, like Nike and Adidas, controls all aspects of product design, development, and marketing while outsourcing labor-intensive activities such as manufacturing and distribution to a vast network of suppliers. These third-party contractors employ tens of thousands of workers in factories, warehouses, and other businesses.³ Though not directly employed by Skechers, these workers make Skechers products and get them to retail stores around the world. Retailers often exercise significant control over their suppliers and use their clout to push them to lower their costs. Too often suppliers achieve this by violating labor laws,

skirting health and safety requirements, lowering wages, and imposing sweatshop-like working conditions.

This report examines the working conditions at two of Skechers' contractors in Southern California: Green Fleet Systems and Olivet International. Green Fleet Systems is Skechers' primary port trucking contractor. Each year, Green Fleet's truck drivers move thousands of shipping containers filled with millions of dollars worth of Skechers shoes from the Los Angeles ports to Skechers' main distribution center in Moreno Valley. The second supplier, Olivet International, distributes Skechers' branded luggage and bags from its own warehouse in Riverside County to retail stores across the country.

The report's findings, based on public records research and extensive interviews with current and former workers, are disturbing. In its own backyard, Skechers contracts with companies that misclassify workers as "independent contractors," engage in illegal wage practices, expose workers to unsafe working conditions, and retaliate against workers who speak out against these practices.

It also raises important questions about the future of the Southern California economy. Skechers' trucking and warehouse contractors, in addition to being important links in the company's supply chain, are part of the region's fast-growing logistics industry. As such, the issues and problems identified at Skechers' contractors offer a

window into the working lives of hundreds of thousands of supply chain workers in Southern California.

The Growth of the Logistics Sector in Southern California

During the 1980s and 1990s, Southern California experienced an economic restructuring that greatly impacted its labor force. The introduction of the process of containerization of goods—the use of the rectangular metal box that fits many forms of transportation—made the loading and unloading of ships less labor- and time-intensive.⁴ As a result, shipping costs declined greatly and facilitated the offshoring of production.⁵ New technological development, coupled with the passage of free trade agreements, facilitated the outsourcing of manufacturing operations to foreign countries that could provide cheaper labor and less stringent workplace protections. Since 1990, the Southern California region has seen the decline of approximately 350,000 manufacturing jobs.⁶

As manufacturing declined in the region, the logistics industry grew exponentially. Container imports coming through the ports of Los Angeles and Long Beach nearly tripled between 1995 and 2006.⁷ As of 2007, the Los Angeles port complex handled approximately \$305 billion in trade annually and contributed \$28 billion in state and local tax revenue.⁸ As a result of the increase in container imports, trucking and warehousing became two of the fastest-growing sectors in

the logistics industry.⁹

This growth was the result of significant public investment. Along with rail and shipping companies, local policymakers invested in infrastructure to support the growth in international trade and the region's logistics industry. Currently, the twin ports of Los Angeles and Long Beach are the largest port complex in the Western Hemisphere and, in 2012, logistics-related employment accounted for about 521,000 jobs in Los Angeles, Riverside, and San Bernardino Counties.¹⁰ The public investment to incentivize private development was initially made with the hopes that these jobs would provide a pathway to the middle class for blue-collar workers.¹¹ Unfortunately, as the next sections of this report demonstrate, many of the jobs in the logistics industry, particularly in trucking and warehousing, have yet to deliver on that promise of upward mobility.

PORT TRUCKING: GREEN FLEET SYSTEMS

Every day, port truck drivers pick up shipping containers from seaports and haul them to nearby warehouses and rail yards. These massive steel containers are filled with consumer products – ranging from tennis shoes to televisions – that are bound for store shelves across the United States. The work of port drivers forms a crucial link in the supply chain of America’s most powerful corporations.

Prior to 1980, most port trucking companies were unionized and provided middle-class wages and benefits to their employee truck drivers. In 1980, the federal government deregulated the industry. The result was much lower wages and sub-standard working conditions.¹² Now, port truck drivers earn an average of \$28,000 per year and work nearly 60 hours per week. In addition, most are misclassified as independent contractors by their employers. Port trucking companies misclassify drivers to avoid a host of state and federal labor and tax laws, including provisions related to wage and hour standards, income taxes, unemployment insurance, organizing, collective bargaining, and workers’ compensation.

There are approximately 12,000 port truck drivers that haul goods to and from the Ports of Los Angeles and Long Beach. Most are working-class, Latino immigrants. Eighty five percent are foreign born and 91% are originally from Latin America. The majority of drivers do not have a higher education.¹³ They work for one of the over 1,000 trucking companies that are registered to do business at the ports. The next section discusses

the conditions drivers face at Green Fleet Systems, one of the larger port trucking companies in Southern California and the primary hauler of Skechers’ products from the ports.

Skechers’ Port Trucking Company

If you own a pair of Skechers shoes, you can bet that at some point the shoes were transported by a port truck driver who works for Green Fleet Systems. Each day, Green Fleet drivers haul thousands of shoes from the Los Angeles ports to Skechers’ massive distribution center in Moreno Valley, California. Green Fleet is Skechers’ primary port trucking company, making it a crucial link in the company’s supply chain.

According to Green Fleet drivers, the relationship with Skechers dates back over 20 years.¹⁴ Green Fleet employs approximately 125 mostly Latino port truck drivers at its Carson location.¹⁵ Skechers’ contractor operates a two-tier system: while the company has about 90 employee truck drivers, it has about 35 others who it unlawfully misclassifies as independent contractors. The majority of Green Fleet drivers are men who emigrated from Latin America. Many of them are married and are the primary providers for their families.

Amilcar Cardona, one of Green Fleet’s misclassified drivers, explains that hauling for Skechers is costly for drivers. “We are

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primarily paid by the load, so between the waiting time in the terminal that can amount to two hours, plus the two hours of driving each way to Skechers' Moreno Valley warehouse, most of our shift is gone. We are lucky if we can do one more load after a Skechers one."



Amilcar Cardona, a misclassified Green Fleet driver, and his family.

For misclassified drivers, hauling for Skechers not only impacts the number of loads drivers can move per shift, but it also erodes their weekly earnings. Drivers are paid \$299 for each round trip to and from Skechers (bringing a load from the port and hauling an empty container back to the port).¹⁶ Misclassified drivers are forced to bear the costs of diesel used for their trips from the Los Angeles ports to Moreno Valley. These round trips cost an average of \$88 per trip, not including a \$22 insurance fee, plus additional fees per load carried.¹⁷ This means

that about 40 percent of a driver's compensation from Green Fleet leaves their pocket and simply pays for costs.



A group of Green Fleet drivers after participating in a demonstration.

Skechers' contract drivers have been organizing for the last two years to secure dignity, respect, and basic workplace protections. Interviews have uncovered a range of workplace abuses committed by Green Fleet, as well as an overall lack of respect for its workforce. These abuses range from illegal wage deductions and health and safety issues to physical and verbal abuse in the workplace. Detailed descriptions of each of these abuses are provided in the following sections.

Port drivers through letters, and office visits have communicated to Skechers about the difficult conditions they were facing while working for Skechers' contractor. On August 26, 2013, Byron Contreras, a Green

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Fleet driver, and representatives from LAANE, along with representatives from other community and faith organizations, attempted to meet with Skechers Senior Vice President of Distribution Paul Galliher to discuss the issues at Skechers' contractor. So far Skechers has failed to respond to the many letters they have received requesting the company address these issues.

Misclassification & Illegal Wage Deduction at Green Fleet

More than 25 percent of Green Fleet's truck drivers are illegally misclassified as independent contractors. Interviews with misclassified and employee workers show that Green Fleet's truck drivers, regardless of their employment status, carry out identical tasks and are subject to the same degree of company control. For both tiers of workers, the company sets their hours and working conditions, determines the cargo they have to move and the rate price per move.¹⁸ However, Skechers' contractor makes illegal deductions from the misclassified drivers' paychecks including for truck leases, maintenance costs, fuel, parking fees, registration and insurance payments.¹⁹

Misclassified drivers have taken steps to challenge their status and to be legally recognized as employees. To date, ten current and former Green Fleet drivers have filed wage and hour claims with the California Division of Labor Standards Enforcement

(DLSE), seeking reimbursement of paycheck deductions. In early 2013, the DLSE ruled on four of these claims and determined that the four drivers had been illegally misclassified as independent contractors. The DLSE further ordered Green Fleet to pay \$280,822 to these four drivers in back wages and penalties. In its Order, Decision or Award (ODA), the DLSE wrote:

Employers may not lawfully avoid the legal obligations by labeling their workers as independent contractors while treating them as employees, as Defendant did... Defendants utilize this "independent contractor" label to unlawfully reap financial rewards for themselves at the expense of their workforce and to secure an unfair competitive advantage over their competitors by lowering their labor costs and shifting the risks and operating expenses while retaining the right to control their workforce that an employer exercises over employees. Plaintiff was the Defendant's employee and is entitled to protections under California law.²⁰

In spite of the DLSE decision that found the company's misclassification to be unlawful, Skechers' contractor has continued this practice. Green Fleet's total liability for the six pending claims is approximately \$943,000. The average claim exceeds \$157,000. Thus, if the remaining 31 misclassified drivers were to file DLSE claims, Green Fleet could face

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an additional liability of \$4.8 million.

Skechers' trucking contractor has not only continued with the unlawful misclassification system, it has doubled down. Green Fleet threatened two misclassified drivers who were known union activists, Mateo Mares and Amilcar Cardona, with termination if they refused to withdraw their DLSE claims.²¹ When Mateo and Amilcar refused its ultimatum, the company unlawfully terminated both drivers on January 8, 2014 in retaliation for their union and protected concerted activity.

While Amilcar and Mateo stood up for their rights by maintaining their wage claims, the loss of employment has had major impacts on their everyday lives. Mateo explained that the situation has affected him both emotionally and monetarily. The loss of his income has constrained his ability to help put his two older children through college. It has even been a challenge to afford healthy food to put on the table. He is now fighting the foreclosure of his home. With all of these challenges, Mateo has been battling depression, but he has remained strong and continues the fight both for his family and for his co-workers.²²



Amilcar and Mateo's claims at the DLSE are still pending. However, the California Employment Development Department (EDD) already concluded that Amilcar and Mateo were indeed employees, not "independent contractors," and that they were entitled to unemployment benefits. As a result of the EDD's decision, Amilcar and Mateo started receiving unemployment payments, ameliorating the difficult economic situation they faced as the main providers for their households.

Illegal Misclassification

Misclassification occurs when a company improperly classifies its employees as independent contractors. When workers are treated as independent contractors, they are denied a host of important benefits and legal protections. They are ineligible for unemployment insurance if they lose their job and workers' compensation if they are injured. Without workers' compensation insurance, job injuries could mean huge medical bills and no way to earn a living. They also lack a guaranteed minimum wage, overtime protections, health care, and other employee benefits.

Illegal misclassification also harms federal and state governments, as well as law-abiding businesses. The Government Accountability Office estimates that businesses can save up to 30% of their payroll costs through misclassification. This means that a business that properly classifies its workers would be at a competitive disadvantage relative to a business that uses illegal misclassification. Companies that misclassify workers pay zero payroll taxes, contributing to the nation's tax gap. A recent government estimate put the loss from just unpaid Social Security, Medicare, and Unemployment Insurance taxes due to misclassification at \$15 billion.

Illegal misclassification is the norm in the port trucking industry. According to a recent report authored by LAANE and the National Employment Law Project (NELP), approximately 65 percent of port truck drivers nationally are misclassified as independent contractors.³⁴ Misclassified port drivers are shouldered with the costs of operating their trucks. Through predatory vehicle leases and coercive independent contractor agreements, port trucking companies pass on the costs of lease payments, maintenance, fuel, parking, registration, insurance, and other assorted fees to the drivers. Additionally, port trucking companies are profiting handsomely from these arrangements. Misclassification in port trucking costs workers and governments nearly \$1.4 billion each year under conservative estimates.³⁵

Port drivers across California are challenging illegal misclassification in a variety of ways. Drivers have filed administrative claims with various state and federal agencies, taken their cases to court, and garnered public attention through direct actions. To date, there have been many successes with several agencies ruling in favor of port drivers and validating their claim that they are employees.³⁶

Health and Safety Problems

During interviews, drivers expressed serious concerns over safety issues at Skechers' trucking contractor, particularly in regards to truck maintenance. One third of drivers interviewed in January and February of 2013 reported that Gary Mooney, Green Fleet's owner, personally instructed employees to skip vehicle inspections, a violation of federal regulations.²³ From employee reports, it appears he did this to save time and money. Since drivers began organizing, the company owner has refrained from this practice.

Nevertheless, drivers have more recently reported that management has continued with other unsafe practices, such as dispatching trucks with mechanical problems even after drivers made management aware of the problems in their daily reports. In one such instance, in early 2013, Miguel Uribe, an employee driver since 2010, was assigned to a truck whose tire had a four-inch-long tear. The tire had already been recapped (a process that replaces the tread on worn tires). If the recap tears completely while driving down a freeway, for example, it could potentially cause an obstruction or an accident. For over a week, the company dispatched the truck before it fixed the tire.²⁴

Martin Herrera, a company driver since October 2012, shared a similar experience. He recounted that in October 2013, the electrical cable in his assigned truck was faulty. This posed a serious safety risk since the lights on the chassis that holds the shipping container would not work if

the electric cable was defective. The truck would lose visibility without these lights, putting the driver at risk of a major collision. Martin explained that he had to report this issue to the safety manager several times before the company spent money on repairs. Both drivers are aware that when driving compromised trucks, their lives and the safety of the public are at stake. Martin explained that, "when the company assigns us a truck with serious mechanical issues, I am not only concerned about my well being, but also about putting at risk the public who shares the road with us."²⁵

Before drivers began organizing for workplace improvements in mid-2011, management regularly reprimanded and verbally abused drivers for reporting truck maintenance problems and damages. This created an atmosphere of fear that resulted in many drivers refraining from reporting issues and instead trying to fix the problems on their own.²⁶

Retaliation Against Workers Asserting Their Rights

Tired of unsafe working conditions, abusive management, and lack of decent income and affordable benefits, drivers at Skechers' trucking contractor have been organizing to improve their working conditions. Unfortunately, the company has continued to violate its workers' rights. Throughout the past year, management has subjected drivers to constant surveillance —videotaping drivers in and around the company facility

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and encouraging other drivers to report on the activity of pro-union workers.²⁷



Green Fleet drivers participated in an Ash Wednesday service, at the door step of the company, officiated by Roman Catholic priest Father Will Connor. The service occurred after drivers carried out a delegation demanding an immediate end to their hostile work environment.

Moreover, company executives and managers have encouraged and condoned violence toward drivers who have been vocal about seeking improvements in their work place. The company has contracted with several labor consultants – more commonly called “union busters” – to advise them in deterring drivers from forming a union. In several meetings held by management and the labor consultant, drivers were instructed to harass and bully the employees that support a union. Drivers participating in the

meeting recounted that the labor consultant encouraged them to make fun of the union supporters and instigate fights with them so that the company would have a reason to fire them.²⁸

Several drivers have suffered the consequences of the labor consultant’s advice. On February 15, 2014, Yasser Castillo was violently confronted by two of his co-workers. On one occasion, when Yasser went to the drivers’ room, one co-worker insulted him by using a derogatory term for LGBT people. Yasser asked this co-worker why he was harassing him. As a response, his co-worker ran toward him aggressively, pushing him against the glass window of the drivers’ room. Though Yasser reported the incident to management and had several witnesses to the event, the driver who initiated the incident was not disciplined.²⁹

Drivers also reported that the labor consultant encouraged them to create conflicts with pro-union workers while driving in order to get them disciplined. One driver, Martin Herrera, recalled the labor consultant saying that drivers should cut in front of pro-union drivers when they were in line at the ports so that the pro-union driver would hit their truck and thus give the company reason to fire them. José Luis Alvarado recalled an incident in one of the terminals, when one of the drivers who was part of the management meeting crossed suddenly in front of him to cut him in line. “I was lucky I did not hit him,” he said. José Luis got out of his truck to go talk to the

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security guard in the terminal about the situation. As he was walking, he realized that the other driver had started to accelerate, as if he was trying to press José Luis against the chassis of another truck. José Luis ran and was able to avoid being hit. He informed Green Fleet's owner and security supervisor of the incident. However, Skechers' trucking contractor took no measures against the driver who attacked him.³⁰

José Portillo – Port Truck Driver



José Portillo works as a port truck driver to provide for his wife and three sons. He originally immigrated to the United States from San Miguel, El Salvador, fleeing the civil war and seeking better opportunities for his family. José has been a port truck driver in the Ports of Los Angeles and Long Beach for thirteen years and has

hailed Skechers shoes for more than three years while working for Green Fleet. José hoped that through his work he would be able to secure basic dignity and respect for himself and his family.³¹ Unfortunately, he has yet to realize this dream. José explains, “While working at Green Fleet, I have experienced things that no hard working American should experience.”³² He went on to explain that on February 5, 2013, his pregnant wife was hospitalized because she was having a miscarriage. José was at work and asked permission to leave early to be with his wife during that difficult time. Management did not allow José to leave. Since José was afraid of being fired for leaving, he obeyed their orders and stayed. Recalling that day, José says, “It was a heartbreaking day for my family and me. No person should have to fear losing their job for spending time with their family when they are in great need.” José adds, “Although I haul cargo worth millions of dollars, I am treated as if I am worthless.”³³

WAREHOUSING: OLIVET INTERNATIONAL

After port truck drivers, warehouse workers often form the next link in the global supply chain. Inside massive warehouses and distribution centers across the country, warehouse workers receive, unpack, sort, and repack the goods that port drivers deliver to them every day. Similarly to trucking, the warehousing industry has undergone a series of changes since the 1980s. In the past, most retailers ran their own warehouses. Over the last several decades, however, global retailers have outsourced much of their supply chain – including warehousing. This practice allows companies to transform fixed costs into variable ones, and search for lower cost options in warehousing. This competitive, market-oriented approach to outsourcing drove suppliers “toward lower wages and sweatshop-like labor/environmental standards to remain competitive.”³⁷

As a large retailer with millions of customers, it is important that Skechers have an efficient and reliable distribution system for their products. To achieve this, Skechers runs two distribution centers. Their sole North American distribution center is located in Moreno Valley, California (Riverside County), and is a state of the art, 1.8 million square foot facility that during peak season employs about 500 workers. The Moreno Valley warehouse uses a combination of direct hires and temporary workers. This facility supplies Skechers shoes to stores throughout the U.S. and Canada. Skechers’ European distribution center is located in Liege, Belgium. From this location, Skechers ships goods to their

wholesale customers across Europe. Other international customers receive their orders directly from Skechers’ manufacturers in China.³⁸

Though Skechers is best known for its line of shoes, the company sells a number of other branded products. In August 2010, Skechers and Olivet International, the number one private label luggage supplier in the world, signed an agreement in which Olivet committed to design, produce, and distribute Skechers branded bags.³⁹ The section below examines the working conditions at the Olivet warehouse in Jurupa Valley, California (Riverside County), which prepares Skechers bags for distribution to stores across the country.

Skechers’ Luggage Producer and Warehouse Contractor

Approximately 230 employees, mostly Latino, are currently responsible for packaging, containerizing and dispatching Skechers luggage merchandise at Olivet’s. When a Skechers order arrives at the Olivet facility, loaders/unloaders transfer boxes of Skechers suitcases and bags from shipping containers into the warehouse. Port truck drivers that work for companies like Green Fleet Systems often bring these shipping containers to the facility. Once inside the warehouse, packers unpack the suitcases, prepare them for sale, and repack the bags according to Skechers’ requirements. Lastly, warehouse workers reload the Skechers bags into trucks that transport them to retail stores nationwide.

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Skechers maintains tight control over the Olivet employees handling its products, even though Skechers' management is not present on the premises. For example, during the process of unpacking Skechers suitcases, employees were warned that Skechers suitcases' wheels should never touch the floor. If they did, employees were told to clean them. Skechers expects suitcases to be placed in new bags before being packed into the boxes used to send out the orders. Skechers requires that the bags are properly and cleanly sealed. Employees stated that they are expected to finish packing Skechers' orders in the same amount of time that other brands moved in the warehouse, despite Skechers requiring a much higher level of detail in its packing. Thus, workers expressed experiencing a lot of pressure and anxiety when assigned to package Skechers' products.⁴⁰

The work at the warehouse is physically

demanding and takes a toll on workers' bodies. Workers are exposed to back injuries due to moving heavy loads. In many instances, they are required to carry out the same motion hour after hour, such as the hand-leg coordinated movement required to remove a set of suitcases from their box, which could lead to repetitive motion injuries. Moreover, unsafe stacking of boxes and failure to regulate forklift driving could create serious accidents. Workers are also exposed to dust and other hazardous materials that has led to respiratory illnesses. Many of these unsafe conditions could be avoided if Skechers' contractor were to comply with California regulations that require employers to provide proper training and protective gear.

The different employees interviewed for this report consistently discussed how inhumane Skechers' contractor's practices are. Management constantly pushes them to increase their output level regardless of the health impacts this demand might have on their bodies and personal lives. Screaming, hurling insults and denying breaks were common practices employed by management to achieve the desired productivity levels.

In October 2013, the Skechers contracted warehouse was found in violation of California law regarding the health and safety of employees. Cal/OSHA inspectors cited the company for almost every problem workers had identified, from blocked fire exits to inadequate access to water to the

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collapse of towers of boxes, among others. The company was fined more than \$34,400, and settled with Cal/OSHA in January 2014. After an extensive investigation into allegations of unfair labor practices by Skechers' warehouse contractor, on April 28, 2014, a regional office of the National Labor Relations Board issued a complaint alleging that the company had threatened employees with job loss and plant closure and had issued implied threats to employees for participating in concerted activity. A hearing before an administrative law judge on the complaint is scheduled for August 4.

Workers at the Skechers contracted warehouse have been organizing to improve their working conditions and treatment. They also hope to increase their pay from the state mandated minimum wage to a dignified salary that would allow them to adequately provide for their families. But most of all, employees at this warehouse are organizing to gain the respect that they deserve. In the following section, this report discusses the many issues that workers have encountered while working at Olivet's warehouse. Heidi Baisabal, who has worked on the production line for five years, explains, "We have all been humiliated at some point by Olivet. We all have something that Olivet owes us and that is what compels us each day to continue organizing."⁴¹

Compensation and Benefits

During the interviews, workers raised compensation concerns. Many workers at the Skechers- contracted warehouse are paid \$8/hour even after working for the company for several years. In addition, though in practice they were working full time, their payroll status remained part time. When peak season finished, their workweek would be curtailed to only 2 days a week. Many workers then took a second job to make ends meet.⁴²

Employees don't receive any type of health benefits. Employees explained that they could not afford preventative care and that they would only go to the emergency room when their health situation became unbearable.⁴³ Cesar Garcia said that he always waits to go to the doctor for his own ailments until he has no choice. However, when it comes to his daughter, the situation is more critical. Two years ago, when his daughter was a year old, she began having convulsions and had to be hospitalized for several days. This took place after his brother passed away from leukemia. Cesar was really worried that his daughter might have leukemia as well. Cesar took her to a private hospital in the area. She had to be hospitalized for several days, as the hospital tried to figure out the cause of the convulsions. His daughter recovered soon after but Cesar had to pay about \$5,000 in hospital bills.⁴⁴

Skechers Linked To Corruption Charges In Moreno Valley

Last year, Skechers found itself at the center of a corruption scandal involving Iddo Benzeevi, owner of the real estate firm Highland Fairview that developed Skechers' 1.8 million-square-foot warehouse that houses the company's North American operations. In an 800-page complaint that Moreno Valley residents provided to the Attorney General's office in 2012, they accused the council of engaging in a bribery system involving Skechers' developer Iddo Benzeevi.

According to the complaint, Benzeevi traded campaign contributions to the council in return for votes on high-priced land deals, including the 1.8 million-square-foot Skechers' warehouse.⁵⁸ In April 2013, a joint political corruption task force, including the FBI, Internal Revenue Service, and Riverside County District Attorney's Office searched Highland Fairview's offices.⁵⁹ The task force also searched the houses of all Moreno Valley council members: Jesse Molina, Richard Stewart, Marcelo Co, and Victoria Baca, as well as the Mayor.^{60, 61}

Former Moreno Valley City Councilman Bill Batey met early in 2013 with Riverside County District Attorney Paul Zellerbach, with similar concerns. During his meeting with Zellerbach, Batey conveyed his alarm regarding the council's decision to place City Attorney Robert Hansen on administrative leave. Batey suggested that the decision was made because Hansen had showed "unfavorable legal opinions regarding the Skechers warehouse project."⁶²

Not surprisingly, Highland Fairview was a major contributor to the campaigns of Owings, Molina, Stewart and Baca. Skechers also provided campaign contributions to the Mayor and council members under investigation for corruption charges.⁶³ However, Skechers was two years late declaring those political contributions to the Moreno Valley City Council members and candidates. As a result, the California Fair Political Practices Commission issued a fine to Skechers of \$2,400 due to late disclosures of their contributions to Moreno Valley City Council members.

The FBI and the Riverside County DA's Office reported that the search is part of an "ongoing political corruption investigation."

Lack of Training and Protective Gear

Skechers' subcontractor, Olivet, does not appear to have an effective injury or illness prevention program. Workers explained that they did not receive any kind of training on how to avoid injuries nor were they informed about what kinds of hazardous materials they could be exposed to. Employees were not provided with any protective equipment required in this type of work, including dust masks, gloves, and foot protection.⁴⁵

Many of the workers never received a basic safety orientation during the time they worked at the Skechers' contract warehouse. Workers explained that during their first meeting with managers, instead of providing an orientation on safe workplace practices, managers only discussed the company's expectations for the workers. Miriam Garcia, a warehouse worker, described her first meeting with her manager: "She told us that this is business and we expect you to be extremely productive. It is hard work but you need to commit to fulfill the customers' orders. That was the most important thing. If you were not happy with the working conditions, there were 50 doors we could use to leave. None of us were irreplaceable."⁴⁶

Raul Flores, who has worked loading and unloading containers for the company for five years, had a similar experience as Miriam during his orientation with management. In addition, he also suffered the consequences of the company not providing adequate

protective equipment. One day, he was sent to open boxes that were covered in dust. As he was doing it, he noticed that his hands got red and were covered in blisters. Raul complained to the manager and the manager responded: "You are very delicate. Please go back to work." However, Raul insisted that he wanted to see a doctor. Finally, he was taken to the clinic that serves the company when workers get injured. The doctor said that he had been exposed to a type of toxic fungus.

Heidy Baisabal also discussed how the constant exposure to dust at Skechers contracted warehouse affected her health. For more than a year, she experienced reoccurring bronchitis every two months. During one of her visits to the emergency room, the doctor pinpointed the frequency of the reoccurring disease. He explained that her illness might be related to her work in the warehouse, as inhaling and/or being exposed to dust and certain fumes raises the risk level for bronchitis. Several other workers have also developed asthma since working at the warehouse.

Exposure To Extreme Heat And Lack of Breaks

The workers pointed out that the hot temperatures they encountered in the warehouse were unbearable. Olivet's warehouse gets very hot year round - in particular during the summer - and until recently the company had not made any efforts to mitigate the conditions. Employees working inside the metal shipping containers

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faced temperatures that could reach as high as 125 degrees, due to the lack of proper ventilation and cooling. Additionally, workers report that the warehouse's doors remained closed most of the time, worsening the ventilation problems and extreme heat.⁴⁷

Rest breaks help workers in hot conditions avoid heat-related injuries like dehydration, fainting, and heat stroke. Skechers' warehouse contractor has consistently denied its workers their right to take breaks.

Several workers explained that in many instances, management's rule was that they could not take any breaks until they finished with the particular order they were handling, which often resulted in employees working non-stop in dire conditions for up to eight hours. The water for employees was located about 250 feet away from the area where the work took place. If the workers took a break to go and drink water, floor managers told them to continue working. The high temperatures combined with the lack of

Miriam Garcia – Warehouse Packer



Miriam Garcia has worked at Skechers' contractor, Olivet, for two and a half years to be able to provide for her three kids. As with many of her co-workers, Miriam was pressured to work in unsafe conditions. She recounted that in the summer of 2011, she was working inside a metal container when she started to feel that she could not breathe and became very dizzy. Miriam informed the manager and requested that she be moved to another position in the warehouse. Her request was denied, and so was her next request to take a break. The manager treated her as if she was irresponsible and told her:

"Don't you see how busy we are?" Feeling that her blood

pressure was low and she was about to faint, Miriam went to the break room. There she found an old opened Coke. She poured its content in an abandoned plastic glass. As she was about to drink it, Miriam realized there was a dead roach in it. However, she was feeling so ill—she was sweating heavily and her hands were trembling— that she proceeded to remove the roach and drank the Coke. While she was still trying to recover, the supervisor saw her and started screaming at her for leaving her post. Miriam was appalled at the dehumanizing treatment she received. Miriam says, "I am proud to do my work and I do it with love because it is what allows me to sustain my three kids. The supervisor could have granted me a five minute break to allow me to recover. But they just see us as easily replaceable pieces."⁵⁷

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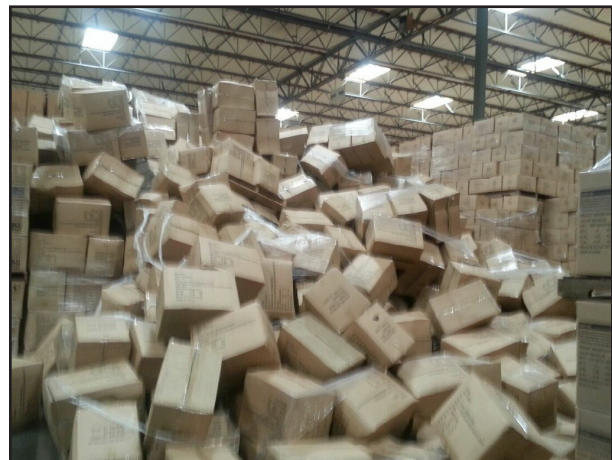
breaks and access to water led many workers to face heat related illnesses.⁴⁸

In August 2013, ten workers were indefinitely suspended when they took a “heat break”—a five-minute break that allows a person to cool his or her body, combating the effect of exposure to extreme temperatures. Cal/OSHA requires that employees be given this type of break if employees are suffering from heat illness or believe they need it.⁴⁹ Raul explains that the daytime temperature inside the warehouse exceeded 90 degrees and that several of the workers were feeling ill. They asked their supervisor for authorization to take the break, but they were denied. To protect their health, the workers decided to take the break anyway. Two hours later, they were informed that they were suspended for “insubordination.”⁵⁰ After several worker actions and the support of many politicians, the employees were reinstated. The National Labor Relations Board has issued a complaint related to the allegation that Olivet’s suspension of the workers was retaliatory, and the case will be heard in court later in 2014.

Blocked Exits and Unsafe Stacking of Boxes

Employees are not informed during orientation where the emergency exits are located. Even when employees have identified the exits, in most instances, they were blocked with pallets and/or merchandise. Cesar Garcia and Heidy Baizabal recalled an earthquake that took

place about five years ago. Cesar recounted that when the earthquake took place, all the emergency exits were blocked, so he got out of the building by jumping off one of the warehouse loading dock doors that was not blocked by a container. When the earthquake struck, Heidy and her co-workers were pasting labels on boxes in the back of the warehouse. Since the emergency doors were blocked, Heidy and her co-workers started to run to look for another exit. “As we ran, we could hear the boxes falling behind us,” Heidy said. She added, “We were very lucky. That day God ran with us.”



Fallen product, Olivet International, from Cal/OSHA complaint.

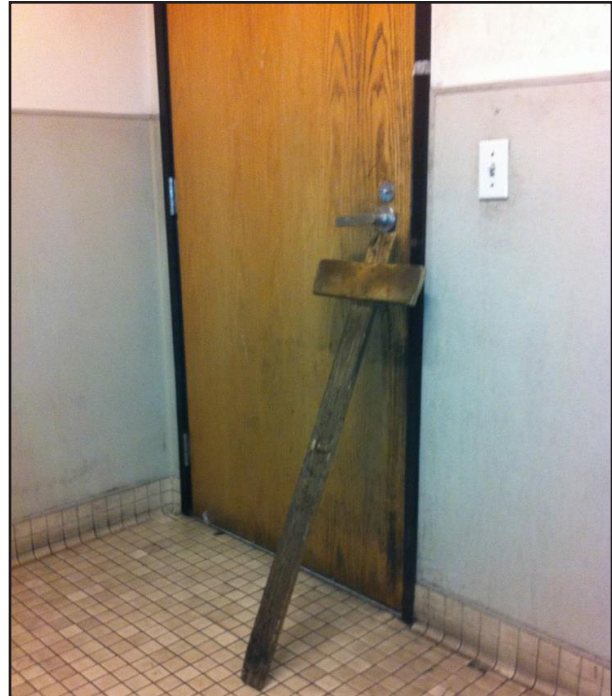
In many instances, an earthquake would not be the only reason for boxes of merchandise to topple. All around the warehouse, pallets with boxes were double and triple stacked

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without any racks or stabilizing mechanisms, leading to piles of them collapsing frequently. The average weight of each box ranges between 12 and 60 pounds — and in some occasions up to 90 pounds. In March 2013, an employee was injured when a box fell on him, and he suffered a back injury. Olivet, Skechers' contractor, took responsibility for his medical treatment.⁵¹ Nevertheless, the practice was not changed until October of that same year when Cal/OSHA demanded it. However, employees have reported that more recently Olivet is once again returning to the previous practice.⁵²

Restricted Access To Bathrooms

For much of 2013 the 130 workers in the warehouse only had access to one restroom for each gender. Workers explained that they were closely monitored and the time they spent in the bathroom is tracked. Leads or supervisors track the duration and frequency with which employees visit the bathroom. In addition, workers report that the conditions of the bathrooms are intolerable. Until mid-2013, the company did not even provide any toilet paper. Employees had to bring their own. The lock in the men's bathroom door didn't work, and the door needed to be propped closed.



Restroom door without lock, Olivet International, from Cal/OSHA complaint.

Lack Of Appropriate Training To Operate Heavy Machinery

Most of the forklift operators at the warehouse were neither trained nor certified to operate the forklifts. Occasionally, inexperienced workers who have never driven a forklift have been ordered to do it when regular drivers were not available. Forklift drivers tended to drive over the established speed limit of

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five miles per hour, and due to management pressure, often over stacked pallets. These practices, combined with disrepair of the forklifts, including damaged brakes and horns, increased the possibility of accidents between different forklifts and between forklifts and workers on foot.⁵³ A number of workers witnessed collisions between forklifts due to speeding.⁵⁴ In several instances, employees who were putting labels on boxes in the aisles throughout the warehouse had to jump out of the way to avoid being hit because drivers, who were carrying too many pallets, could not see other workers in front of them.⁵⁵

Forklift drivers also routinely were expected to drive into dark containers — lighting fixtures were available, but the light bulbs had not been replaced — at the same time that other workers were inside of them unstacking the pallets. Numerous workers witnessed their colleagues being hit by the forklifts. Cesar Garcia remembered one occasion in which one of his co-workers had one of his toes amputated by a forklift. Cesar had also experienced being pinned against a container wall by a forklift, but was lucky enough not to be hurt in that incident.⁵⁶

CONCLUSION

Successful brand name companies are coming to understand they are accountable for the workers in their supply chain, even though they may not employ them directly. In May, a Walmart supplier paid out \$21 million to settle a class action suit after a judge determined that Walmart itself could be held liable as a joint employer. After years of engagement with student activists, supply chain workers, and non-profit organizations, top footwear companies like Nike have learned this lesson and put policies in place to ensure that the push for lower costs does not come at the expense of human rights, labor law, or workplace health and safety. As Skechers' profit and stature increase, so to does the company's responsibility to its supply chain workers.

This report has shined a light on significant problems at Green Fleet Systems and Olivet International. Worker testimony has revealed poor working conditions at both of Skechers' contractors. At its trucking contractor, port drivers have experienced illegal wage deductions by their employer and described an atmosphere of intimidation and coercion. At its warehouse contractor, state regulators found health and safety violations and workers report unsafe conditions like exposure to extreme heat, blocked exits, and inadequate training and protective equipment. The problems identified in this report are significant and eminently addressable. As an increasingly successful brand, Skechers must swiftly address these issues and develop policies to ensure they are not the norm throughout its supply chain.

RECOMMENDATIONS

Skechers has significant control over its contractors and the ability to influence their behavior. Below are recommendations that have been drawn from existing policies that have successful companies have developed in recent years to hold their suppliers of goods and services to the highest ethical and legal standards. Many market-leading companies have developed these sorts of policies to ensure that supply chain workers are afforded basic worker protections and to ensure that contractors adhere to local laws and international norms. The following recommendations follow well-established precedents and provide a framework through which Skechers and its suppliers can positively impact the workers and economy of Southern California. Recommendations for elected officials and consumers are also included since their actions can also contribute to addressing these challenging issues.

Remediation: Engage contractors where legal violations have been identified

Skechers claims to ensure that “all of its products are sourced, produced and delivered to [their] customers in a manner that upholds international labor and human rights standards.” Moreover, they claim to promote ethical business practices among their contractors, including that compensation should be “paid in accordance with local law and that their [facilities] should be in compliance with local safety regulation.”⁶⁴

However, as this report has shown, there is a gap between the company’s statements and what is taking place at their contractors’ workplaces. Skechers’ transportation contractor, Green Fleet Systems, has been cited by two state agencies for illegally misclassifying its drivers. Similarly, Cal/OSHA fined Skechers’ contracted warehouse for a series of safety and health standard violations.

Skechers management should meet with workers and managers from the respective companies to establish a concrete plan that will end the abuses in these facilities and promote quality jobs, safe and healthy working environment and grant whistleblower protection, freedom of association and an end to retaliation.

Code of Conduct: Adopt a code that describes expectations and minimum standards for contractors

Unlike market leaders such as Nike, Reebok, and Adidas, Skechers has yet to adopt a code of conduct that would establish a detailed set of standards regulating the labor conditions of their contractors and subcontractors. Skechers should adopt a code of conduct that clearly states the expectations the company has of their contractors and lays out the minimum

standards each contractor is expected to meet. The code of conduct should address abuses and law violations in their contractors' labor facilities, promote quality jobs, and guarantee workers' rights to freedom of association.

Auditing: Develop a system of independent audits of contractors and subcontractors

The code of conduct is a critical starting point to maintain workers' rights. However, to assure that their contractors are in compliance with it, Skechers should additionally develop a mechanism for independent auditing. Through independent audits, Skechers would be able to evaluate if the contractor is complying with the Code. In addition, Skechers should develop concrete plans of how to solve standards violations within their subcontractors and provide training support as needed.

Transparency: Provide a complete list of all contractors, factories, and facilities

Skechers should provide the public and its investors with a list of its suppliers of services or goods, any legal violations that the contractor has been found liable for in the past three years, and their plan to remedy or abate the problems cited.

Government Enforcement: Public Officials Should Increase Funding to State and Federal Agencies That Enforce Workplace Protections

Workers in the logistics industry face serious challenges and frequent rights' violations given the prevalence of misclassification, subcontracting, and temporary employment. In this context, it is crucial that federal and state agencies strongly enforce existing legal protections for workers. These agencies should focus on industries where violations are prevalent, such as port trucking and warehousing. Elected officials must increase funding to enforcement agencies to ensure that they have resources and training to carry out comprehensive enforcement. In addition, agencies should strengthen anti-retaliation measures to protect workers who come forward and report abuse.

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Consumer Action: Consumers can support supply chain workers by voicing their concern to Skechers

Brand name retailers, such as Skechers, have demonstrated that they are responsive to their customers' demands and desires. As such, consumers can and should play an active role in ensuring that the products they purchase come from companies that ensure high workplace standards in their own operations and throughout their supply chain. In order to achieve this, consumers must hold brands accountable by inquiring about the working conditions in which their products are made and transported and voice their concerns when problems are identified.

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regional office of the National Labor Relations Board (NLRB) recently determined that one port trucking company, Pacific 9 Transportation, has misclassified its port drivers. After a prolonged investigation, the agency concluded that Pacific 9 drivers are employees of the company, and as such they have the right to form a union if they choose. This investigation began in November 2013, when drivers filed charges with the NLRB, alleging that Pacific 9 had retaliated against union supporters. In March 2014, the company settled this charge, signing an agreement that not only affirms the drivers' right to form a union but also acknowledges them as employees. This notice is now posted in the company break room and was mailed to every driver.

Pacific 9's misclassification scheme has also caught the attention the California unemployment agency, which recently determined that Pacific 9 failed to pay unemployment and state disability taxes for its truck driver workforce, as is required by law. Pacific 9 is appealing the agency's decision and a hearing is pending. In addition, EDD also determined that two drivers that Green Fleet Systems had misclassified were in fact employees. These misclassified drivers had filed for unemployment when they were unlawfully terminated due to their union activities and their refusal to withdraw their DLSE claims.

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