



WORKER RIGHTS CONSORTIUM

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To: Primary Contacts at WRC Affiliate Colleges and Universities
From: Scott Nova
Date: June 10, 2011
Re: WRC Update: PT Kizone (Indonesia)

I write to update you concerning PT Kizone, the factory that closed at the beginning of this year and failed to pay its 2,800 workers at least \$3.3 million in legally mandated compensation. Kizone produced collegiate apparel for Nike and adidas/Reebok and non-collegiate apparel for another university licensee, the Dallas Cowboys. The WRC learned of the violations from Nike, which contacted us in April to inform us of the situation.

Unfortunately, the issues at this facility are far from resolved. As of today, workers are still owed at least \$2.3 million – money they worked for and to which they are legally entitled.

In a recent communication to universities, Nike referenced an agreement between the union at the factory and Green Textile, the company that placed orders at the facility on behalf of Nike, adidas/Reebok and the Dallas Cowboys. It has been Nike's position that this agreement, under which \$1 million was paid to workers, settles the issues at Kizone.

The WRC has had extensive communications with the relevant parties, interviewed former Kizone workers, and reviewed a range of relevant documents. While our inquiry is ongoing, we have determined the following information concerning the agreement:

1. Under the agreement, workers were paid no more than 30% of what they are legally owed by the factory.
2. In order to receive this money, each worker was required to sign a document stating that he or she will not seek any further compensation from Green Textile. Workers have testified that they agreed to sign these documents only because they would otherwise have received nothing.
3. Under the agreement, if Green Textile were to fail in its current efforts to buy Kizone, and if the ultimate buyer were then to agree to pay workers some of the severance they are owed, this money would go not to the workers, but to Green Textile – until Green Textile is paid back for its \$1 million.
4. Unsurprisingly, and notwithstanding the individual agreements they were required to sign, many former Kizone workers are publicly protesting the agreement and seeking ways to ensure that they are paid the money they earned. At this [link](#) you can see a photograph of a large meeting involving hundreds of workers, held recently to discuss this issue.
5. The agreement between the factory-level union and Green Textile is not only morally questionable, but is in violation of university labor codes. The agreement calls for workers to accept compensation that is a fraction of their legal entitlement. University codes of conduct require licensees to ensure that their factories pay workers in accordance with the law – an agreement whereby workers accept less than legal minimum compensation thus violates university codes. The same would be true if a union were to sign an agreement with a factory saying it is okay if workers are not paid for overtime, or that it is fine if workers never get a day off, or that the union has no problem with discrimination against female employees. A company's university code obligations cannot be avoided simply by getting a union to sign an agreement saying that the law no longer applies.

6. Serious questions have been raised about the legitimacy and the motives of the factory-level union officials who signed this agreement. Worker testimony strongly indicates that the deal to accept 30 cents on the dollar was made before many workers had even authorized the union officials to negotiate on their behalf. The factory-level union's parent body has denounced the agreement as morally illegitimate and has challenged the propriety of the factory-level officials' actions. The parent body is aiding workers who are seeking to challenge the agreement.
7. The agreement may not be legal. A judge of the Indonesian commercial court, which is dealing with the factory's closure and potential bankruptcy, has found that Green Textile and the union did not have the right to reach an agreement of which Kizone itself is not a part.

In addition to these concerns, there are major unanswered questions about Kizone's finances and creditors, and about Green Textile's plans to buy Kizone. For example, it is unclear why Green Textile wants to pay \$4 million to buy an apparently debt-saddled business – one whose liabilities, by all accounts, greatly outweigh its assets. Green Textile's agreement with the Kizone union is designed to ensure that it will not have to pay workers the remaining \$2.3 million in legally mandated severance; however, the factory has many other creditors who wish to be paid. If Green Textile buys the business, it will be assuming these liabilities. What we have not been able to determine is why Green Textile is willing to do so. We are, of course, interested in particular to know if there are hidden financial assets at Kizone that could be used to pay the workers. Equally puzzling is the fact that the largest of Kizone's creditors is a company that is owned by the same person who owns Kizone – the individual who fled Indonesia, thereby precipitating Kizone's closure. This company, called PT Selaras Kausa Busana, is also an apparel factory and is claiming that Kizone owes it roughly \$8 million. We have not yet been able to determine how this debt was created and whether PT Selaras Kausa Busana has assets that could be used to pay the workers. We are continuing to research these issues.

It is the responsibility of Kizone's customers – including Nike, adidas, the Dallas Cowboys, and Green Textile – to ensure that the workers who made their clothing are paid the money they legally earned. As in the case of the Huggo and Vision Tex factories in Honduras, if the factory will not pay, then the licensees and other brands must either compel the direct contractor/agent, Green Textile, to do so or must find some other means. What is not acceptable from a code of conduct standpoint is for workers who were paid barely 60 cents an hour to simply be robbed of the equivalent of half a year's salary.

We are concerned about the approach the brands are taking toward their responsibilities.

Nike's approach, while problematic, has been better than that of the other buyers. Nike disclosed the violations and has been in ongoing dialogue with various stakeholders. At the same time, it is unfortunate that Nike has treated the \$1 million agreement as a legitimate settlement. We learned today that Nike has decided to revisit the issue. The company stated in an email communication this morning: "Based on information provided by the WRC, Nike has agreed to re-examine the situation at PT Kizone." This is positive. In the end, however, Nike and the other buyers can only be judged on one basis: whether the workers receive the money they earned.

Adidas and the Dallas Cowboys have been significantly less forthcoming than Nike. Adidas has reported that it stopped producing at Kizone last year because Kizone and Green Textile no longer wanted to have adidas production in the factory, preferring to devote the capacity to other customers. Adidas has suggested that this means it has no further obligations to the workers. If adidas' relationship with the factory was indeed permanently ended prior to the closure, and if adidas' departure was indeed involuntary, then it can be argued that this somewhat reduces adidas' responsibilities. However, the fact remains that Kizone workers earned severance while making adidas' products in the recent past – and were then illegally denied the money they earned. Adidas must therefore accept some responsibility for correcting the violations. In past cases of a similar nature, adidas has at least acknowledged responsibility. We hope this case will not prove to be an exception.

The Dallas Cowboys have taken the position that they have no responsibilities to the Kizone workers. The rationale the Cowboys have provided is 1) that they paid for the products that were made at Kizone, and 2) that they were not producing at Kizone at the time of the closure. Neither of these arguments has any validity. The mere fact that a company pays for the products it

sources from a factory does not absolve it of responsibility for protecting the rights of the workers at that factory. If this were the case, there would be no need for codes of conduct, monitoring programs, or university labor policies – brands could simply show proof of payment and leave it at that. We have never previously heard a company make this claim and we hope other companies will not adopt this posture. It is also not relevant whether a company has orders in a factory at the precise moment that labor rights violations are committed. Apparel is a cyclical business: it is very common – indeed, with respect to some products, it is the norm – for a company to be one of the key customers of a given factory, yet only have orders in that factory for a few months out of the year. The question from a labor rights standpoint is whether a factory made products for a given brand and whether that sourcing relationship was recent and/or ongoing. In the case of the Cowboys and Kizone, US Customs data show that the Cowboys received goods from Kizone most recently in August of 2010 – during the peak production period for NFL logo apparel. Thus, the Cowboys produced at Kizone during their most recent high season. In the context of a seasonal industry, this is the very definition of a recent sourcing relationship. In our experience, most licensees and other brands accept that their labor rights responsibilities apply to their whole supply chain, not just to those factories where their apparel happens to be on the production lines at a given moment in time. Indeed, this is one of the most fundamental principles of corporate social responsibility in the apparel sector. We hope the Cowboys will honor this principle and will accept that they have a responsibility to do their part to protect the rights of the Kizone workers.

We can also update you with respect to one other licensee: College Concepts. We have determined that this licensee did not produce at Kizone. As we reported to you in May, we had information suggesting a possible connection between the factory and College Concepts. As we also reported, we had not received, at the time of our update, a response from College Concepts to the communication we had sent them, asking if such a relationship existed. We therefore could not, at that time, state any conclusion as to whether College Concepts had produced at Kizone. Subsequent to our update, however, College Concepts informed us credibly that no such production occurred. I should also note that College Concepts' failure to respond earlier to the WRC's inquiry was apparently inadvertent. To their credit, they did get in touch with us promptly after our update was circulated.

We have urged those licensees that sourced from Kizone prior to its closure to take whatever steps are necessary to ensure that the violations are corrected and that workers receive all of the compensation to which they are legally entitled. We hope that these companies will take effective action in this regard. We are also continuing to research the facts on the ground and we will provide updates as information becomes available.

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

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