FLA Statement Regarding a Report on Factory Closings in Sri Lanka

In response to concerns about the closure of three garment factories of the Jaqalanka Group in Sri Lanka in February and March 2008, the Fair Labor Association (FLA) commissioned an investigation to determine the causes of the closures. T-Group Solutions, an independent monitoring organization based in New Delhi, conducted the research with assistance from CSR International of Colombo, Sri Lanka. The investigation was commissioned in May 2008 and the final report (see attached) was completed in September 2008.

The investigation was launched to ensure that all standards in the FLA Workplace Code of Conduct were being observed in the factories’ closure, as well as to make sure that facts about the role of the Free Trade Zones and General Services Employees Union (FTZAGSE) were not being distorted to undermine freedom of association in Sri Lanka.

The FLA first reported on the Jaqalanka Group in 2003 following the investigation of a Third Party Complaint filed by an FLA-affiliated company. The complaint was resolved with the signing of an agreement between the union and management that resulted in a breakthrough recognition of the trade union FTZAGSE – formerly known as the Free Trade Zone Workers Union (FTZWU) – in an export processing zone in Sri Lanka.

The Jaqalanka Closure Report’s central finding is that a complex set of economic and financial challenges, beginning as early as 2006, were the primary factors that ultimately led to the closing of the Jaqalanka Group factories. Increasing costs of raw materials, fuel, electricity, and transportation, as well as the tight pricing structure in the woven garment industry, created financial pressures on the Jaqalanka Group. An acute shortage of skilled labor in Sri Lanka that resulted in escalating wage rates was also identified as a contributing factor for the closures.

Of particular significance to the FLA is the report’s finding that the factory closures were not a result of any activities or financial demands of FTZAGSE, which represented workers in two of the three factories. According to the report, management and union leadership both confirmed they have had a positive working relationship since the 2003 agreement was signed, including in recent discussions about potential closures and settlement of worker claims.

“Freedom of association is an absolute cornerstone of the FLA Workplace Code of Conduct,” said Auret van Heerden, FLA President. “This report verifies that the accusations against the FTZAGSE are unwarranted. We cannot emphasize this point
enough, as any misrepresentations threaten to weaken the progress for freedom of association in Sri Lanka.”

In accordance with international labor standards, the FLA Workplace Code of Conduct states that employers shall recognize and respect the right of employees to freedom of association and collective bargaining. The FLA expects its affiliated companies around the world to be rigorous in their adherence to this essential principle.

The FLA recognizes the need to continue monitoring the status of the settlement process at Jaqalanka. Worker dues and payments have not yet been made, although the report shows that the appropriate procedures are being followed through Sri Lanka’s government and suggests that most affected workers have been absorbed back into the workforce. The FLA encourages Jaqalanka, consistent with the report’s recommendations, to be diligent in expediting its liquidation process and continuing to working closely with the union to reach a final settlement for worker claims.