

PROACTIVELY IDENTIFYING AND MITIGATING UFLPA RISK

LESSONS AND BEST PRACTICES

Date: February 5, 2025

Advanced Topics in Customs Compliance Conference

PROPRIETARY AND CONFIDENTIAL



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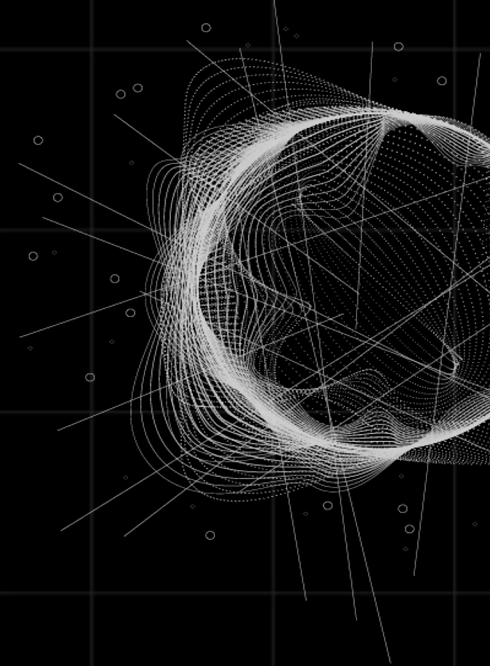
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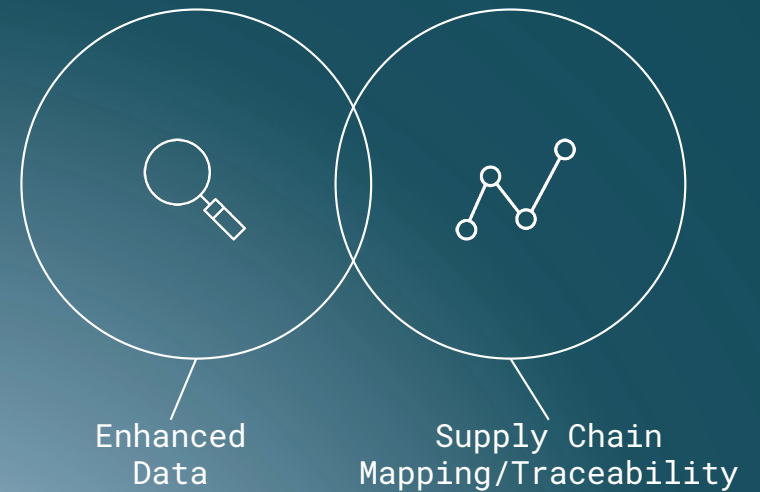
AGENDA

- + DUE DILIGENCE BUILDING BLOCKS
- + DUE DILIGENCE BEST PRACTICES
- + COMMON CHALLENGES IN DUE DILIGENCE
- + INTEGRATING GLOBAL EFFORTS
- + BRINGING IT **ALL** TOGETHER



DUE DILIGENCE BUILDING BLOCKS

- **Identify and risk rank suppliers**
 - Take a risk-based approach to prioritize
 - Tailor due diligence accordingly
- **Screen suppliers**
 - Include UFLPA, WRO, and other forced labor risks
 - Tool integration
- **Escalate for heightened due diligence**
 - Supply chain mapping
 - Supply chain traceability
 - Tool integration
- **Consider other forms of supplier engagement**
 - Audits
 - Questionnaires
- **Ongoing monitoring**



DUE DILIGENCE BEST PRACTICES

DEVELOP & ENHANCE SUPPORTING POLICIES

- Consider social compliance program obligations for C-TPAT partners
- Identify, draft, and/or revise relevant policies to ensure consistency with the company's forced labor due diligence processes (e.g., Code of Conduct, Human Rights Policy, etc.)
- Supplier Code of Conduct & Supplier agreements

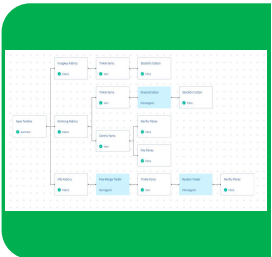
DEVELOP A FORMAL, WRITTEN DUE DILIGENCE PROCESS

- Address the company's reasonable care obligations
- Written processes are necessary for uniform and consistent application
- Allows for organized recording of company's risk management decisions
- Stakeholder engagement and reporting

INTEGRATE INTO BROADER DUE DILIGENCE PROCESSES

- Consider where forced labor due diligence belongs in your broader human rights and compliance efforts, including broader due diligence efforts
- Grievance mechanism & stakeholder engagement

STREAMLINING DUE DILIGENCE: HOW SOFTWARE **SIMPLIFIES COMPLIANCE**



01

Supply Chain Mapping

Configurable and contextual data collection

- Discover deep tier supply chain actors and their connections
- Automated risk screening with 3rd party data sets with automated flags for risky suppliers



02

Traceability

Chain of custody by PO based on evidence

- AI-powered data extraction and translation, evidence validation, data linkage, and classification
- Manage pre-shipment risks and ensure compliance



03

Reporting

Out-of-Box report generation

- Evidence classified by supplier
- Map with different suppliers involved in each stage
- Volumetric reconciliation

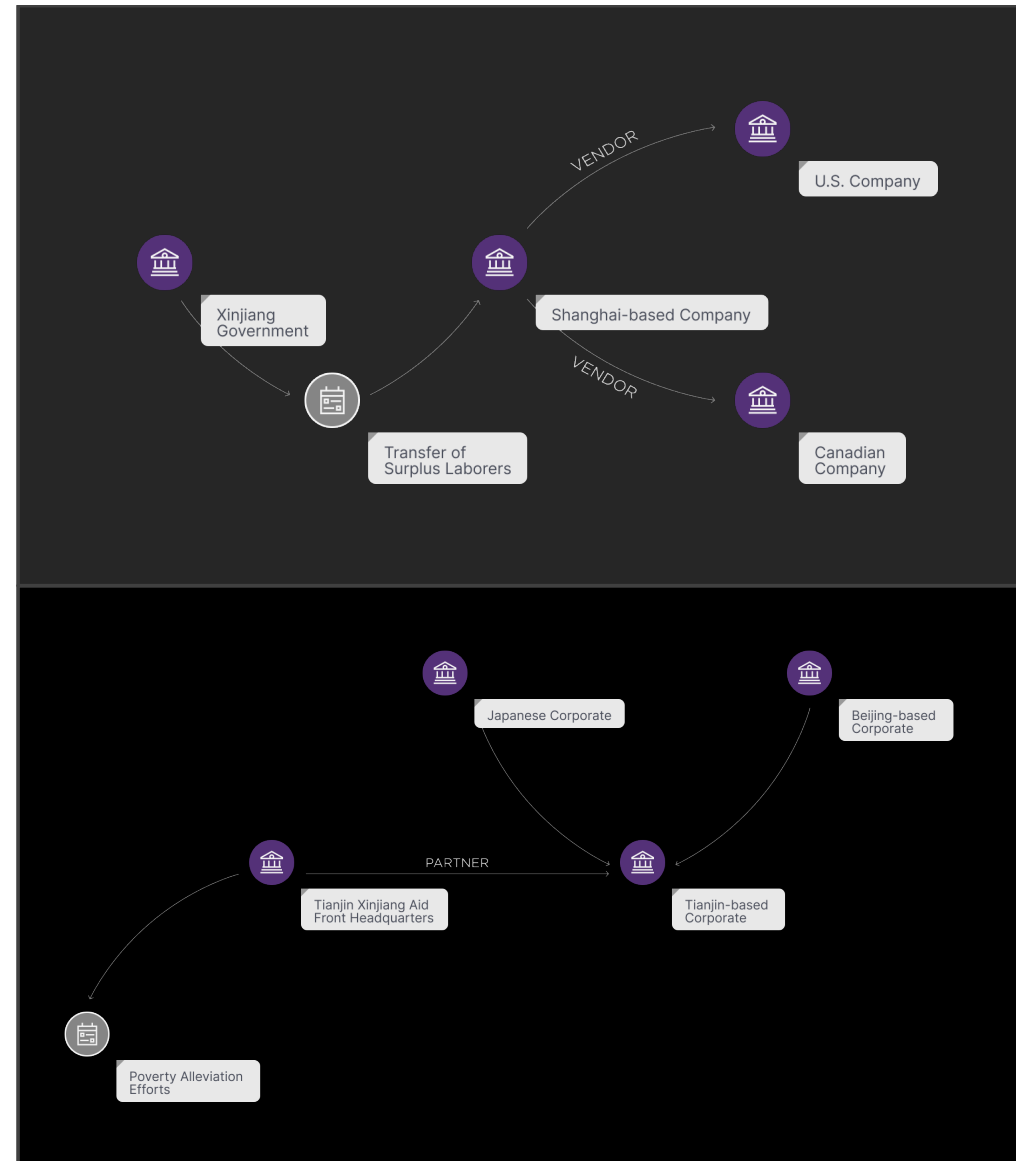
IDENTIFYING FORCED LABOR RISKS AT THE SOURCE

CRITERIA

- + Involuntary labor transfers
- + Co-location with prisons + vocational training centers
- + Government recruitment schemes + subsidies
- + XPCC affiliation
- + Prioritized commodities
- + Links to UFLPA Entity List, WRO List, OFAC SDN, etc.

CONSIDERATIONS

- + Credibility of sources
- + Variety of sources
- + Track record
- + Integration with existing systems
- + Support
- + Insights vs information



CASE STUDY_1



The following case study was derived from Kharon analyst investigations. Some names have been anonymized, but all investigations are based upon publicly available information.

XINJIANG SUPPLY CHAIN CHEMICAL RISK

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Properties Corridors **Panels** Notes

History

Xinjiang Chemical Supply Chain Risk

PRC Company A is a Shandong-based chemical exporter.



PRC Company A

VENDOR



Vietnam Company A

VENDOR



Vietnam Company B

VENDOR



Vietnam Company C

VENDOR



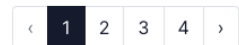
Korean Company A



Starting Point for Kharon's Research

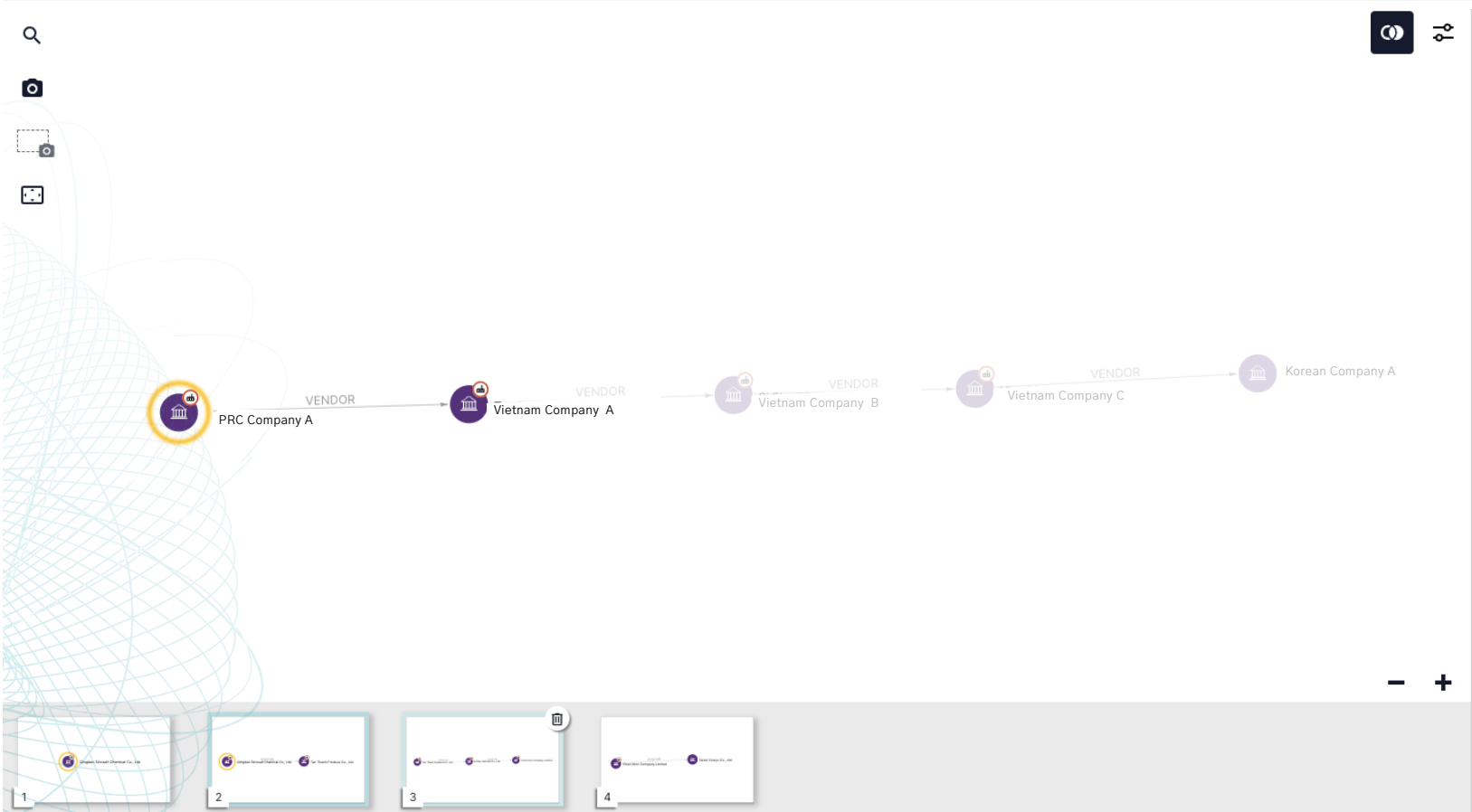


Company



XINJIANG SUPPLY CHAIN CHEMICAL RISK

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Properties Corridors **Panels** Notes


History

Xinjiang Chemical Supply Chain Risk

According to shipping data reviewed by Kharon analysts, between March 2023 and October 2024, PRC Company A shipped approx. \$850k worth of caustic soda flakes, calcium salt, and poly aluminum chloride to Vietnam Company A.

Several of the manufacturers of these chemicals were identified as being Xinjiang-based companies, including Xinjiang Zhongtai Chemical Co., Ltd.

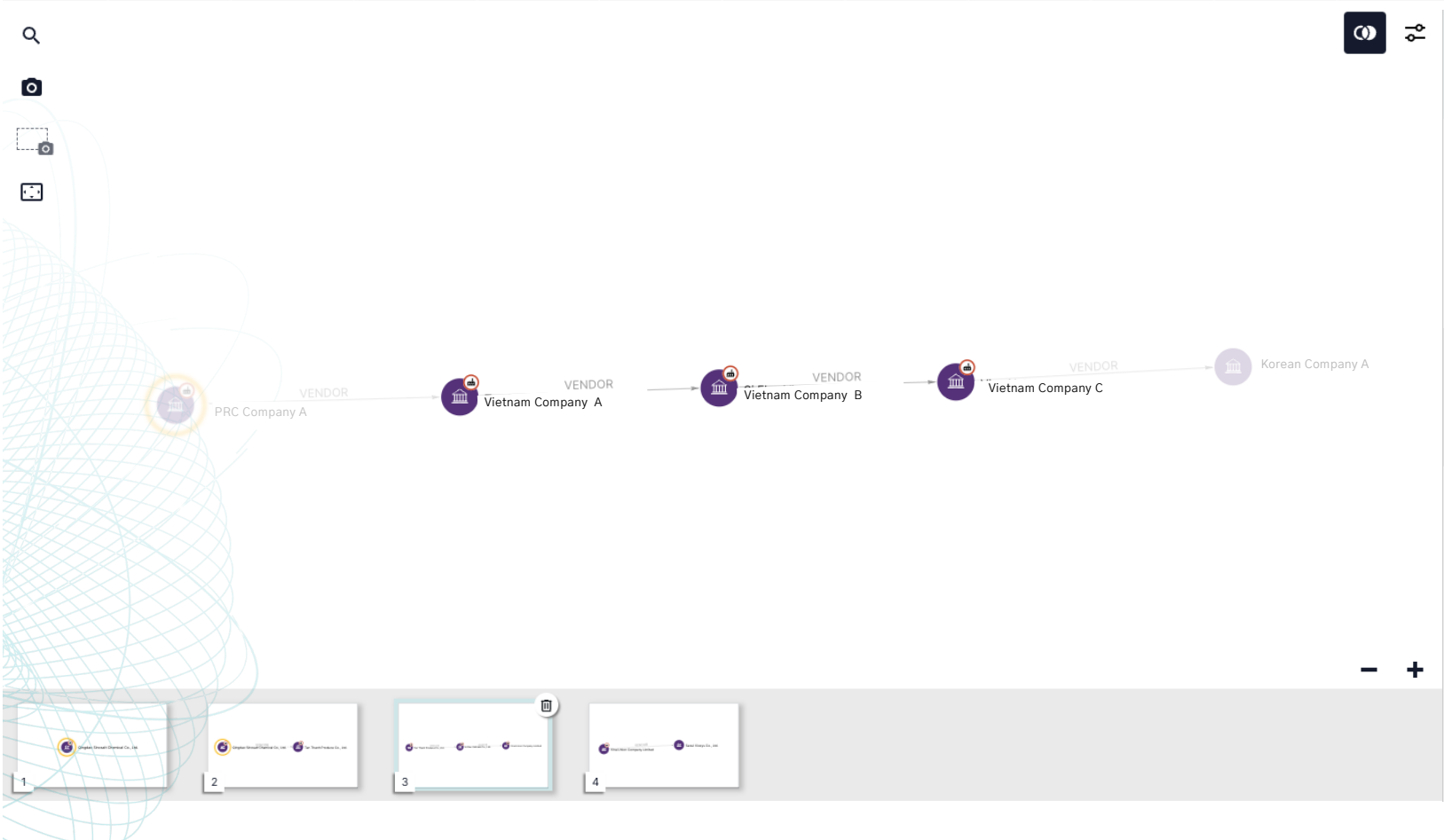
 Starting Point for Kharon's Research

 Company

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XINJIANG SUPPLY CHAIN CHEMICAL RISK

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Properties Corridors **Panels** Notes

History

Xinjiang Chemical Supply Chain Risk

Since 2020, Vietnam Company A has sold over \$2.5b worth of chemical products—including caustic soda—to Vietnam Company B.

During the same time period, Vietnam Company B has shipped over \$11m worth of printed circuit board components to Vietnam Company C.

Caustic soda is commonly used in the manufacturing of printed circuit boards.

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 Company



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XINJIANG SUPPLY CHAIN CHEMICAL RISK

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Properties Corridors **Panels** Notes

History

Xinjiang Chemical Supply Chain Risk

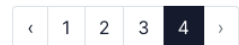
Since 2021, Vietnam Company C has sold nearly \$1m worth of electronic circuit boards to Korean Company A, a major publicly-traded South Korean semiconductor manufacturer.



Starting Point for Kharon's Research



Company



COMMON CHALLENGES IN DUE DILIGENCE IMPLEMENTATION

HOW DO YOU BUILD A PROGRAM THAT ENABLES YOU TO RESPOND WHEN YOU FIND SOMETHING?

BUILDING AN APPROPRIATE CROSS-FUNCTIONAL TEAM

- + **Politics:** Securing the budget, assigning ownership
- + **Determining appropriate department** for diligence responsibilities
- + **Involvement of other teams at appropriate points** (regular and at certain triggers (e.g., screening results, detentions, sourcing, etc.))
- + **Don't forget IT**

RESOURCING AND TRAINING

- + **Budget:** Tools, staff, integrations, implementation support, future tool development*
- + **Workload:** Regardless of tool, new workstream likely requires new heads
- + **Executive knowledge gap:** Need for education, expectation-setting
- + **New legal risk category** and “grey-area” diligence results require multiple trainings, practice/testing

TOOL IMPLEMENTATION

- + **Timeline for full deployment** versus effective, urgent risk mitigation
 - + Consider multi-phase / “MVP” bridge
- + **Documentation of process:** responsibilities, escalations & approvals, heightened due diligence, remediation
- + **Integration into other business processes** (sourcing, RFQs, change management)
- + **Data hygiene and management**
- + **Integration into other tools:** compatibility with enterprise-wide MDG

COMMON CHALLENGES IN DUE DILIGENCE DATA MANAGEMENT

DOES YOUR SYSTEM FACILITATE DATA COLLECTION + RISK MANAGEMENT FOR MULTIPLE ENDS?
CAN IT BE MODIFIED TO DO SO IN THE FUTURE?

DATA COLLECTION

- + Collection – The importance of proper planning and execution
- + Accuracy / Reliability
- + Verification
- + Data protection considerations
- + Alternatives to data collection from suppliers – Supplier outreach based on risk-ranking, desktop results

DATA STORAGE

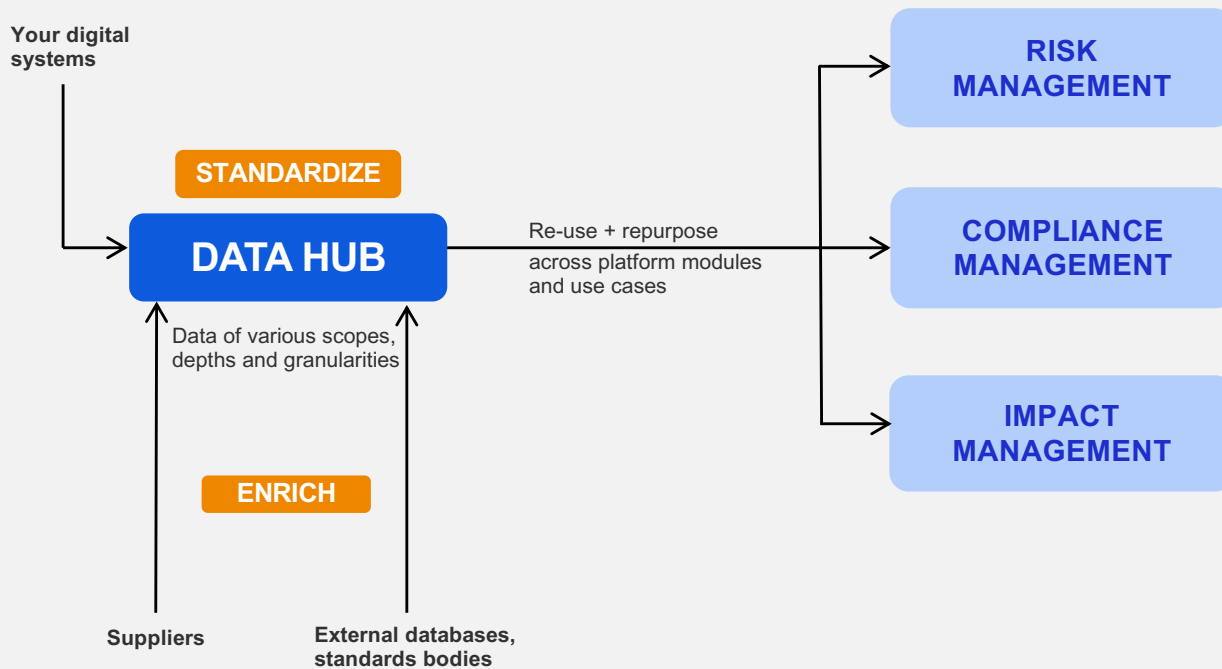
- + Determining where your data will live
- + How / whether to integrate tool with ERP/SAP, other TPRM tools, supplier portal
- + Integration of mapping data with screening results

REPORTING

- + Managing multiple use cases (internal KPIs; sustainability report; UFLPA customer requests, detentions; LkSG)
- + Developing KPIs
- + Preparing for future use cases (EUDR, CSRD, EUFLR, CSDDD)

DATA FOUNDATION FOR MULTI-PURPOSE COMPLIANCE

Collect once and re-use data across modules and use cases, enabling agile responses to a shifting regulatory landscape and centralized data analysis.



STANDARDIZE

Data hub: all data connected across document formats and platform modules using the latest "data lakehouse" architecture.

REUSE

With reporting repurpose the data for current and upcoming compliance requirements like PFAS, EUDR, UFLPA etc.

CASE STUDY_2



The following case study was derived from Kharon analyst investigations. Some names have been anonymized, but all investigations are based upon publicly available information.

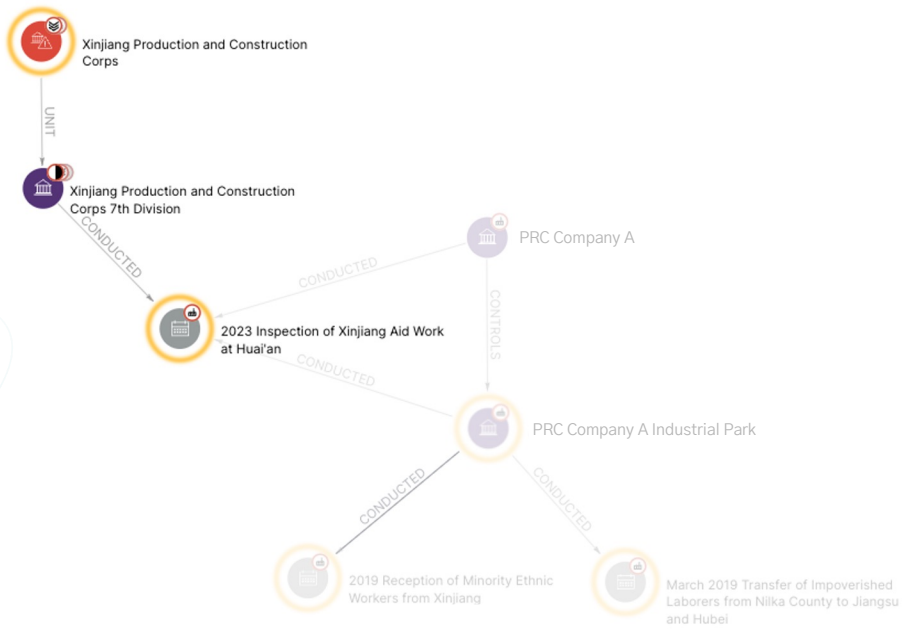
XINJIANG AID PROGRAM

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Properties Corridors Panels Notes


History



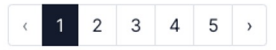
According to an official source published in June 2023, a "Government Delegation from the Seventh Division of XPCC came to Hua'an for inspection" and inspected several major companies in Hua'an, Jiangsu.

The source further states that "in the past 13 years of counterpart aiding to Xinjiang, Huaian has selected 342 outstanding cadres and talents to work in Huyanghe City of the Seventh Division."



 Starting Point for Kharon's Research

 Company



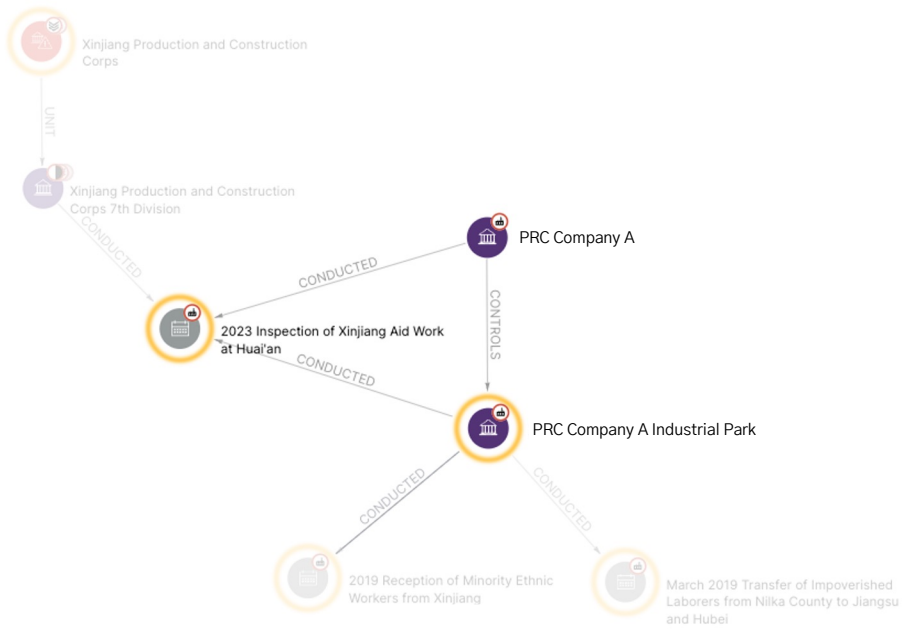
XINJIANG AID PROGRAM

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Properties Corridors **Panels** Notes


History



One of the companies listed in the official source is a major Shenzhen-based designer and manufacturer of printed circuit boards [PRC Company A].

According to PRC Company A's website, it operated an industrial park in Hua'an as a "production base."



 Starting Point for Kharon's Research

 Company



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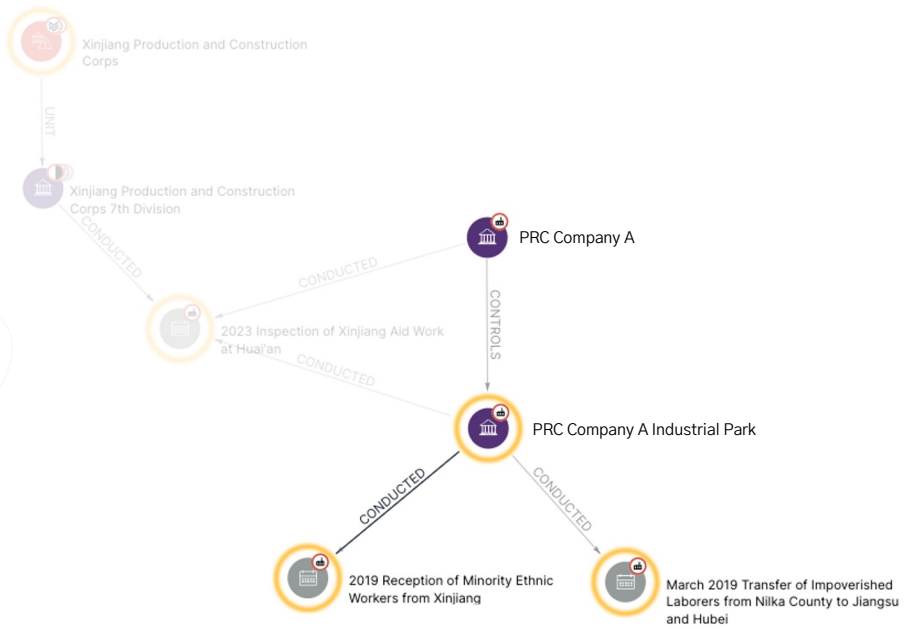
XINJIANG AID PROGRAM

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Properties Corridors **Panels** Notes

History



Several labor transfer activities have occurred at PRC Company A's Hua'an industrial park.

According to a July 2019 media article on the activities of the Wujin Xinjiang Aid Working Group, "during the first half of the year [2019], the [Xinjiang Aid] working group . . . selected 236 workers to transfer to Wujin [Jiangsu]," 111 of which went to PRC Company A's Hua'an industrial park.



Starting Point for Kharon's Research

Company



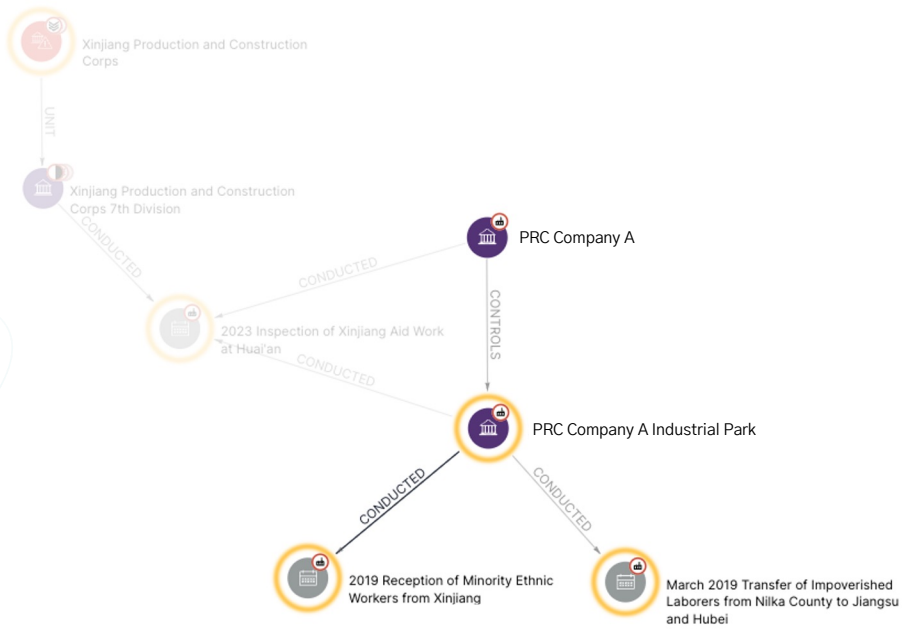
XINJIANG AID PROGRAM

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Properties Corridors **Panels** Notes

History



According to a September 2020 media article, PRC Company A's Hua'an industrial park "contacted the Yili Kazakh Autonomous Prefecture and initiated aid activities to transfer the surplus labor force in Xinjiang to other inland areas."

389 Xinjiang workers were received, of which "357 were ethnic minorities."

According to the same source, "In daily management, lead service cadres arranged by the Xinjiang local government are the backbone."



Starting Point for Kharon's Research

Company



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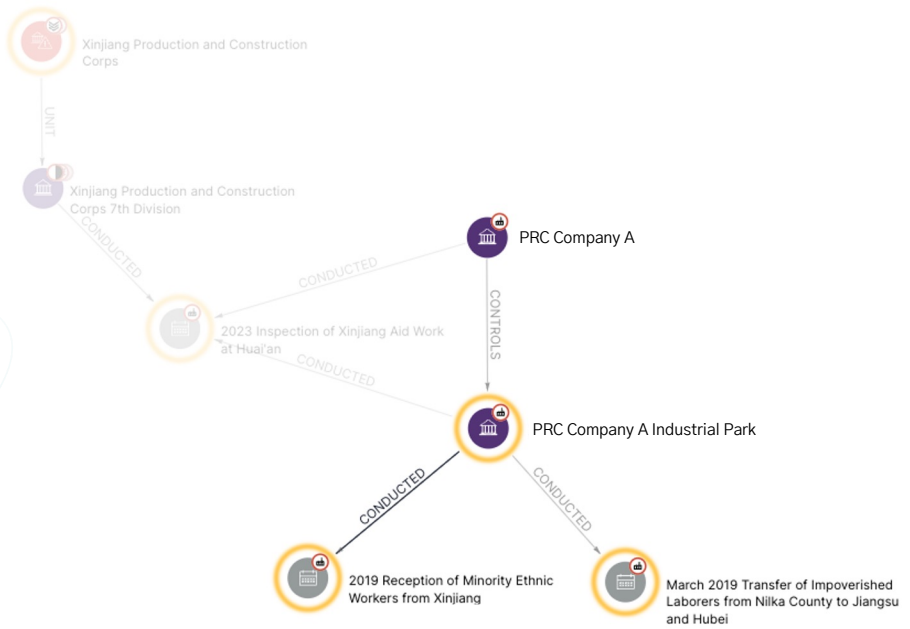
XINJIANG AID PROGRAM

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Properties Corridors **Panels** Notes

History

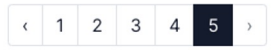


A March 2019 article on a Nilka, Xinjiang send-off ceremony for laborers "organized to head outside of Xinjiang for labor transfers" identified that 406 transferred labors were sent to "coastal enterprises."

The article states that 110 of the transferred laborers were "to be employed at [PRC Company A's Hua'an industrial park]."



- Starting Point for Kharon's Research
- Company



INTEGRATING GLOBAL EFFORTS

WHAT IS YOUR ROLE IN YOUR COMPANY'S GLOBAL EFFORTS?

GLOBAL CROSS FUNCTIONAL INFORMATION SHARING

- + Integrate efforts and communicate with global teams (e.g., Sustainability, Compliance)
- + Proper escalation of forced labor issues to the Trade function
- + Coordinate with regional counterparts (e.g., Europe, Canada, etc.)
- + Share learnings and resources

CONSIDER OTHER LEGAL OBLIGATIONS

- + Forced Labor bans: **EU FLR, CA, MX**
- + Reporting Obligations: CSRD
- + DD Obligations: CSDDD, LkSG

UNIFORM RISK ASSESSMENT + MANAGEMENT

- + TPRM integration
- + Cross functional coordination on risk ranking and processes for escalating and mitigating risk
- + Consistent risk ranking across functions (shared suppliers; similar human rights risks)
- + Consistent reporting to internal and external stakeholders

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BRINGING IT **ALL TOGETHER**

BRINGING IT ALL TOGETHER

HOW WILL **YOU** ADDRESS EVOLVING
GLOBAL REGULATORY EXPECTATIONS?

DUE DILIGENCE BEST PRACTICES

- + Best practices are emerging, but with significant variation
- + Variation can be based on the company's footprint, existing due diligence processes and tools, and its in-house expertise resources

CHALLENGES REMAIN

- + Companies are leveraging already existing compliance programs and powerful tools to address challenges
- + Challenges remain as companies continue to find ways to accurately and efficiently increase supply chain visibility
- + Challenges will vary based on a company's profile, existing compliance program, and data governance
- + Appropriate expectation-setting, resourcing, and planning are critical to enable your program's effectiveness

GLOBAL SUPPLY CHAINS REQUIRE GLOBAL SOLUTIONS

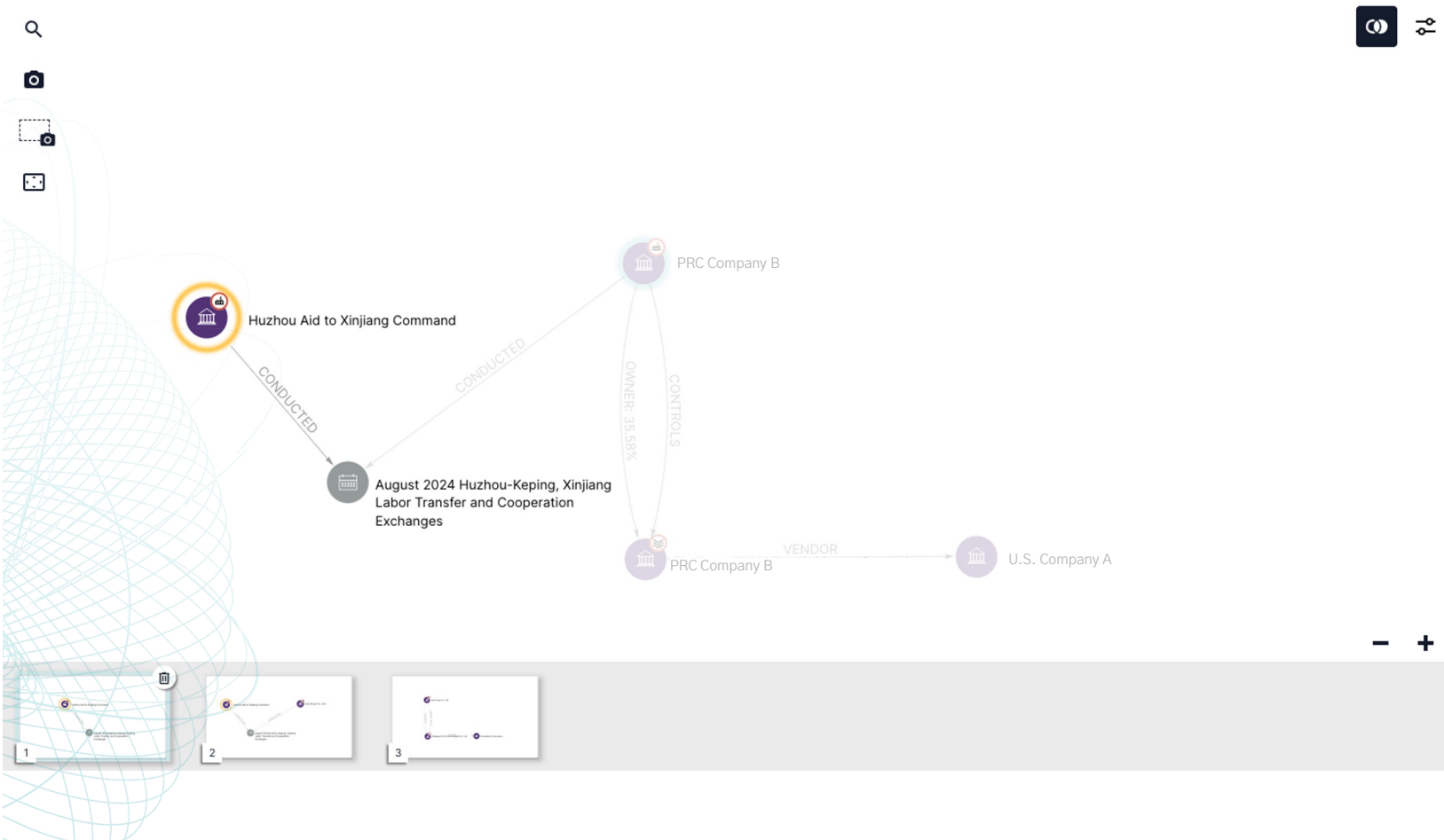
- + Companies are expanding supply chain due diligence to address legal obligations and reputational risks globally
- + Assess requirements and potential to extrapolate UFLPA due diligence measures
- + Coordinate cross-functionally on data integration and risk management systems

CASE STUDY_3



The following case study was derived from Kharon analyst investigations. Some names have been anonymized, but all investigations are based upon publicly available information.

2024 LABOR TRANSFER



Properties Corridors **Panels** Notes

History

2024 Huzhou-Xinjiang Labor Exchange Program

According to a publicly available official source published in August 2024, the "Huzhou Aid to Xinjiang Command" discussed its relationship with Keping County, Xinjiang, saying it would "jointly expand Keping County's labor transfer employment channels."

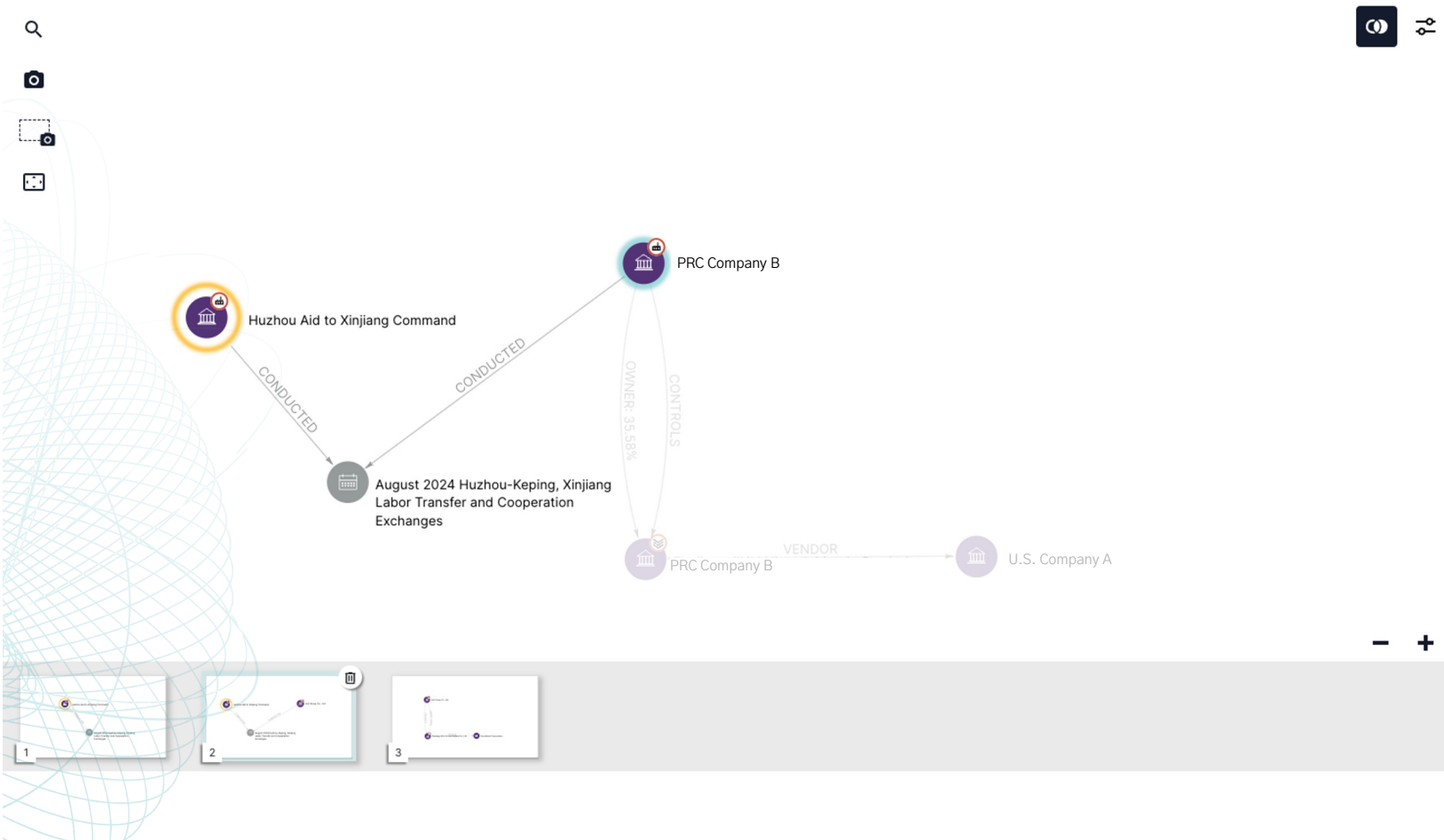
The source states that a delegation from Keping went to "key employment enterprises" and "conducted in-depth discussions on how to accurately match the labor resources of Keping County."

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 Company

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2024 LABOR TRANSFER



Properties Corridors **Panels** Notes
History

2024 Huzhou-Xinjiang Labor Exchange Program

One of the enterprises the delegation visited was PRC Company B, a major stainless steel manufacturer in Zhejiang.

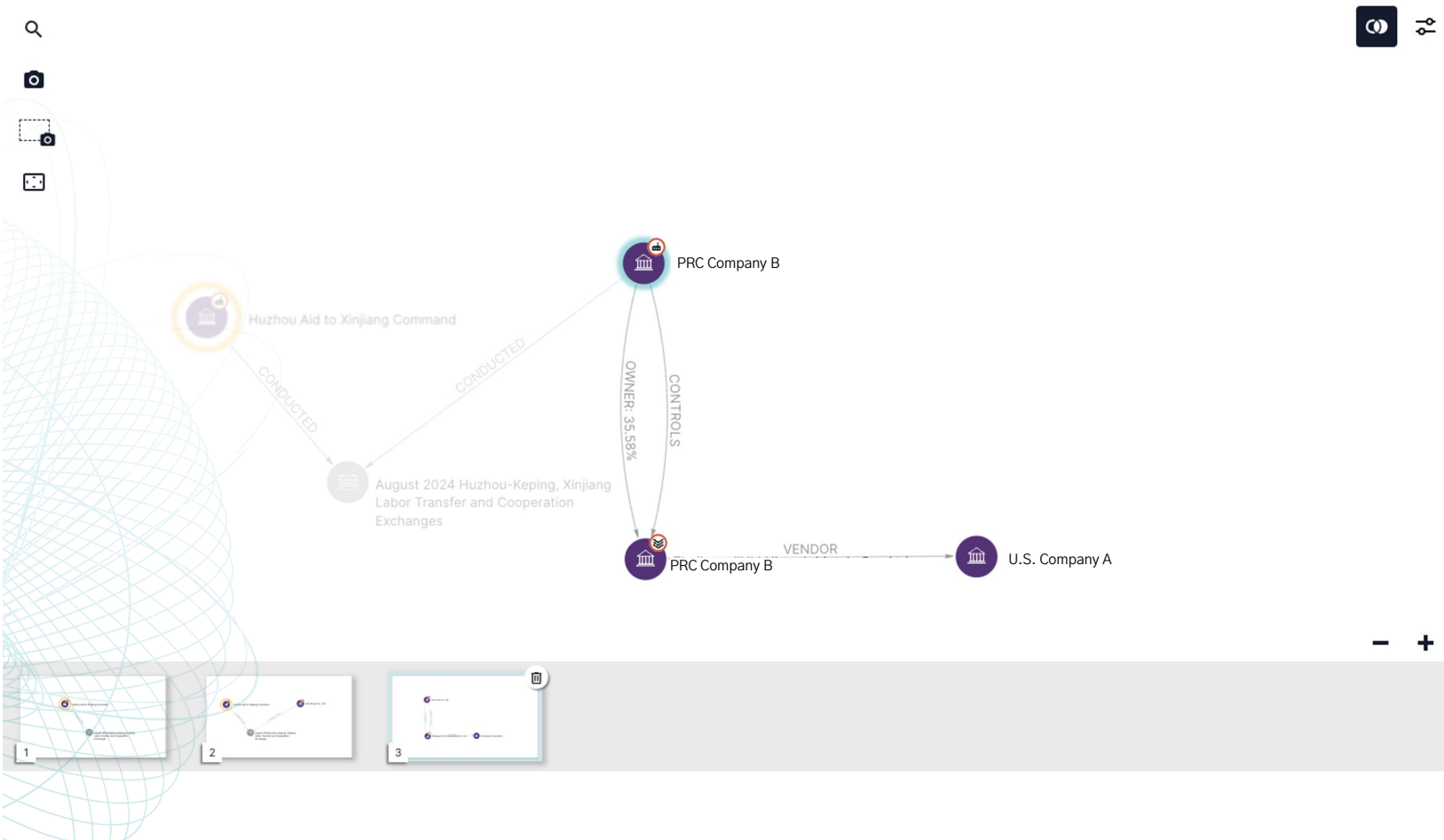


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Company

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2024 LABOR TRANSFER



Properties Corridors **Panels** Notes
History

2024 Huzhou-Xinjiang Labor Exchange Program

According to PRC Company B's 2023 annual report, it was the "controlling shareholder" of a publicly-traded subsidiary that manufactures stainless and high alloy piping in Zhejiang [PRC Company C].

The same annual report states that the subsidiary "is a qualified supplier of world-renowned companies such as..." and lists several major international energy companies, one of which has been anonymized on this chart [U.S. Company A].

Starting Point for Kharon's Research

Company

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QUESTIONS & ANSWERS

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