



WORKER RIGHTS CONSORTIUM

To: WRC Affiliate Universities and Colleges
From: Scott Nova and Jessica Champagne
Re: PT Kizone: adidas' Ongoing Failure to Remediate
Date: October 23, 2012

We write to you concerning the PT Kizone case and the “food voucher” program that adidas has cited as evidence of its commitment to the former workers of this factory. Because adidas has placed so much emphasis on the food vouchers in its public communications, we want to make sure our university affiliates are aware of the nature of this program and of how it is viewed by workers. There are three key points:

- 1) **Worker representatives opposed this program as a means of aiding the PT Kizone workers**, both because they do not consider it a legitimate substitute for paying workers what they are legally owed and because the food vouchers, as structured by adidas, were of very limited utility. Worker representatives asked adidas not to use a food voucher program as a substitute for the kind of cash assistance provided to workers by Nike, which allowed them to make their own decisions about what to purchase, based on each families' needs. Adidas proceeded anyway.
- 2) **The food vouchers adidas provided were designed in a manner that reflects disregard for the needs of the affected workers.** Specifically, the food vouchers were a) valid only at a single chain of markets, Alfamart, which is similar to 7-11 and which workers do not patronize because they consider it to be overpriced, b) denominated in amounts substantially higher than what most workers would spend on food on a normal shopping trip, and c) non-refundable – meaning that workers could not get any change and had to use the full amount or lose the difference. For these reasons, and because workers in many cases had pressing needs other than food, many ended up trying to sell the vouchers, usually getting far less than face value. Workers describe the process of selling the vouchers, by offering them to neighbors or by standing in front of an Alfamart and trying to sell them to strangers, as humiliating and degrading. In addition, the process through which the vouchers were distributed was disorganized and unnecessarily burdensome to workers.

- 3) **From a legal and labor rights standpoint, in-kind assistance like food vouchers cannot be substituted for workers' lawful compensation**, except by agreement with workers' chosen representatives. As noted, adidas had no such agreement.

It is important to consider the workers' perspective. The money they are waiting for is money they worked for and earned. Nike has stepped up and ensured that the workers received close to half of what they are owed. Adidas has failed to step up, leading to severe and ongoing hardship for workers and their families. Now the workers see adidas, in response to public pressure, spending money on the case – but not to provide the cash compensation that workers need and to which they have a right. Instead, the workers see adidas spending hundreds of thousands of dollars on legal fees and public relations and on a food voucher program that workers did not want and that is of far less use than an equivalent amount in cash. Workers know that if their well-being and rights were the priority, there would be no conceivable reason to provide food vouchers instead of cash – since cash would have allowed each worker to buy the things her family needs most and since cash wages are what workers are owed in the first place. As they watch adidas spending money on everything *but* getting workers the money they are owed, the only logical conclusion workers can draw is that their needs and rights are not adidas' concern. Worker representatives, as well as the individual workers we have interviewed, have told the WRC that they see the voucher scheme as adding insult to injury. This is one reason why workers have been engaged recently in mass protests at adidas' Jakarta office.

It is worth trying to put ourselves in the workers' shoes for a moment. To do so, we might consider what it would feel like to lose a job, to be robbed of severance worth ten or twelve months' salary, to watch our families suffer for more than a year as a result, and then to be offered a tiny fraction of what we are owed – not in cash, but in the form of gift certificates to 7-11.

From a code of conduct perspective, the WRC cannot credit adidas' food voucher program as a remedial step vis-à-vis the violations of university labor standards at PT Kizone. Workers in Indonesia are, by law, paid in cash, not in food vouchers. The only way that an alternative form of payment would be appropriate is if it were negotiated and agreed with worker representatives. As noted above, there is no such agreement. If adidas wishes to make the workers whole and restore its compliance with collegiate codes of conduct, the company should pay the workers what they are owed and do so in cash.

In the remainder of this memo, we provide further details on adidas' food voucher scheme.

The Rejection of the Food Voucher Scheme by Worker Representatives

This July, more than a year after the denial of severance at PT Kizone was brought to adidas' attention, adidas paid a local firm to conduct two distributions of food vouchers on July 9-15 and

July 25-29. Each worker was eligible to receive vouchers totaling Rp850,000 (US\$89)¹, denominated at Rp50,000 each. These vouchers were issued by a local chain of markets called Alfamart, comparable to 7-11 in the United States.

After failing for more than a year to meet with the district-level leadership board (DPC) of the union SPSI TSK, the legal representative of the majority of the workers, adidas met with the DPC on June 12, 2012 and discussed the planned food voucher scheme. This meeting came about after the workers protested at adidas' office and at the German embassy in Jakarta. However, adidas did not come to the meeting prepared to engage in a negotiation. As the DPC noted in a letter dated July 8, "it was clear that adidas was not interested in a genuine discussion.... Rather, adidas had come simply to inform us of a decision they had already made."²

Before, after, and during the meeting with adidas, the workers rejected adidas' plan to provide the vouchers. On June 6, 2012, the DPC wrote, "our children are hungry, but food vouchers won't keep our children in school, nor our families in our homes."³ In the July 8 letter, the workers expanded on their explanation of why food vouchers are not a viable substitute for money. As they pointed out, many workers desperately need to pay back debts, to pay rent, and to pay the school fees that are mandatory even for public schools.

In addition, the voucher distribution took place just prior to the holiday of Eid al-Fitr. Many of the Kizone workers have sent their children to their home villages to live with the children's grandparents, since the workers could not fully afford to feed, school, and care for their children even while working at Kizone. Eid al-Fitr is the one time of year that they travel to their home villages to see their children; vouchers to a particular market do not help them to visit their children.

Prior to the distribution, several workers wrote in public statements that they viewed the food vouchers as an "insult." As one woman wrote, "I reject [the food vouchers] because for us, it is an insult, because it is nothing compared to our sweat from all the time we spent working with adidas."

Adidas showed no willingness to take the workers' clear rejection of their plan into account. Instead, the company moved forward as planned with the voucher distribution.

Worker testimony following the actual distribution is consistent with the DPC's prospective assessment of the vouchers' limited utility for workers. In addition, both the poor design of the vouchers and the unnecessarily onerous nature of the distribution process exacerbated the situation.

¹ All currency conversions in this document use the rate Rp9,590:US\$1, the rate as of October 15, 2012.

² Available at

<http://www.workersrights.org/Freports/Letter%20from%20Kizone%20Union%20to%20adidas%207.8.12.pdf>.

³ Available at

<http://www.workersrights.org/Freports/Letter%20from%20Kizone%20Union%20to%20adidas%206.6.12.pdf>.

Problems with the Distribution Process

Worker interviews indicate that workers were subjected to unnecessary delays, physical discomfort, and expense during the distribution.

Desmawana, a twenty-seven-year-old worker who was nine months pregnant at the time, reported that she left her home at 4 a.m. to travel for four hours to the distribution point for the first distribution. She arrived at 8 a.m., and stood waiting for a full day before being told to return the following day. On the following day, she again traveled the four hours and waited until late afternoon, with no place to sit, before receiving her vouchers. She reports that during the second distribution, she again had to wait eight hours before being served.

Worker testimony indicates that this worker was not alone; a significant number of workers had to pay for two days of transportation, and devote two days of time, in order to obtain each of the two rounds of vouchers. For workers already living far below the poverty line, this represents a significant burden. Suprapti, a thirty-four-year-old woman who had worked as a sewing supervisor, reports that on the first day, the distribution staff could only accommodate a fraction of the total number of workers who presented themselves. “It was hard...because each day they only processed 400-500 people,” she reported. “I felt bad for the people who came early in the morning, and didn’t receive a queueing number. They said it was because the vouchers were limited, and they were all gone...”

It is unclear why adidas required workers to come two separate times, once during the period July 9-15 and once during the period July 25-29, in order to receive their full allocation. The union reports that some workers who presented themselves only during the second distribution period, having missed the first distribution, were told that their first installment was no longer available.

Over the past six years, the WRC has helped oversee distributions of cash assistance to approximately 5,000 workers in five countries. Based on our experiences, we can see no reason why workers should be subjected to this level of disorganization and discomfort.

The Severely Limited Utility of the Vouchers

While the workers interviewed by the WRC were desperate for any help, they consistently reported significant frustrations with the food vouchers.

First, the vouchers could be used only at Alfamart, a chain of markets that primarily sells food, even though many workers urgently needed cash to cover pressing debts, school enrollment fees, housing, and other non-food expenses.

Second, the workers were not accustomed to shopping at Alfamart, which is very different from the neighborhood food stands or traditional markets where they usually buy their staples. Not only were they uncomfortable with this experience, but they report that prices at Alfamart are higher than the prices at these traditional markets and local food stands.

Third, the vouchers could only be spent in increments of Rp50,000, with no change provided. This is several times what workers generally spend on one shopping visit (most workers have no refrigeration in their homes and have no choice but to buy perishables in very small amounts). As Linda, a thirty-seven-year-old woman who worked at Kizone for thirteen years in the sewing department, explained, “the vouchers had to be used up just on food, and used all at once. The problem is, it has to be just the right amount.... If it's less, they won't give back change. If it's more, we can't cover the extra amount, because we don't have any money.” For workers who are scraping together every cent to cover basic expenses, vouchers that could only be spent on specific, overpriced goods, and could only be spent in a specific denomination, felt both unnecessarily burdensome and wasteful. As one worker said, “if they gave us the money as cash, we could buy what we need, for lower prices.”

As a result of these limitations, many workers chose to sell their vouchers, often at less than face value, in order to pay for other basic expenses. In interviews, eighteen workers who sold their vouchers reported that they sold them to pay debts, rent, electric bills, their children's school fees and school uniforms, and travel costs to return to their home villages. They consistently reported that they had to sell most of the vouchers for below face value. For a voucher worth Rp50,000, they generally received Rp45,000 or Rp40,000 – a loss of 10-20%. Several of the workers said that they could not find buyers for as many vouchers as they wanted to sell.

Workers commented repeatedly on the humiliation involved in reselling the vouchers. Some workers tried to sell them to neighbors, and commented on how embarrassing it was to have to approach their neighbors to make this request. Suprapti, the worker quoted above, reported that none of her neighbors could afford the vouchers. Unable to sell the vouchers in her neighborhood, Suprapti waited outside the door at Alfamart, trying to sell the vouchers to strangers who were shopping there. “I asked almost every person shopping there to buy my voucher. I felt so embarrassed, and so insulted,” she reported, “but I didn't have any other way to get money to pay for my children's needs and my rent. Thank God, there was someone who bought my voucher. Maybe they felt sorry for me.”

Suprapti explained why she had decided to sell the vouchers, saying that, “I was confused about having to shop at Alfamart, because I have children who are still in school, and we really need supplies for that. We need a uniform, and we need pencils. At Alfa, it's limited; they don't have those things. Alfamart is just for buying what you need for your stomach, but we had other needs that were more urgent.”

Linda explained her decision to sell the vouchers in similar terms. In her words, “We rarely shop at Alfamart, or supermarkets. We usually shop at the traditional market, or a local food stand. It's cheaper, and more complete. If it was money, we could pay for our children's needs, like books, school clothes, and shoes. Basically, if it was cash, we could use it for what we need.... At Alfa, we can only shop for food. But that's not the only thing we need, we have other needs. That's why we sold the vouchers to our friends or neighbors. I sold the vouchers one by one to my neighbors. I sold some Rp50,000 vouchers for Rp40,000. If I was lucky, I could get Rp45,000. I had to go every day to [ask] a neighbor, ‘Did they want to go to Alfa for milk or other things, [and] would they use my voucher?’”