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WISETECH GLOBAL GROUP

SOLUTION BRIEF

Forced Labor, the UFLPA, and Supply Chain Traceability: Compliance at Your Fingertips

Environmental, social, and governance (ESG) risks have risen to become boardroom-level topics as the inherent nature of multi-tier supply chains presents an array of challenges. Regulators now expect companies to implement unprecedented levels of due diligence when sourcing or procuring materials, products and manufacturing services internationally. Laws such as the U.S. Uyghur Forced Labor Prevention Act (UFLPA) require importers to prove the absence of forced labor. With broad supply chain mapping capabilities, trade compliance solutions, and workflows that provide end-to-end documentation for authorities, e2open's multi-tier network and robust operating platform help companies significantly comply with existing and emerging requirements for due diligence.

Key Features

- Multi-tier supply chain mapping with graphical, relational views
- Automatic screening of suppliers and trading partners against UFLPA Entity List
- Easy collection of baseline, supplier-specific policy and operational data, plus efficient management of supplier audits
- Centralized collection of end-to-end transactional data including sourcing, POs, invoices, logistics, and sales records

Key Benefits

- Determine the source and chain of custody of materials, components, and finished goods to help demonstrate ethical and transparent supply chain
- Reduce your reputational and economic risk through thorough documentation and supplier screenings as laid out by U.S. Customs
- Enhance your ability to meet corporate social commitments to human rights and fair labor practices
- Reduce your exposure to unstable or unsustainable supply chains driven by unfair labor practices

Regulators and executives alike are increasingly focused on the potential for forced labor in opaque, multi-tier supply chains. Government agencies around the world—most notably through the UFLPA in the U.S.—are using cross-border compliance screening as a method to ensure companies are conducting due diligence screening and to prove the absence of these types of human rights abuses. In tandem, many companies have escalated their own due diligence practices with the goal of building more ethical and sustainable supply chains and are looking for solutions to identify and mitigate potential human rights concerns.

Though the UFLPA isn't the first regulatory enforcement action of this type, it is the first empowering an agency with authority. Imports suspected of being connected to the Uyghur Autonomous Region (Xinjiang) in China may be blocked or seized by U.S. Customs and Border Protection (CBP) with a narrow window of time for companies to prove the absence of forced labor involved in the shipment. The region is a major supplier of raw materials such as cotton, agricultural products, and minerals used in technology. Raw materials from Xinjiang are often used in goods that are wholly manufactured elsewhere. Given the region's extensive web of supplier connections, CBP expects companies to go beyond knowing there is no forced labor in their supply chain. Companies must now be able to show there is none. Difficulty producing coherent proof drives up the risk that product will spoil or become obsolete while the case is adjudicated. With the UFLPA, CBP is required to report any potential violations to the U.S. Congress, so the reputational risk for companies may prove greater than inventory losses or missed sales opportunities.

Elements of Due Diligence

With this expanded requirement for due diligence, importers must demonstrate the presence of thorough internal processes, as well as have technology in place to evaluate all suppliers at all tiers and documentation showing the source and chain of custody for every material and component. This broad requirement makes it a challenge to leverage multiple vendors to handle different aspects of traceability, screening, and overall management of supply chain processes and records. A patchwork of partial solutions drives up the risk. However, companies can leverage cohesive supplier management and trade compliance solutions from e2open to conduct broad, systematic due diligence and meet key requirements.

1. Multi-Tier Supplier Mapping

As a component of due diligence, CBP requires that companies map every tier of the supply chain—all the way back to raw materials. For many importers, this is an unprecedented level of visibility. Moreover, it is crucial that supplier maps be linked to transaction-specific documentation such as purchase orders (POs). This makes it a challenge for companies to prove due diligence when using mapping vendors that lack broader offerings. For more than a decade, e2open has been helping companies map their supply chains and onboard trading partners at all tiers for efficient collaboration and centralized management of workflows and documents, including POs. Once importers identify the supplier, they can easily add them to configurable multi-tier maps that highlight the relationships between different suppliers and tiers. These maps enable companies to trace the journey of raw materials through various stages of processing, manufacture, and transportation to destination markets—with key details and contact information retained in the supplier master data as required by CBP.

2. Efficient Gathering of Supplier Information

To enforce the UFLPA, CBP requires some key information for all suppliers at all tiers. For example, companies must document whether suppliers have a code of conduct in place that prohibits forced labor and takes a negative position on Chinese government labor programs. Companies must also demonstrate that they routinely audit suppliers to verify information and proper practices. Importers can efficiently use e2open's trading partner management capabilities to not only gather baseline supplier information, but also to conduct routine audits. Importers receive alerts for potential concerns and can configure the system to take automatic action up to and including the termination of the supplier relationship to help comply with the due diligence processes outlined by CBP.

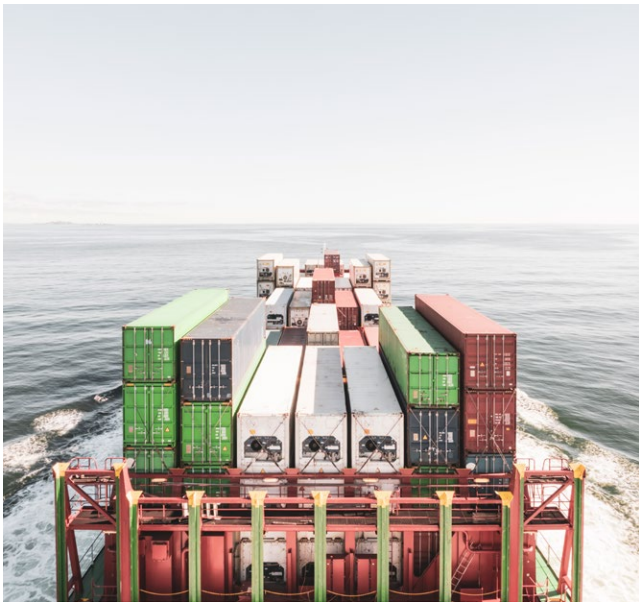
3. End-to-End Process Flows for Materials and Products

To demonstrate due diligence, CBP may require comprehensive process flow documentation proving the source of every raw material and component, plus records of every step taken and partner used to manufacture and deliver finished goods to market. The specific documentation mentioned by CBP is broad and includes POs, invoices for suppliers at every tier, bills of material (BOMs), certificates of origin, and records about payments, inventory transfers, and shipping and storage processes. These are elements that typical ERP systems cannot provide because, though broad, they do not often extend beyond the first tier of supply. Similarly, point solutions leave significant gaps because, by definition, they do not extend from end to end. In contrast, brand owners can leverage multi-tier PO management, inventory collaboration, and trade compliance capabilities from e2open to not only handle end-to-end supply chain processes but also maintain the documentation required by CBP.

4. Automated Screening of Partners against UFLPA Entity List

In addition to guidelines about sourcing and production locations, CBP requires that companies cross-check every supplier against the official UFLPA Entity List. This list, like all lists of restricted or sanctioned parties, is subject to frequent updates. This means importers may need to not only screen suppliers continually, but also continually check that their screenings include the most current updates to the list. Using e2open's automated screening capabilities and comprehensive regulatory information—which includes the UFLPA Entity List and more than 780 other lists from across the world—companies can meet and exceed the screening requirements set out by CBP.

The system leverages natural language processing and artificial intelligence to detect not just exact matches but also likely or potential matches, providing an additional layer of risk management. Companies receive alerts of any potential issues and can resolve them on a case-by-case basis—with a full audit trail of all screenings, results, and actions taken. For additional mitigation of risk, they can augment e2open's proven database of global trade information with a secondary integration to Kharon, a proprietary database focused on ownership structure. This helps to determine if any supplier not on the UFLPA Entity List is owned or managed by an entity that is.



Additional Traceability Requirements

The UFLPA is the most recent and most robust example of supply chain traceability rules. Other jurisdictions are also weighing stricter action to combat human rights abuses in supply chains. Similarly, regulations are being proposed and enacted globally that would require multi-tier supply chain mapping, data gathering, and ongoing due diligence to calculate the risks and impacts pertaining to climate change and greenhouse gas emissions.

Companies that are proactive in thoroughly mapping their supply chains, maintaining key supplier information, and putting processes and technology in place to manage overall ESG performance will be better off. They will be positioned to manage these risks, safeguard their reputations, and thrive in the emerging business environment where supply chain due diligence and sustainability play a larger role.

Meet key due diligence and traceability requirements of the UFLPA and other forced labor regulations. Reduce supply chain and reputational risks while building sustainable supplier networks for long-term business advantage.

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