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China Closes U.S. Auditor as Tensions Mount Over Forced Labor Allegations

Closure of nonprofit Verite raises questions about credibility of labor audits in China.

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Updated Aug. 19, 2021 1:38 pm ET

SHENZHEN, China—Chinese authorities have shut down a U.S. labor auditor’s local China partner, escalating Beijing’s campaign to counter forced-labor allegations in its northwest Xinjiang region and potentially complicating efforts by multinationals to certify supply chains in the country.

China-based Shenzhen Verite, which is affiliated with U.S. labor rights nonprofit Verite Inc., was closed following an April raid on its offices by Chinese security forces, according to people with knowledge of the matter.

Though Verite was a small player in China’s auditing industry, companies including [Walt Disney Co.](#) and [Apple Inc.](#) have hired the Amherst, Mass.-based company to consult on labor issues at Chinese factories. The closure of its Shenzhen-based partner means that Verite has effectively lost its ability to operate in the Chinese market, depriving companies of a potential channel to conduct labor audits and research in China.

The nonprofit also had a reputation for producing investigations that lent credibility to corporations grappling with labor rights-related issues, according to other auditors.

Disney declined to comment. Apple said the company had used Verite on a limited basis in China, but not to conduct audits.

China’s actions against Verite come as Beijing pressures foreign businesses, rights groups and auditors in its effort to resist allegations of human rights abuses in Xinjiang, where authorities have been accused by rights groups and Western researchers of forcing local ethnic minorities to work at factories around the country.

China has called the charge “the lie of the century” and says state-run labor programs that transfer Uyghurs and other mostly Muslim minority laborers are part of poverty-alleviation initiatives.

Spokespeople for China's Ministry of Public Security and Foreign Ministry referred questions to local authorities in the southern Chinese city of Shenzhen, who didn't reply to questions. The Ministry of State Security didn't respond to a request for comment.



Walt Disney Co. is among the companies that have hired Verite to consult on Chinese labor issues. The Shanghai Disneyland theme park in June.

PHOTO: QILAI SHEN/BLOOMBERG NEWS

The move to close Shenzhen Verite—an unprecedented step even in the country's often challenging labor-auditing environment—has heightened fears of retribution in the social compliance industry in China, especially for inspections tied to Xinjiang.

Shenzhen Verite's effective shutdown also risks further eroding the credibility of labor inspections in the world's second-largest economy, at a time when Washington is tightening requirements for companies to certify that their products are free of forced labor from Xinjiang.

In recent years, the Xinjiang government has constructed internment camps where former detainees have said they are subject to political indoctrination. China calls them vocational education centers aimed at deradicalization and counterterrorism.

Rights groups say that upon release, some detainees are sent to factories in the name of poverty alleviation, and that Xinjiang workers in state-run labor programs may face retaliation for speaking out against working conditions, making it difficult to verify to what extent the labor programs are involuntary.

Last month, the U.S. Senate passed the Uyghur Forced Labor Prevention Act which, if signed into law, would expand on existing U.S. Customs restrictions on cotton, tomatoes and polysilicon from Xinjiang by banning all goods from the region unless importers prove their products aren't made with forced labor.

“We can’t let companies profit from forced labor,” Sen. Bill Cassidy (R., La.), a co-sponsor of the bill, said in an interview. Mr. Cassidy said that the proposed legislation could make China understand the importance of auditors like Verite. “They’re helping to hold China accountable.”

Third-party auditing “underpins a variety of legislation” designed to prevent American customers from being complicit in Xinjiang rights abuses, said Cullen Hendrix, a senior fellow at the Peterson Institute for International Economics, a Washington think tank.

Over the past year, auditors investigating forced-labor claims have become increasingly wary of provoking Chinese authorities, say labor rights groups and supply-chain compliance experts. Last year, many Western auditing firms said they had stopped investigating forced labor claims entirely in Xinjiang, due to intense government surveillance and lack of access to factories.

But for the Chinese government to target an entire organization’s operations is a “huge escalation,” said Heather White, founder and former president of Verite, who left the nonprofit in 2005 and now advises global brands on supply-chain risks on a freelance basis.

Verite’s troubles in China began in April, several weeks after Swedish clothing retailer H&M Hennes & Mauritz AB disappeared from the country’s e-commerce sites and was excoriated by Chinese internet users for saying it would no longer source from Xinjiang due to forced-labor concerns.

As online protests spread from H&M to other brands including Nike, the Global Times, a nationalist Communist Party-backed tabloid, published an article in March that blamed the U.S. nonprofit and other overseas groups for feeding into the “Xinjiang forced labor narrative.”

The article said Verite was hired to investigate Xinjiang forced-labor claims by the Better Cotton Initiative, a nonprofit that licenses sustainable cotton farms worldwide for Nike and other Western apparel brands. The Better Cotton Initiative, which is based in Geneva and London, had also been attacked online for halting licensing farmers in Xinjiang last year over forced-labor concerns.



Nike and other apparel brands have worked with the Better Cotton Initiative to source sustainably farmed cotton. A Nike store in a Beijing mall in March.

PHOTO: NG HAN GUAN/ASSOCIATED PRESS

Citing unnamed sources and the head of Better Cotton Initiative's Shanghai office, the Global Times article said the group hired Verite to support a predetermined conclusion about abuses in Xinjiang. Verite, the article said, drew information from "anti-China forces" to allege human rights abuses.

A spokesperson for the Better Cotton Initiative declined to comment. Verite declined to comment, including on whether it had been hired by the Better Cotton Initiative.

Chinese authorities took action shortly after Verite's brief mention in the Global Times' March article. In late April, Chinese law enforcement officers raided the office of Verite's China partner in the southern metropolis of Shenzhen and froze Shenzhen Verite's bank account, according to the people familiar with the matter.

It couldn't be determined what prompted the authorities' actions.

For weeks, the law enforcement officers regularly interrogated roughly eight Chinese staffers of Verite's Shenzhen partner, who were required to report to the police at 9 a.m. every day and not allowed to leave until around 5 p.m., the people said. Now, Shenzhen Verite's entire China operations have been shut down and local authorities have closed the firm's office, according to the people.

Last month, a Wall Street Journal reporter confirmed the closure of Shenzhen Verite's office during a visit to the city. Through locked glass doors, the reporter also saw that some items in the office had been boxed up, while the rest lay in disarray.

The people briefed on the matter say officials at the State Department have raised the treatment of Verite's Chinese employees with lower-level Chinese diplomats.

"We are deeply concerned by reports that supply chain auditors have been detained, threatened, harassed, and subjected to constant surveillance while

conducting their vital work in China,” a State Department spokesperson said in response to a request for comment.

Supply-chain experts say China’s closure of Shenzhen Verite is likely to discourage Chinese factories and auditors from cooperating with multinational brands seeking to comply with U.S. rules on forced labor, due to fear of possible retribution by the Chinese government.

Even before the nonprofit’s issues came to light, some Chinese suppliers refused to disclose certain details about their workers, or to sign affidavits certifying that products weren’t made with forced labor, say lawyers advising multinationals on U.S. import controls.

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Appeared in the August 20, 2021, print edition as ‘China Shuts Labor Auditor’s Local Partner.’

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