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## Tell Dollar General to Stop Exploiting Workers!

Friday, January 8, 2010

William C. Sonneborn  
Chief Executive Officer and Director  
Kohlberg Kravis Roberts & Co  
9 W. 57th Street, Suite 4200  
New York, NY 10019

Dear Mr. Sonneborn,

I am writing regarding disturbing evidence of gross violations of workers rights across Dollar General's supply chain in China. As a majority shareholder in DG, KKR profits from DG's exploitative sourcing practices. This is unsustainable.

On December 22, 2009, CLW released a report detailing serious violations at four randomly selected factories producing goods for DG's retail stores. Neither KKR nor DG issued a response to CLW, and in media interviews DG denied ever producing in two of the factories in CLW's report. CLW believes that this assertion is made in error and reveals DG's poor management of its own supplier base in China. KKR must take responsibility for funding these flagrant rights abuses and irresponsible corporate behavior.

CLW has several years of shipping records that clearly indicate that DG imported goods from all four factories described in the report. After learning of DG's denial, CLW released these records online so DG could investigate further. Still, no response has followed. This lack of engagement demonstrates DG's lack of commitment to good labor practices in its supply chain. DG's labor performance record is among the worst in the retail industry, and DG needs to make changes to the way it handles corporate responsibility.

KKR turns a blind eye to the suffering that its investments enable but invests in sustainability when it will raise profit margins. It collaborates with the Environmental Defense Fund to improve the environmental performance of 8 companies in its investment portfolio, including Dollar General, and boasts that this program saved the corporations \$16.1 million in 2008. If KKR truly values corporate responsibility, it must consider the human impact of the massive production outsourced by Dollar General and other companies in its portfolio.

CLW has raised the issue of DG's use of sweatshop labor in its supply chain for several years. In December of 2005, CLW teamed up with the National Labor Committee to expose abuses at the Huangwu No. 2 Toy Factory in Dongguan, Guangdong Province, a Dollar General supplier where workers earned as little as half the legal minimum wage if they failed to meet production quotas.

Again in December 2008, CLW described violations at another supplier in Dongguan, Source Pro Industries, which, faced with the double burden of the global economic crisis and a heartless employer, forced workers to forfeit their right to social insurance. In 2009, CLW returned to Source Pro, as well as three new randomly selected DG suppliers. Conditions had not improved at Source Pro, and workers at all four factories suffered extreme labor abuses.

At the Rong Xin Appliance Company, workers are **not given a copy of their contracts**, must **work excessive hours** in the injection-molding department, and risk **frequent injuries from outdated equipment**. Meanwhile, over at the Shijie Factory, employees suffer **wage arrears**, wretched smells that they must endure **without face masks**, **discriminatory hiring**, **dark dormitories where 12 workers sleep in each room**, and **disguised layoffs**. Sun Cheong Factory is not much better: **poor safety equipment** and **excessive fees**. Source Pro, the subject of our previous report, has still not improved. Its workers continue to be forced to **sign away their right to social insurance**, work at **illegally low wages** for overtime, and deal with **frequent fines** for small infractions. We detail these and other conditions in the report.

All of the factories listed in the report were audited by Bureau Veritas (BV) in 2008 and 2009. Our recent report "Corrupt Audits Damage Worker Rights" details the ways in which BV auditors have personally profited off the auditing process by directly and indirectly accepting bribes from factories. While DG cannot be blamed for BV's failure to control corruption, it must understand that real corporate responsibility extends beyond third party audits to critical engagement of audit data and auditor performance. DG must establish an effective infrastructure for investigating external allegations and ensuring the accuracy of third party audits. KKR must support these efforts.

I look forward to a conversation with KKR about how to support more responsible sourcing at Dollar General. You may contact CLW at [clw@chinalaborwatch.org](mailto:clw@chinalaborwatch.org) or reach us at 212-247-2212.

Sincerely,

Li Qiang  
Executive Director  
China Labor Watch

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