



## WORKER RIGHTS CONSORTIUM

### **Case Summary: PT Hann Chang (Indonesia)**

November 30, 2008

In response to complaints received from individual workers and the Indonesian trade union GASPERMINDO in February of 2007, the WRC initiated an investigation at a factory known as PT Hann Chang Indonesia (hereafter “Hann Chang”). Before closing last year, Hann Chang employed roughly 1,500 workers. The factory is located in Tangerang, Indonesia, twenty-five miles outside of the capital city of Jakarta. Hann Chang is owned and operated by a Taiwanese company, the Handsumtex Group, which continues to operate two other garment facilities in the Jakarta area. Handsumtex Group has been disclosed as a supplier of collegiate apparel to licensee adidas, and Hann Chang also produced for non-collegiate brands Lululemon, Athletica, Life is Good, and Prominent.

The event that triggered the worker complaint was the announcement by management in mid-February that the factory would be closing and that workers would be paid an amount of severance substantially below the minimum required by law. The complaint also alleged other violations, primarily in the area of freedom of association. However, given that the factory was on the verge of closure at the time the assessment was initiated, the WRC’s inquiry focused primarily on those aspects of the complaint that related to the shut down: the alleged failure to pay severance as required by law, failure to negotiate the terms of closure with worker representatives, and coercion of workers to accept illegally low severance payments.

On the issue of the amount of severance paid, the WRC found that the amount offered by Hann Chang was below the minimum required by law. Indonesian law requires that employees who are terminated receive three types of compensation: 1) separation pay, which is based on the worker’s seniority at the factory; 2) service appreciation pay, for workers with three or more years’ seniority; and 3) compensation for specific expenses including unused annual leave, transportation, housing, and medical care. The separation pay is by far the largest single component of the terminal compensation. In the case of Hann Chang, management offered to pay workers only 50% of the separation pay to which they were entitled by law. The WRC’s finding on this issue was confirmed by the local office of the Indonesian Ministry of Manpower, which ruled on March 26, 2007 that workers were entitled to twice the amount of separation pay that the factory had offered. The Manpower Ministry verdict was issued in response to a petition filed by workers on February 23.

The worker complaint also alleged that management had refused to engage in negotiations over the closure process and severance terms with the union representing Hann Chang employees. According to worker testimony, while management initially pledged to participate in negotiations with the union, the owner of the factory subsequently reneged on the commitment, stating that the manager who had offered to engage in discussions with the union had done so without the owner's consent. Following this announcement, representatives of management refused to engage in severance negotiations despite multiple attempts by the union to initiate discussion on the subject. The WRC also found that Hann Chang management refused to cooperate with the mediation process conducted by the Manpower Ministry, failing to attend multiple meetings and a hearing called by the Ministry in response to the workers' complaint (for this reason, the Manpower Ministry's verdict was reached without input from the company).

Shortly following the closure announcement, management began efforts to coerce workers to accept the illegally low amount of severance being offered by the company and, by doing so, to forfeit their right to be represented by the union in its demand for full severance. Workers who accepted the severance offered by management were required to sign a statement resigning their membership in the union and pledging to withdraw their name from the collective complaint that the union filed with the government. The coercion of workers to accept management's severance offer took several forms. First, although the closure and layoffs were effective February 19, management did not pay workers their final wage on that date; instead, the final wage was paid at the same time as severance, meaning that workers had to accept their severance pay in order to receive their wages. Second, according to worker testimony, workers were told that if they did not accept the severance offered by management, the factory would not issue them a positive letter of reference and they would therefore be unable to obtain employment at other factories. The intimidation and coercion took a disturbing turn in late June when union leaders were threatened with violence by local thugs apparently working at management's behest. The apparent purpose of these threats was to deter the union from continuing to press for full severance on behalf of those workers who had not yet accepted management's offer.

Hann Chang management refused to cooperate with the WRC's inquiry or respond to our recommendations in any way. In late March, the WRC contacted licensee and major Handsumtex buyer adidas; the union had also contacted adidas in February to complain about Hann Chang's actions. Adidas' efforts to compel the factory to negotiate with the union and comply with the law with regard to severance obligations were unsuccessful. Although adidas had, according to its own estimates, represented roughly 25% of Handsumtex Group's business in prior years, order levels were being reduced beginning in late 2006 as a result of a dispute between adidas and Handsumtex, the details of which were never made fully clear to the WRC. Factory management told workers that the reason for the closure was a loss of adidas orders, an explanation that adidas firmly denied. Handsumtex was completely unresponsive to recommendations from adidas that the company negotiate with the union and pay full severance. In light of this noncooperation, it was suggested that adidas withhold payment to Handsumtex on

outstanding orders in an effort to pressure the company to comply with the Manpower Ministry verdict. Unfortunately, adidas declined to take this step, reportedly based on advice from its legal department that the withholding of payment might create a legal liability for the brand. It is the WRC's understanding that adidas' final orders with Handsumtex were completed several months later, in late 2007.

Following the factory's failure to comply with the Manpower Ministry's ruling, and because verdicts from that Ministry are not legally enforceable, the union brought a case against the company to the Labor Court. Unsurprisingly, the Labor Court ruled against the workers. It is widely understood in the labor rights community that the Labor Courts in Indonesia are notoriously ineffective and biased toward employers; it is very rare for the court to side with workers, regardless of the circumstances. In this case, the court ruled that Hann Chang had closed due to bankruptcy and was therefore not obligated to pay more than 50% of the separation pay (the law does permit bankrupt companies to pay less than full severance). The court accepted Hann Chang's claim that it had closed due to bankruptcy, despite the fact that the company had failed to undergo any financial audit to demonstrate its financial condition, as the law clearly requires. After the Labor Court verdict, those remaining workers that had, as of that date, not yet accepted management's severance offer decided to accept the payment. These workers did so out of both financial need and a growing conviction that the factory could never be compelled to pay the full amount. After accepting the company's offer, workers ceased their active demands for full severance. Given adidas' cessation of business with the Handsumtex Group, no meaningful leverage remained over the company.

It was alleged that Handsumtex closed the Hann Chang facility in retaliation for workers' exercise of their associational rights. Of Handsumtex's three facilities, only Hann Chang had a union that was actively pressing for improvements in wages and working conditions. Workers testified to the WRC that the company had carried out a number of anti-union actions during the year prior to the closure. Hann Chang management also openly blamed the union and a strike it held in 2006 for the company's loss of orders from adidas, which, according to the company, was the cause of Hann Chang's closure. Although this information raises serious concerns that the closure was motivated by anti-union animus, reaching a firm conclusion with regard to this allegation was not possible.

In sum, the allegations of non-compliance with university codes of conduct raised in the complaint were found to be accurate. However, due to a lack of effective leverage, efforts to compel the company to undertake corrective action were unsuccessful; no meaningful remediation was achieved.