

Summary

PT Akzo Nobel
Car Refinishes (ANCR)
Indonesia

Summary based on research by:

**Domi Savio Wermasubun, Bagus Musharyo, and Indro
Wicaksono, Business Watch Indonesia (BWI)
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1. Introduction

This report reflects the main findings of a research into Akzo Nobel's business operations in Indonesia, and focusing on the company *PT Akzo Nobel Car Refinishes* (ANCRI). The research was carried out with the consent of the company's local management, following a mutual agreement between FNV and the corporate head office of Akzo Nobel. Data collection was done through literature review (i.e. collecting secondary data about the company using the Internet and printed media), and in-depth interviews with workers, the union and local management.

Despite early approval from ANCRI, the research process was not easy. The collection of secondary data was difficult as information about the company was rarely published in the Indonesian media and the company does not have a website. Also, since ANCRI is not publicly listed, it does not release annual reports to the public. As a consequence, even basic information on the company was difficult to acquire.

Personnel changes at local management's level were also an obstruction. The President Director, who was an important source of information because of his in-depth knowledge of the company and its history, resigned three days before the date agreed for the interview. In January 2006, Ms. Julianti, who was the contact person, also resigned.

Information from the management was collected from the Quality, Health, Safety and Environment (QHSE) Manager and one other member of management. The interviews with workers were done in March and April 2005, involving 12 workers, five of whom were union leaders. Of the seven workers interviewed, three were female and four were male. Interviews with the management should have followed immediately, but a response from the management was delayed until January 2006. A request for research on ANCRI suppliers was turned down from the start. This report is solely based on the already mentioned interviews with workers and management. Further verification through direct observation by researchers or confirmation by third parties was not possible due to time constraints.

2. General characteristics of Akzo Nobel in Indonesia

Business description

Address and contact.

PT Akzo Nobel Car Refinishes
Jl. Pulogadung No. 37
Kawasan Industri Pulogadung
P.O. Box 1512
Jakarta Timur 13930
Indonesia
Tel: +62 21 4610191
Fax: +62 21 4610190

Presence in Indonesia: Since 1995. ANCRI is a direct subsidiary (international subsidiary) of Akzo Nobel N.V.

Shares and ownership: Totally owned by Akzo Nobel (100% shares).

Products: ANCRI produces automotive paint and thinner. The main products are Sikkens, Lesonal and Miluz.

Revenues: At the end of the fiscal year 2002 the estimated revenue was \$95.20 million in sales, with revenue per employee being \$462,135.¹

Employment and employment trends

During the interview, the management revealed that employment turnover at ANCRI is higher than the average in the chemical industry, which is 6%. This is especially true for the middle and upper management levels, but less so for the lower levels.

Employment at PT Akzo Nobel Car Refinishes

Category	Sex	Number
Staff	Male	40
	Female	13
Workers	Male	153
	Female	25
Permanent workers/staff	Male	186
	Female	42
Temporary workers/staff	Male	2
	Female	1
Total		462

Source: ANCRI

Relevant aspects of Corporate Social Responsibility

¹ Data from company profile purchased at <<http://goliath.ecnext.com/coms2/product-compint-0001155894-page.html>> (March 2006).

Interviews with the management indicate that Corporate Social Responsibility (CSR) is mostly associated with charity rather than being integrated aspect of the company's daily operations. ANCRI divides CSR into two categories: external and internal. The external CSR takes the form of "Community Programmes", while internal CSR is the implementation of Car Refinishes Draft Code of Business Conduct, available in the Indonesian language. The latter addresses topics such as discrimination and anti-bribery, but hardly touches upon specific labour rights. The interviewed workers and union leaders did not know about the existence of the Draft Code of Business Conduct.

CSR policies concerning labour practice are only found in the Company Regulation, which in Indonesia replaces, and therefore holds the same status as, a Collective Agreement in companies where the latter is non-existent. Interviews gave the impression that workers were not familiar with international standards, such as the UN Global Compact and the OECD Guidelines.

3. Labour relations

National Union Tradition

Indonesia does not have a strong union tradition. During President Suharto's New Order regime, the *All Indonesian Labour Union* (SPSI) was the only recognised union while all others were harshly oppressed. There are currently three union confederations that include 41 unions; about 40 non-confederated unions that are formally registered at the Ministry of Manpower; and an even larger number of non-registered unions. However, according to one estimate only about 3% of Indonesia's workers are unionised, there is no co-operation or solidarity between unions across companies or sectors, and there is little awareness of labour rights and standards.

At the same time, the Indonesian Labour Act No.13/2003 formalises the IMF and the World Bank imposed policies to promote flexibility in the labour market. This means that the Labour Act much relies on tripartite and bipartite fora to resolve problems rather than to fixed legal standards, and thus presupposes strong unions and workers organisations.

Moreover, the prolonged economic crisis put workers in an even weaker position. Their struggle is often driven by pragmatic, short-term objectives, such as minimum wage, and there is little room and capacity to advance broader, ideological or political causes.

Freedom of Association and Collective Bargaining

Indonesia ratified ILO Conventions 87 and 98 on the right to organise and collective bargaining. These rights are translated in the Labour Act, which protects the workers' fundamental rights to establish a union and to join a union. The Labour Act also recognises the Collective Labour Agreement, and stipulates that only such agreement can be valid at a company, that this agreement applies to all the employees and it is valid for two years and may be extended for one year. The employer is obliged to print the text of the Agreement and distribute it to all workers.

A Collective Agreement cannot be negotiated if there is no union active in a company, or if the union represents less than 50% of the company's workers. In such cases, the employer must

formulate a Company Regulation, with consideration given to the recommendations of worker's representatives. This Regulation is then legalised by the Minister of Manpower and is of equal weight as a Collective Agreement.

The unions active within the company

There is only one union in ANCRI, which is not affiliated with any federation or confederation. The majority of its members are from the production unit. Between 2002 and 2004, the union was inactive. Union leaders voluntarily withdrew from their positions after a series of failed negotiations with the ANCRI management on wages, bonuses and information on profits. The management repeatedly claimed that the union should negotiate with the Singapore-based regional office on such issues, while the union leaders regarded this position as an excuse by the management to avoid labour demands.

In 2004, some members took the initiative to revive the union. However, it seems that the new leaders do not make any serious efforts to reorganise and strengthen the union. To date, they have not engaged in any form of co-operation with other unions and membership is not taken seriously. There is no formal procedure or requirements for workers to join the union and union leaders stated that they consider all workers as union members. The union is pessimistic about demanding labour rights because they assume they will have to negotiate with the Singapore office.

At ANCRI, a Company Regulation exists instead of a Collective Agreement. The main reason for this is that the regulation was formulated in the period when the union was inactive. Moreover, ANCRI claims that the union only represents one third of the total number of workers. The Company Regulation was legalised by the Ministry of Manpower (Director of Labour Requirements on behalf of Director General of Industrial Relations). Being legalised, the Company Regulation holds the same legal power as that of a Collective Agreement and becomes the highest policy and reference in terms of labour performance in ANCRI. The latest Company Regulation is **Peraturan Perusahaan (PP) PT Akzo Nobel Car Refinishes Indonesia Tahun 2004 – 2006**, signed by President Director Adiwan Djohanli and Union Chief Immanuel and ratified by Decision of Director General of Industrial relations No.449/PHI/PK/2004.

Communications

There is no provision in the Labour Act that obliges companies to disclose strategic information to union and workers.

The Company Regulation does not make any provision on information disclosure. ANCRI management stated that information is normally passed to workers but was not able to provide any details on which information was disclosed and in what way, except for the release of memos and announcements on the bulletin board. Interviewed workers stated that management has never proactively disclosed strategic plans and information on profits to workers, and profit sharing scheme is the prerogative of the management. Management also indicated that it organises a forum for dialogue with workers twice a year, at the beginning and the end of the year, as well as "talk session", which is held weekly at department level. However, workers did not confirm the existence of these sessions.

4. Labour conditions

Child Labour

Indonesia ratified the ILO Conventions on child labour (C138 and C182). The Labour Act prohibits the regular employment of children younger than 16 years old.

The management stated that the company does not employ children. The minimum age of workers is 18 years old. In conformity with the Company Regulation, the workers' age is verified by means of ID cards or other relevant documents.

Forced Labour

Indonesia ratified the ILO conventions on forced labour (C29 and C105) but the Labour Act does not make any specific provision on the prohibition of forced labour, neither does it give any clear definition of forced labour.

Management stated that, in line with the General Business Principles and Business Principles Specifications, forced labour is not allowed in any form. Overtime is voluntary and should be avoided. Interviewed workers confirm that forced labour is not a practice at ANCRI (also see working hours).

Discrimination

Indonesia ratified the ILO conventions on discrimination (C100 and C111). The Labour Act does not mention prohibition of discrimination, but contains provisions concerning non-discrimination principles. Such provisions concern equal rights and opportunity in job placement and in the workplace (Article 31, 32).

The local Company Regulation does not make any provision on the issue (unlike the General Business Principles). Workers and union leaders were not aware of any case of discrimination at any level. However, interviews indicated that, with regard to wage and healthcare, female workers are considered single even if they are married. This implies that their wages may not include benefits or financial aid to their children. Neither confirming nor denying this information, ANCRI stated that such practice is justified by the current regulation.

Wage

The Labour Act provides that workers have the right to earn a decent living and the minimum wage is set by the Governor, on behalf of the government. It is referred to as the "provincial minimum wage" as it varies from province to province. There is a provision that allows employers to postpone the payment of minimum wage if they cannot afford this. The base wage should not be less than 75% of the total wage including benefits.

The Company Regulation states the ANCRI's commitment to pay a decent wage to workers, balancing their needs against company's performance, worker's performance and worker's

achievement and market value. Wage adjustment is management's prerogative and is done annually.

Workers confirmed that wages are in accordance with national legislation. However, some points need elaboration. It is not common in Indonesia to reveal one's wage or salary, and this was the case also in the interviews with workers for this research. Workers only revealed that wages at ANCRI comply with the minimum set by the Labour Act. Hence it can be assumed that the wage level at the company is in the range of the Jakarta regional minimum wage, which is Rp. 876,500 (€76)² or a little higher. Therefore, the highest take-home wage for a worker, which may already include overtime payment, can be assumed to be a little higher than Rp 1,000,000 (€87). This rate hardly matches the living expenses by Jakarta standards. The majority of workers at ANCRI are in the category of young family, married with children of the age range up to those in elementary school. House rent for a small family is Rp 300,000 (€26) at the minimum, nearly 30% of the wage. When daily meals, electricity and water expenditures and children's monthly school tuition are taken into account, there is not much money left to save at the end of the month. The researchers encountered three cases of workers who earned additional income by means of a second job.

The base wage is also supposed to include an allowance for transportation. Contrary to the management, workers stated that such allowance does not exist. The inclusion of transport allowance in the base wage means reduction of the latter, and has imposed additional financial burden to workers. ANCRI is located in the centre part of Pulogadung Industrial Estate, which makes it inaccessible by public transport. The company does not provide any transport facility. A worker spends already Rp 6,000 (€0.50) only to get from the gate of the estate to the company site and back by motorbike taxi, not taking into account any additional transport from the estate to their houses. Therefore, most workers have motorbikes, often acquired through a credit scheme. The scheme normally has a five-year term and requires a worker to pay at least Rp 500,000 (€43) to the motorbike vendor agency per month. Through the credit scheme a worker can reduce his monthly transport expenditures. He may only spend Rp 10,000 (€0.87) for the gasoline to keep himself mobile for five to six days.

Allowances and Benefits

In addition to the base wage, workers are entitled to the following allowances and benefits:

- Subsidised meal: by being present at the workplace, every worker is entitled to one meal per day at the company cafeteria, which is subsidised by the company. The portion of the subsidy was not disclosed to researchers.
- Meal allowance: when performing duties or work outside the compound, workers are entitled to compensation pay for the meal or meal allowance (the amount of this allowance was not available) (Rule 67).
- Religious holiday benefit: one month wage for workers having worked at the company for more than 12 consecutive months (Rule 62-64).

² Rp. 1,000,000 is about €86.7 (4 July 2006).

- Reward on presence: workers with 100-percent presence in a month are entitled to a reward (the amount was not available) (Rule 34).

Workers confirm the existence of the above mentioned allowances and benefits

Social Security and Pensions

ANCRI enrolls all workers in the national and mandatory Worker Social Security program (JAMSOSTEK). This program includes medical, life and pension insurance. The company also enrolls workers in a separate insurance against accidents not occurring at the workplace. Although the Company Regulation stated that the retiring workers are entitled to a pension provided by the company, information about such scheme was not made available to researchers for verification.

Medical service

ANCRI provides healthcare services for workers and their family (wife or husband and the first, second and third child), including: dental care, eye care (only for workers), delivery of the first, second and third child and some other medical expenditure.

Bonus/profit-sharing schemes

The Indonesian Labour Act does not make any provision for profit sharing.

ANCRI does not reward a bonus as a part of profit sharing, which is the prerogative of the management. It does, however, provide a bonus after certain periods of employment, which are as follows:

- 5 consecutive years – 1 month salary
- 10 consecutive years – 2 month salary
- 15 consecutive years – 3 month salary
- And so on at regular intervals of 5 years

Working hours and Vacation

The Labour Act regulation on regular working hours is as follows: 7 hours a day for 6 working days per week, and 8 hours a day for 5 working days per week. The maximum number of working hours per week is 40 hours (Article 77). The Labour Act states that overtime should be carried out with approval from workers and overtime pay is the employer's obligation. The maximum overtime is 3 hours per day, and 14 hours per week. With reference to vacation and rest, the Labour Act (article 89) provides the following information:

- Daily period of rest: rest of at least 30 minutes should be given in every four consecutive hours of working.
- Weekly period of rest: One-day rest after six days of work in every week or two-day rest after five days of work.
- Yearly period of rest: 12-day rest after working for 12 consecutive months.
- Long period of rest: no less than 2 month of rest period after working 6 years consecutively (one month rest in the seventh year and another in the eighth year)

It also states that workers may be off work without losing their rights to pay under the following conditions (Article 93):

- Workers being ill
- Female workers having menstruation (first and second day of menstruation)
- Workers getting married
- Workers having their children getting married, circumcised, baptised, wife giving birth, wife suffering a miscarriage, death of any family member (including death of parents and parents-in-law)
- Workers performing religious obligations
- Workers exercising their rights to rest
- Performing union duties (especially for union leaders)
- Workers undergoing educational programme required by the company.

ANCRI's Company Regulation assumes 8 working hours per day for 5 working days a week, thus 40 hours in a week, and applies two shifts (Rule 19 – 22):

- Shift I: 6 a.m. – 2.30 p.m.
- Shift II: 2 p.m. – 10.30 p.m.

The maximum overtime is 3 hours per day. When the production target is not achieved, workers are requested to work overtime. Those who have urgent personal business to attend to may refuse. Overtime does not normally exceed the limit set by the law and workers normally take 10 to 12 hours overtime per week on average. The reason for workers to engage in and consent with overtime is the low wage level (though still in compliance with the law).

The Company Regulation provides that workers may be off work in the following schemes:

- Birth-giving leave: one and a half month before and one and a half month after giving birth (only for female workers)
- Miscarriage leave: one and a half month (only for female workers)
- Annual leave: 12 day per year.
- National and religious holidays.
- Special leave: period unspecified, only for workers doing haj pilgrimage.
- Additional leave: those who have worked for 5, 10, 15 years (and so on in the multiplication of five) are entitled to five-day leave in the sixth, eleventh, sixteenth (and so on) year.
- Others: leaves on death of family members (2 days) and relatives (1 day), on wife giving birth or suffering a miscarriage (2 days), worker getting married (3 days), worker having children getting married (2 days), worker's children getting baptised/circumcised/receiving sacrament (2 days).

Health and Safety

The Labour Act makes provisions on Occupational Health and Safety in Chapter X, Section One, Subsection 5. The law states that every worker is entitled to protection in terms of occupational health and safety, morality and decency, and fair treatment based on respect of the human dignity (Article 86). The employer is obliged to apply an H&S management system that is integrated in the company's management (Article 87).

The Company Regulation reflects the company's commitment and obligation to provide equipment, facilities and procedures if necessary (Rule 58-59). The management declared that the company always tries to comply with the chemical industry standards. To be employed at ANCRI, a worker must pass the company's medical investigation.

Workers confirmed that the above-mentioned policies on health and safety are put into practice. Unfortunately visual inspection of available facilities and equipment in the factory was not possible due to the limited time available.

Training

The Labour Act makes provisions for job training, but this relates to manpower or workforce in general rather than to workers in particular.

The Company Regulation states that workers with capability and high achievement may be enrolled in training to improve knowledge and skills and to prepare for promotion.

5. Reorganisations, outplacement, flexible working and job security

The management stated that, as far as they know, there has not been any major reorganisation within ANCRI in the last five years and there have not been any massive lay-offs. However, the company is in the beginning of adopting a more flexible employment practice, such as the recruitment of workers through a third party. Presently, outsourcing is limited to cleaning, the restaurant, and labelling. Outsourcing may be expanded to other kinds of work, which do not require specifically skilled workers.

Workers and Union leaders declared that the management takes decisions on outsourcing without consulting the Union and workers. This statement was confirmed by the management, but no further explanation was given.

6. Conclusions

Overall, ANCRI performs a little better in terms of labour practice than the national standard as reflected by the Labour Act. With regard to the right to organise and collective bargaining, the company acknowledges and supports the in-house union. The union, however, is very weak. It has recently been revived after being inactive for two years because union leaders resigned after failed negotiations. The new union leaders do not make a serious enough effort to organise: there is no formal membership, there is no co-operation with other unions, and workers do not seem to be interested in actively participating. As a result, management argues that only one third of the workers is represented by the union and it therefore cannot be considered as representative. This may be the reason why management does not seem to consult the union in the decision making process on matters which affect workers interests, such as outsourcing.

There are various possible causes for the weak union structure at ANCRI. On the one hand, general factors such as a weak union tradition and worsening economic conditions in Indonesia are probably important. On the other hand, the union argues that disinterest of workers to participate is caused by the fact that labour-related decisions are made by the regional office in Singapore and not by the local management. Hence workers do not feel motivated to join a relatively powerless union.

With regard to the right to information, disclosure of important information to workers is not a normal practice in Indonesia. Neither does the law require employers to do so. ANCRI management claims it discloses important information to workers but the latter deny this.

Labour conditions are in accordance with the Indonesian Labour Act. Nonetheless, the findings indicate that the legal minimum wage paid by company does not seem to match the cost of living by Jakarta standards. To compensate, workers feel compelled to work overtime or have a second job. Finally, workers stated that they are not compensated for transportation expenditures which should be included as part of their base wage.