



WORKER RIGHTS CONSORTIUM

Factory Update: Kwangduk Langgeng (Indonesia) (Formerly, Kolon Langgeng) March 9, 2011

I. Introduction

Kwangduk Langgeng was an apparel factory located in the Kawasan Berikat Nusantara (KBN) export processing zone in Cakung, Jakarta, Indonesia. Kwangduk Langgeng, formerly named Kolon Langgeng, was the subject of a [compliance assessment](#) by the WRC in 2003, which resulted in substantial improvements to its employees' working conditions.

However, after several of the factory's customers, including Nike, ceased placing orders with the company, Kolon Langgeng's business declined, and the factory ultimately closed at the end of 2009. This update discusses labor rights issues related to the factory's closure.

Kolon Langgeng was owned by Kolon International Corporation, a multinational industrial conglomerate based in Seoul, South Korea. According to factory disclosure data provided to WRC affiliate universities, Kolon Langgeng produced collegiate licensed apparel for Nike from 2000 to 2003. During this period, Kolon Langgeng also supplied several other U.S. buyers, including Tom Taylor, DKNY, Anne Klein, Liz Claiborne and Anne Taylor.

By 2006, all these buyers had ceased placing orders with Kolon Langgeng except Tom Taylor. Although Nike, by then, had stopped purchasing garments directly from Kolon Langgeng, the factory continued to make Nike apparel via subcontracts from nearby factories.

In 2007, the company acquired new management and changed its name to Kwangduk Langgeng. The factory also began supplying three new buyers – German retailer s.Oliver, the Hong Kong-based Li & Fung Group and J.C. Penney. By the time of the factory's closure in 2009, J.C. Penney, s.Oliver and the Spanish apparel firm, Inditex, were the factory's only customers.

II. The Closure of Kwangduk Langgeng

1. Factory Converts Workers to Short Term Contracts, Pressures to Waive Severance Benefits

In September 2009, workers at Kwangduk Langgeng began to return to the factory after the Idul Fitri holiday. Due to a lack of orders at the factory, workers had been granted extended leaves and were returning on a staggered schedule with the last employees due back at the factory in mid-October. Immediately after the holiday, factory management announced to returning workers that the company planned to layoff regular employees and replace them with short-term contract workers and day laborers. The management claimed that there were insufficient orders to employ the existing workforce.

Employing workers who are part of a factory's regular labor force on short-term contracts violates Indonesian law.¹ When employee union representatives protested this move by the company, they were threatened with dismissal. Moreover, instead of negotiating with the employees' union concerning the situation, managers instead met with workers in small groups and attempted to pressure them to sign severance agreements.

By early October, roughly thirty of the factory's remaining 500 workers had signed such agreements. The amount offered to employees for severance benefits was reportedly 3,300,000 Rupiah, somewhat less than the legal minimum amount due if the company were to be legally declared bankrupt. However, this amount constituted less than half of what workers ordinarily would be owed if the company closed while still solvent.²

2. Factory Locks Out 300 Workers Including Entire Union Membership, Leadership

On October 8, 2009, the situation worsened as Kwangduk Langgeng proceeded to lockout its employees who were union members.³ The lockout violated Indonesian labor laws which require seven days notice to workers before an employer can lock them out of the workplace.⁴ In a further violation of Indonesian law and international labor standards, Kwangduk Langgeng hired new employees to replace the locked-out workers.⁵

¹ See, President of Republic of Indonesia Act 13 of 2003 Concerning Manpower ("Act 13 of 2003"), § 59 (2) ("[A] work agreement for a specified time cannot be made for jobs that are permanent by nature.").

² See, id. at §156, §164 (3), and §165

³ See, id. at §1 (24) ("[A] lockout is the entrepreneur's action of refusing the worker/labourer in whole or in part to perform work.).

⁴ See, id. at §148 (1) ("[A]n entrepreneur who intends to perform a lockout is under an obligation to give a written notification of the lockout to workers/ labourers and/or trade/ labour union and the local government agency responsible for manpower affairs of no less than 7 (seven) workdays before the lockout takes place.").

⁵ See, id. at § 144 (1a) ("[I]n the event of a strike performed pursuant to Article 140, the entrepreneur is prohibited from [...] [r]eplacing striking workers/labourers with other workers/labourers from outside of the enterprise."); ILO Committee on Freedom of Association ("ILO CFA"), *Digest of decisions and principles of the Freedom of Association Committee of the Governing Body of the ILO* ¶ 632 (2006) ("The hiring of workers to break a strike in a

Despite this illegal conduct by the factory's management, the employees' union still pursued negotiations with the company. The labor-management dispute was further exacerbated, however, by the company's varying statements to employees regarding its future prospects, which alternated among telling employees that the company needed to convert its workforce to short-term contracts in order to survive, informing them that the factory would be operated for two months at reduced capacity to see if it was viable, and saying that the firm shortly would be declaring bankruptcy.

On October 12, the factory's management gave the workers formal notice that the factory was conducting selective layoffs, and that all remaining employees would be converted to short-term contract workers. The employees, in turn, called for further negotiations to keep the factory open, and that if a reduction in the workforce was necessary, its terms should be negotiated in good faith with the union, and the affected workers should be paid the full amount of legally-due severance benefits.

By October 14, all of the employees had returned from the Idul Fitri holiday. At this point, only 127 employees, out of the 500 who had been at the factory prior to the holiday, were working at the plant. Significantly, all the employees who had been kept on at the factory were those whose employment agreements had been converted to short-term contracts. The company had locked out the remaining nearly 375 workers, among them the entire governing board and membership of the employees' union. Additionally, the company denied the employees' union access to its in-plant office.

By this time the WRC had contacted the factory's management and its three remaining buyers – Inditex, s.Oliver and J.C. Penney. The factory's management denied that the company had locked out the workers, and proceeded to explain that the company faced serious economic problems and did not have sufficient orders to keep the entire workforce employed. The factory's management stated that in order to survive, the company was laying off 300 out of its 500 employees, and that if Kwangduk Langgeng filed for bankruptcy, it might not have any funds to pay severance benefits to the workers.

In response to requests from the WRC, all three buyers took steps to intervene. On October 15, J.C. Penney and s.Oliver sent representatives to meet with the company's management and urged the company to comply with Indonesian law and international standards.

sector which cannot be regarded as an essential sector in the strict sense of the term, and hence one in which strikes might be forbidden, constitutes a serious violation of freedom of association . . .”).

S.Oliver reported to the WRC that the company was not receiving any new orders and seemed to be on the brink of bankruptcy. S.Oliver also indicated that Kwangduk Langgeng's management had abandoned its attempt to keep the factory open by converting its workers to short-term contracts and was beginning the process of filing for bankruptcy. Accordingly, s.Oliver informed the WRC that its representatives had insisted that the factory management pay severance benefits to employees in accordance with Indonesian law.

3. Company Files for Bankruptcy, Blacklists Union Leaders

From October 17, 2009 onwards, the factory management maintained the position that it was closing on account of bankruptcy, however, despite several requests from the WRC, Kwangduk Langgeng did not produce any documentation in support of this claim. Raising further doubts regarding the company's intentions, employees reported that the factory was expanding its parking garage, was still manufacturing garments for Inditex's *Zara* retail division, and was hiring new contract workers.

Of more serious concern to the WRC, the factory management reportedly had called in paramilitaries and *preman* -- an Indonesian term for local gangsters and thugs who are often hired by companies during labor disputes -- to intimidate locked-out workers who were picketing outside the factory. In response, the employees' union complained of the management's conduct to local police intelligence officials, who then threatened the factory's expatriate manager with deportation.

After this escalation, the management and the workers' union reinitiated negotiations with a focus on reaching an agreement on severance benefits. The factory management promised to make a revised severance offer to the union, and a resolution to the dispute appeared near.

Unfortunately, the revised offer from the company never materialized and, instead, the situation further deteriorated. At the end of November, the WRC learned that Kwangduk Langgeng had, through its personnel manager, distributed a blacklist of all its employees who were leaders in the workers' union throughout the KBN industrial zone where the factory was located. The blacklist contained photos of the union's entire governing board. Issuing blacklists constitutes a serious violation of internationally recognized labor standards.⁶

When re-contacted by the WRC, s.Oliver, Inditex and J.C. Penney all stated that they had very little leverage over Kwangduk Langgeng's management, as they were not placing any new orders at the factory since the company had explained that it was going into bankruptcy.

⁶ See, ILO CFA, *supra*, n. 5 at ¶ 803 (“All practices involving the blacklisting of trade union officials or members constitute a serious threat to the free exercise of trade union rights . . .”).

4. WRC Arranges Settlement Talks Between Factory and Workers' Union

In December, the WRC received information that the company's former owner, with whom the WRC previously had extensive prior dealings, was still involved in Kwangduk Langgeng's business decisions. On December 22, 2009, the WRC contacted the former owner and sought his personal involvement to end the stalemate between the workers and the management.

To his credit, the former owner responded immediately and committed to meet with the leaders of the union representing the workers. The former owner also confirmed to the WRC that the company was filing for bankruptcy.

On December 29 and 31, 2009, the former owner met with the union and reached a final settlement, whereby the workers would get 1.25 times the severance benefits normally payable when an employer is bankrupt.⁷ The owner also agreed to withdraw the blacklist of the union's leaders. The owner sent the agreement to the WRC on December 31, 2009. On January 3, 2010, the WRC confirmed the company's implementation of the agreement through interviews with the workers' representatives. Later in January, the factory finally shut its doors.⁸

III. Conclusion

The closure of Kwangduk Langgeng represents a setback for university code of conduct enforcement, as it presents yet another case where a factory, for several years, made good faith efforts to comply with university and buyer codes of conduct, yet experienced a continuing loss of orders from buyers. As in similar cases, such as those of the former BJ&B plant in the Dominican Republic and Lian Thai Garment in Thailand, successful remediation of violations of university codes of conduct was followed, soon after, by university licensees discontinuing their orders with the factory. The apparent readiness of many leading university licensees to cease doing business with factories that have chosen to respect workers rights – whether because of increases in production costs associated with labor rights compliance or on other grounds – remains one the most troubling obstacles faced by the WRC in its efforts to reform purchasing practices in the collegiate licensed apparel industry.

⁷ As previously noted, according to Indonesian law, workers are entitled to twice the severance benefits if their employer is not bankrupt as they would be owed if it were. *See*, Act 13 of 2003, *supra*, n. 2. Whether or not 1.25 times the severance benefit owed in case of bankruptcy meets the legal standard depends on whether Kwangduk Langgeng was truly bankrupt at the time workers' employment was terminated. As due to lack of convincing evidence in either direction, the WRC was not able to reach a finding on this question before the settlement between the union and the company was reached, the question remains unanswered.

⁸ According to workers, a company called PT BTS opened in July 2010 on the site of Kwangduk Langgeng. However, there appears to be no relationship between PT BTS and Kwangduk Langgeng.