



WORKER RIGHTS CONSORTIUM

To: Primary Contacts at WRC Affiliate Colleges and Universities
From: Scott Nova
Date: September 8, 2004
Re: Update on PT Dae Joo Leports

Dear Colleagues,

On August 1, the PT Dae Joo Leports factory in Indonesia was permanently closed. All production orders have been shifted to China where the factory's parent company, the Dae Joo Corporation, operates another facility. This is particularly discouraging because DJL was a factory that had made great progress towards respect for worker rights through the enforcement of college and university codes of conduct. The fact pattern suggests that Dae Joo chose to shut down this factory not because it was incapable of turning a profit, as the parent company claimed publicly, but because of a desire to escape from the modest cost increases associated with real code of conduct compliance. These costs included the cost of health care for workers and their families, something that is required by Indonesian law but rarely provided, and the obligation to bargain in good faith with an independent union. (For more information on the remediation process at PT Dae Joo Leports, see the WRC's report on PT Dae Joo Leports.

The shutdown occurred despite the intervention of two collegiate licensees who were long-standing customers of the Dae Joo Corporation: adidas (and its licensee, Agron) and VF (through its subsidiary, Jansport). The WRC raised alarms about the planned closure at the end of May and urged the licensees to press Dae Joo to keep the factory open until and unless it could demonstrate that there were legitimate reasons behind the closure decision. Administrators and students at a number of universities communicated with the licensees to encourage appropriate action. As a result, both adidas and VF engaged Dae Joo on the issue for several weeks. The WRC stayed in close communication with all of the parties, including workers and their unions in Indonesia.

In the end, in response to the refusal of Dae Joo to document its claims as to the reasons for the shutdown, adidas terminated its relationship with the company. This occurred in mid-July. Within days, top Dae Joo executives flew to the United States to meet with VF/Jansport, Agron, and the WRC. During the WRC's meeting with the Dae Joo executives, it became clear that the company was willing to consider keeping the factory open in order to win adidas back as a customer. Unfortunately, it proved to be too late in the closure process to reverse the decision -- PT Dae Joo Leports had already ceased operations and all orders and cloth had been transferred to China.

Dae Joo's reaction to adidas' decision suggests that the outcome could have been different. Had both licensees made it clear to Dae Joo at the outset that failure to keep the factory open (and/or to demonstrate that the closure was legitimate) would result in termination of the business relationship, it is possible that Dae Joo would have reversed its closure decision. Both adidas and VF/Jansport were pessimistic from the beginning that Dae Joo would reconsider the decision to close, and this led the licensees to focus more of their attention on the size of severance payments than on the issue of closure. While the WRC shared the licensees' desire to ensure that the workers

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receive proper severance in the event that closure occurred, we felt that closure itself was not a foregone conclusion. The two licensees collectively represented over 60% of Dae Joo's worldwide sales and therefore possessed! enormous leverage. Had this leverage been applied more aggressively, and sooner, to an effort to keep the factory open, the licensees might have succeeded.

Prior to terminating its relationship with Dae Joo, adidas had issued a series of increasingly stern warnings to the company -- on the severance issue and also, to a lesser degree, on the issue of closure. However, Dae Joo was at a point where only the threat of the permanent loss of business could sway them and the company apparently did not take the threat seriously until adidas actually sent a termination letter. This opened the door to a discussion of alternatives to closure, but at that point it was too late.

On the positive side, the licensees did have a very substantial impact on the issue of severance for the 1,300 workers who lost their jobs with the closure of the factory. Both licensees pushed Dae Joo hard on this issue, not only to pay the legal minimum severance but to pay substantially more (to make up for Dae Joo's mishandling of the closure process). Had it not been for the outside pressure, it is quite possible that the workers in Indonesia would have received nothing -- it is common in Indonesia for factories to close and simply to ignore their legal severance obligations. At best, workers would have received half of the legally mandated amount of severance, which is the most Dae Joo was prepared to pay until the pressure from the licensees became intense. In the end, thanks to this pressure, the union at the factory was able to get a severance agreement that called for the full legal amount of severance plus an additional three months' severance for every worker and a three month extension of family health insurance. This was the full package that the licensees had demanded and their efforts were central to achieving it.

Severance is obviously not a substitute for a job, but the severance amounts are large enough that they will make a tremendous difference for these workers and their families as they begin the search for alternative employment. The WRC monitored the distribution of severance, which was completed without incident.

The amount of severance each worker received was based on seniority, as follows:

6 years of seniority = 23 months' severance
5 years of seniority = 19 months' severance
4 years of seniority = 17 months' severance
3 years of seniority = 15 months' severance
2 years of seniority = 9 months' severance
1 year of seniority = 7 months' severance
Less than one year = 5 months' severance

The monthly wage at the factory was roughly \$80 (U.S.).

In assessing the response of adidas and VF in this case, it has to be noted that neither company had taken any significant action, on closure or severance, until the WRC sounded the alarm in May. Nor was either licensee aggressive enough, early enough, in challenging the decision to close the factory. On the other hand, after both universities and students sent a strong message about the need to keep the factory open, the licensees did intervene strongly with Dae Joo and they followed through admirably on the severance issue. There is no question that without their intervention workers would have received far less than they did and far less than the legal minimum.

We are confident that both licensees will show the same commitment to ensuring proper severance

in any future cases where supplier factories close. And we hope that both will be quicker and more aggressive in challenging such closure decisions outright when circumstances warrant.

Please contact me if you have any thoughts or questions about this update.