WORKER RIGHTS CONSORTIUM

To: Primary Contacts at WRC Affiliate Colleges and Universities
From: Scott Nova
Date: May 9, 2011
Re: Workers Owed $2.3 Million by Supplier to Nike, adidas, Dallas Cowboys

I write to provide you with initial information concerning labor rights violations at a supplier of university logo goods in Indonesia. The factory, PT Kizone, shut down abruptly after its foreign owner fled the country, failing to pay workers at least $3.3 million in legally mandated severance. As of this writing, at least $2.3 million is still owed to the factory's 2,800 workers. We have communicated with those customers of the factory we have been able to identify, urging them to take whatever measures are necessary to ensure that workers are paid the money to which they are legally entitled.

Both Nike and adidas/Reebok have reported that they made university logo goods at the factory, which is located in Tangerang, Indonesia (Nike originally informed the WRC about the situation). Another company that is a licensee for some universities, Dallas Cowboys Merchandising (the logo products arm of the Dallas Cowboys) has acknowledged producing at the factory. We also understand that Robinson Manufacturing, the parent company of College Concepts, another collegiate licensee, sourced from the factory – but College Concepts has not responded to communications seeking information concerning its relationship with PT Kizone. Another corporation that has played a significant role at the factory is a Korean sourcing company called Green Textile. This company served as a buying agent or contractor for Nike, adidas and Dallas Cowboys Merchandising, placing direct orders at PT Kizone for all three companies.

Like many countries in which collegiate apparel is produced, Indonesia requires employers to pay substantial severance to workers in the event that a factory closes, or if workers otherwise lose their jobs through no fault of their own. It is important to understand the central role that mandatory severance plays in a country like Indonesia in protecting workers and their families. Indonesia has no unemployment insurance or other substantial safety-net programs. The purpose of mandatory severance is to play the role that social insurance programs play in wealthier countries like the United States. Workers also do not make nearly enough money to accumulate significant savings; the regular wage for workers at PT Kizone was about 60 cents an hour. Compliance with the severance requirement is therefore among the most important obligations of employers – because when workers are denied the severance they are legally due, they have nothing else to fall back on.

The original severance obligation at PT Kizone was at least $3.3 million – an average of nearly one year's salary per worker, at minimum wage. According to Nike and Green Textile, the latter agreed to pay $1 million to workers and signed an agreement to this effect with a union representing the workforce, known as SPSI. This payment, while it constitutes a positive step, represents no more than 30% of the funds workers are owed and therefore does not resolve the situation. It leaves workers without at least $2.3 million in income they earned and to which they are legally entitled.

An unusual aspect of this case is that Green Textile has reported that it intends to buy PT Kizone in a pending bankruptcy auction and re-open the facility. However, it is unclear whether this sale will take place and Green Textile has not made any firm commitment, in the event that it does buy the factory, to rehire the workers employed at the factory at the time of its closure. It also does not appear that the pending sale is likely to have any positive impact on the unresolved severance issue.

The WRC is currently researching the issues at PT Kizone to determine the following:

-The exact amount of funds owed to workers and the amount of money actually received by workers to date
-The circumstances under which the agreement between Green Textile and the SPSI came about
-The perspective of workers on this agreement
-The nature of the financial relationship between Green Textile and PT Kizone

What is clear, at this point, is that the factory has failed to pay a large amount of legally mandated compensation to nearly 3,000 workers – and that the factory's buyers have, to date, not taken sufficient steps to remedy this serious violation of workers' rights. We therefore wanted to make you aware of the situation at this juncture. The WRC has urged Nike, adidas and Dallas Cowboys Merchandising to take whatever actions are needed to ensure that workers are paid the money they earned while making goods at PT Kizone. We will also continue our efforts to determine the relationship between College Concepts and the factory, and to identify other buyers. We will keep you posted as to the response of the licensees, and other issues as additional information is gathered.

As always, please feel free to contact me if you have questions about this case.

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