

To: WRC Affiliate Colleges and Universities
From: Scott Nova and Jessica Champagne
Re: Kukdong (Indonesia) Workers Receive Full Severance
Date: December 13, 2019

We are pleased to write to you, for the second time this month, with the news that Indonesian workers who produced collegiate apparel have received the full amount of severance they are owed under law. Earlier this month, we [wrote to you](#) to inform you of the successful payment, some months after the factory closed, of \$4.5 million in severance to Indonesian workers who had produced collegiate apparel at PT Kahಿಂದා Citragarment.

Today, we are glad to report that the 1,021 workers employed at PT Kukdong International (“Kukdong”), another Indonesian garment factory, received the full severance they were owed—more than nine million dollars—at the time that the factory closed in September 2019. While this closure remains a sad event for these workers, the prompt and full payment of this amount of severance is a rare occurrence in Indonesia, where—as in many countries where collegiate apparel is produced—the theft of legally-required severance payments remains a major challenge for garment workers.

This payment, which will have a sizable and lasting impact on each of these workers and their families, is a testament to the value of university codes and the work by Indonesian workers and their allies to hold their employer accountable. It also reflects recognition by Nike and Fanatics of their obligation to ensure that Kukdong provided the funds required by Indonesian law and university codes.

PT Kukdong International, which was located in Bekasi City, West Java, Indonesia, was owned by a Korean firm, Kukdong International Corporation, which operates a global network of garment and apparel factories. (One of Kukdong’s Mexican facilities had been the site of one of the WRC’s [first investigations](#) and remedial engagements in 2001, which resulted in successful corrections of violations of workers’ right to freedom of association.) PT Kukdong International produced collegiate apparel for Nike and non-collegiate apparel for Fanatics.

While the factory was still operational, the workers at Kukdong had formed unions affiliated with two labor federations, the National Workers Union ("SPN") and the Federation of All Indonesian Democratic Unions ("FSBDSI"). The terms of employment for workers at the Bekasi factory were determined by a collective bargaining agreement between the employer and the two unions.

This case was first brought to the attention of the university community by United Students Against Sweatshops and the International Union League for Brand Responsibility ("the League"). As noted in a [WRC communication](#) dated November 7, 2018, the students raised concerns about the implications of shifts in Nike's Indonesian production and the potential for closure and severance concerns at this factory specifically. This early alarm from the students, the unions, and their allies ensured that there was full scrutiny on Kukdong's actions as it moved toward closure.

Also important to this outcome was the WRC's exposure of the unlawful underpayment of severance by PT Kahಿಂದah and the successful effort to secure back pay from that factory—a process that sent a powerful message to Kukdong that any effort to evade full payment was likely to fail.

The factory ceased operations on September 21, 2019. In advance of the closure, two unions representing employees of the factory, with the support of the League, negotiated an agreement with Kukdong to guarantee full payment of severance in accordance with Indonesian law. In August 2019, both Fanatics and the League contacted the WRC to facilitate arrangements such that the WRC could monitor the distribution of the promised severance to ensure compliance with local and international regulations.

Announcement of Closure and Commitment to Pay Workers in Full

On August 13, 2019, Kukdong convened a meeting with the two unions, during the course of which Kukdong announced that the factory would cease operations on September 21, 2019. Factory management stated that Kukdong had chosen to shutter the facility because of its high production costs, which management attributed to the relatively higher minimum wage in the region where the factory was located. This is a common reason cited by employers for factory closures in Indonesia, as, increasingly, factory owners are deciding to move production out of West Java and the greater Jakarta area and into other provinces to take advantage of the wide disparity in regional minimum wages.

During the meeting, the factory also stated that Kukdong would make severance payments in accordance with Indonesian law and that these payments would be transferred to the workers on September 27, 2019.¹ Under Indonesian law, in certain cases, including when a factory is closed but the parent company continues to operate, the employer must pay workers severance at a rate of two times the base rate that is set for other types of closures. Due to this substantial severance burden, factory owners frequently either abscond without providing any severance or engage in illegal means to deny workers the full sum they are owed. Given this, it was exceptional that Kukdong, no doubt in response to a clear message from its buyers, resolved to fully meet the obligations of Indonesian law.

After reaching an agreement with the union during a second series of meetings held from August 19 to August 23, 2019, Kukdong called in each worker to explain the closure process, their nominal severance rights, and the methods that would be used to distribute severance funds; after which, workers were asked to sign a document agreeing to the procedure.

In total, Kukdong agreed to pay its 1,021 former workers IDR 129,830,951,494 (\$9,250,180), before income taxes. These payments were made on September 27, 2019.

Data and Disbursement Verification

To confirm that the appropriate payments had been made, the WRC undertook a verification process. First, in conjunction with worker representatives, a WRC investigator reviewed documents, notably the severance calculations performed by Kukdong and a sample of workers' pay slips. The WRC confirmed that the proper calculations had been performed. Second, the WRC conducted interviews with a sample of former Kukdong workers to confirm (1) whether the company's calculation was based on the proper figures for length of service and base pay and (2) whether the workers had in fact received the amount of severance pay reported by Kukdong. There were no irregularities found among the sample of workers verified by the WRC, and the WRC has not received any complaints of inaccuracies in the period since the initial payments. Given this, the WRC concludes that the payments have been properly calculated and provided to the workers.

¹ See, "Meeting Agreement on Closing Factory No. 06/KDI/UMUM/VIII/2019", August 13, 2019 (on file with the WRC).