



## WORKER RIGHTS CONSORTIUM

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To: WRC Affiliate Colleges and Universities  
From: Scott Nova and Jessica Champagne  
Date: November 21, 2011  
Re: WRC Update - PT Kizone

A number of affiliate universities have asked for an update on the case of PT Kizone, the factory in Indonesia that closed without paying workers \$3.3 million in legally mandated severance. Here is the latest information:

More than seven months after the factory ceased production, the 2,800 former Kizone workers still have not been paid nearly US\$1.8 million that they are legally owed (slightly more than 50% of the total). The licensees involved therefore remain in violation of university codes of conduct.

As we have previously reported, Nike and Green Textile, the company that placed orders at the factory on behalf of other buyers, have taken some meaningful action in this case, generating between them more than \$1.5 million in compensation to the workers; slightly more than \$500,000 was paid directly by Nike. This has made a significant difference for the workers and their families.

That said, we cannot support Nike's contention that it should only be expected to pay in proportion to its share of the factory's output. Under university labor codes, licensees are responsible for fully correcting code violations, whether they are 2% of a factory's business or 92%. As long as workers are compensated in full, then the buyers may divide the cost among themselves in any manner they deem equitable. However, when large sums are still owed to workers, all buyers remain responsible for correcting the violations of law and university codes. Nike has contributed, but its obligation will not be at an end until the workers are paid the money they are legally owed.

We have been informed by another company, the Dallas Cowboys, that they will contribute \$55,000 to compensate the workers. The Cowboys have taken the same position as Nike: they will pay in proportion to their share of the factory's output, which they report was 1.6%. The Cowboys' payment will amount to a few days of pay per worker. It will help, but it does not represent significant progress toward a solution.

The Cowboys' modest payment is indicative of the dangers of a proportional approach. At many collegiate factories, the university licensee or licensees represent a small percentage of the factory's sales. If licensees are only expected to remedy cases of non-payment of legally mandated compensation in proportion to their share of a factory's output, then "successful" remediation at collegiate factories will often mean workers will be paid only 2% or 3% or 5% of the money they have earned. For obvious reasons, this is not a sustainable approach to correcting labor rights violations.

The other university-related buyer, adidas, has contributed nothing to compensate the PT Kizone workers. Adidas continues to take the position that it will not pay money to workers at its supplier factories, in this or any other case.

The steps adidas reports having taken in this case do not address the violations of law and university codes. Adidas says it is aiding workers with job placement at other factories. Even if such a program were pursued effectively, in close cooperation with worker representatives, it would not do anything to pay workers the money they are legally owed. In this case, the union that has been advocating for the workers since the closure has reported to us that it has never

been contacted by adidas about this program and that few workers have benefited. Adidas also says it has convened meetings involving government and industry officials from Indonesia and South Korea (the latter is the home country of PT Kizone's owner) to discuss the case. As we have learned from past cases, it is highly unlikely that such discussions will produce any money for the workers.

Adidas has not fulfilled its obligations under university codes of conduct to correct the serious labor rights violations at PT Kizone. The WRC's communications with adidas have not led to any change in the company's posture. We are hopeful that direct engagement by adidas' licensor universities, which we understand a number of institutions are pursuing or intend to pursue, will have an impact. Additional steps are also needed by Nike and the Dallas Cowboys.

If the licensees do not make the workers whole, we see no realistic prospect that they and their families will ever receive the money they earned. PT Kizone's assets are currently being auctioned off through the Indonesian bankruptcy court. However, bidders have so far only expressed interest in smaller assets, such as vehicles, and less than \$20,000 has been raised to date. It is not even clear that any portion of this small amount will be paid to the workers; the funds are being held by the trustee appointed by the court and many other creditors of PT Kizone are lined up demanding payment. Also, while Green Textile had initially expressed interest in buying PT Kizone and continuing to operate the factory, it appears that they no longer plan to do so.

Meanwhile, the hardship of the affected workers and their families is deepening. The money generated by the earlier payments by Nike and Green Textile (an average of \$550 per worker) has in many cases been exhausted, spent on daily living costs.

The WRC is working to assess the impact on the families over time. Among the most notable consequences we have observed is a loss of educational opportunity. For example:

- Budi, a 29 year old machine operator, reports that the loss of his income has made it impossible for him and his wife to pay their two daughters' school fees for the current school year. (In Indonesia, public schools charge tuition.) While the tuition for Budi's two children combined is less than US\$10 per month, he and his wife do not have even that much to spend since the factory closed. Budi's wife works, but earns less than minimum wage. The family also faces hunger. "If we could eat [properly] even once a day, we would be very grateful to God," Budi told an interviewer.
- Iyam, a 32 year old sewing operator, reports that she has searched unsuccessfully for work since PT Kizone closed. If she received the rest of her severance payment, Iyam says, she would use the money to put her junior-high-school-aged daughter back in school and to make badly needed repairs to her home.
- Saidah, who worked in the screen printing department and is 55 years old, reports that her son has completed all the coursework to obtain a high school degree – but now she cannot pay for his final paperwork. Without the high school degree her son has been working towards, she worries he will not be able to get a decent job to support himself and to support Saidah as she ages. Even workers in their thirties are often told that they are too old to be hired in the garment sector; a worker Saidah's age faces very significant challenges.

As always, please contact us with any questions or thoughts about this update.

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