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January 7, 2010

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Mr. Piedelièvre:

I am writing to report serious and widespread corruption in Bureau Veritas's Chinese audit process. On December 9, China Labor Watch released a report analyzing almost a dozen specific cases of BV auditor corruption since 2007. This analysis demonstrates various ways in which individuals employed by BV undermine the audit process. It details conditions at factories audited by BV where serious worker rights abuses take place. Finally, it explains how BV's current anti-corruption program has failed.

CLW is not the only organization to take notice of the major damage that corruption does to BV's work. On August 5th, the Shenzhen edition of Southern Metropolis Daily published an article entitled "Refuse Extortion and Fail Audits: Factory Names International Certification Company in Complaint of Unethical Audit Behavior, Still No Response from Company." In the article, Yangguang Factory Union accuses BV's Shenzhen subsidiary of being "severely discriminatory and unable to uphold ethical standards in their audits." CLW's own investigation corroborates this allegation.

Through correspondence with BV and Yangguang Factory, CLW discovered that the Yangguang Factory case was caused by collaboration between corrupt auditors employed by the company in addition to ex-employees who requested bribes directly from the factory. In a private letter, BV refuted the allegations, citing poor conditions at Yangguang and announcing that extortion was conducted by ex-employees alone. Yet how did the ex-employees know when Yangguang's audits would occur without active partners within the organization? BV's lack of transparency and failure to publicize a thorough investigation into the Yangguang incident reveal major gaps in BV's anti-corruption work.

BV's response to CLW's report was similarly lacking in transparency. Although BV was willing to share information and engage on the report before its release, after CLW went

public with its information, BV made no public efforts to respond regarding existing problems, changes or improvements to its anti-corruption work. A letter released to BV stakeholders did not go to CLW. Instead, CLW was provided with a succinct response to each case, denying or downplaying the seriousness of each allegation. BV's rejected CLW's focus on the worst performing company on the grounds that corruption is an industry-wide issue. CLW maintains that BV's poor performance deserves to be singled out, and that BV must make changes to improve its anti-corruption failures.

CLW's report in December focused on auditors employed by BV because its auditors had the worst integrity problems based on our investigation. In an investigation from 2007-09, CLW investigated 19 BV audits of which 10 or 53% yielded significant evidence of corruption, the most of any major audit company. The report analyzes different forms of corruption that undermine the BV's factory audit process, including extortion, bribery, improper conduct during audits and exchange of other gifts between auditors and factory management. CLW has continued to identify new cases of BV auditor corruption since the initial investigation concluded.

Corruption in the audit process represents a major obstruction to corporate responsibility and significant damages worker rights defense. Audits are a window into the inner workings of a Chinese factory for corporations and consumers who are located across the world. They are also a way for workers to communicate with the corporations for whom they are producing goods. They are a means of guaranteeing that worker's rights are respected and one major way that corporations can monitor their sourcing.

CLW has a long-term mission of improving working and living conditions in China, and encouraging corporations to comply with Chinese labor law as well as their own social responsibility standards. CLW frequently launches investigations of factories. The results of its investigations are often significantly different from those of the audits conducted by BV and other third party auditors for multinational corporations. CLW has investigated this discrepancy and found that the primary reasons are auditor corruption and lack of technical skills.

The failure of the audit system undermines corporate standards and contributes to poor working conditions. Corporations that legitimately seek to implement corporate responsibility by supplementing audit data must pay associated costs and this is a competitive disadvantage. Factories that pass audits by means of bribery also have an unfair competitive advantage, because factories that do fund good wages and working conditions must accept orders at the same low prices as factories that do not pay these costs.

CLW urges BV to implement systematic changes to its audit process and anti-corruption work. Auditor performance must be improved through better training and performance assessment. Anti-corruption efforts must be bolstered, and independent assessment of audit reliability must be performed to identify inaccuracies. The failure of the audit process represents a serious obstacle to worker rights which needs to change.

I look forward to a conversation with BV about how to improve the audit process and particularly the apparent problems with corruption in China. You may contact CLW at clw@chinalaborwatch.org or reach us at 212-247-2212.

Sincerely,

Li Qiang
Executive Director