

WEBINAR WEDNESDAYS

# Mission Critical:

## Is China's Modern Slavery Risk Hiding in Your Supply Chain?



**Brandon Daniels**

CEO



**Erika Peters**

GLOBAL HEAD OF SCRM & TPRM



**Sarah Lord**

SENIOR PROGRAM MANAGER,  
EXIGER GOVERNMENT SOLUTIONS



# Mission Critical:

## Is China's Modern Slavery Risk Hiding in Your Supply Chain?

### In this webinar, we will discuss:

- Requirements of the new Uyghur Forced Labor Prevention Act and why its reach is so broad
- How to implement effective supply chain risk management measures
- Why you need to re-vet and continually assess your vendor network
- Options to remove risky vendors from your ecosystem, even on existing contracts
- Where supply chain risk management technology can be used by agencies to identify risk and leverage open-source intelligence, even in other languages



# Overview



Chinese modern slavery in the U.S.  
Government's supply chain is a:

- **Compliance concern** due to the recently enacted UFLPA;
- **Program concern** due to possible supply chain disruptions as CBP seizes goods;
- **National security concern** due to the Chinese governments control and oversight at forced labor camps where espionage or other components could be added to componentry





- **The Uyghur Forced Labor Prevention Act (UFLPA) restricts certain Chinese imports:** The new law is expected to affect thousands of importers nationwide — including many suppliers that you may be working with in the defense industrial base and other critical infrastructure sectors
- **The UFLPA is a new act focused on protecting an ethnic minority group called Uyghurs:** Uyghurs are an Islamic minority with a distinct cultural heritage, diet and language. Uyghurs primarily reside in the Xinjiang Uyghur Autonomous Region (XUAR)
- **Xinjiang Production and Construction Corps (XPCC) maintains an iron grip over the region leading to ethical, economic and security concerns for the US:** According to the US Department of the Treasury, “XPCC is a paramilitary organization in the XUAR that is subordinate to the Chinese Communist Party (CCP). The XPCC enhances internal control over the region by advancing China’s vision of economic development in XUAR that emphasizes subordination to central planning and resource extraction.”
- **Every US company that relies on imported goods is impacted by UFLPA:** However, it’s likely that those relationships with the Xinjiang region and / or Uyghur forced labor are not direct suppliers and may be three or four layers down in your supply chain

# The UFLPA Rebuttable Presumption



## UYGHUR FORCED LABOR PREVENTION ACT



U.S. CUSTOMS AND BORDER PROTECTION  
OPERATIONAL GUIDANCE FOR IMPORTERS

June 13, 2022

*"It establishes a rebuttable presumption that the importation of any goods, wares, articles, and merchandise mined, produced, or manufactured wholly or in part in the Xinjiang Uyghur Autonomous Region of the People's Republic of China, or produced by certain entities, is prohibited by Section 307 of the Tariff Act of 1930 and that such goods, wares, articles, and merchandise are not entitled to entry to the United States. The presumption applies unless the Commissioner of U.S. Customs and Border Protection (CBP) determines that the importer of record has complied with specified conditions and, by clear and convincing evidence, that the goods, wares, articles, or merchandise were not produced using forced labor."*

*"CBP will employ a risk-based approach, dynamic in nature, that prioritizes the highest-risk goods based on current data and intelligence. Currently the highest-risk goods include those imported directly from the Xinjiang Uyghur Autonomous Region, or Xinjiang, into the United States and from entities on the UFLPA Entity List. CBP will also prioritize illegally transshipped goods with inputs from Xinjiang, as well as goods imported into the United States by entities that, although not located in Xinjiang, are related to an entity in Xinjiang (whether as a parent, subsidiary, or affiliate) and likely to contain inputs from that region."*





- **UFLPA demands companies to extensively scrutinize their supply chain** to make sure that none of the materials used to make their products are sourced or made from within the prohibited region
  - **Any company procuring products will be required to have comprehensive supply chain due diligence documentation demonstrating compliance with the Forced Labor Enforcement Task Force (FLETF):** This could create significant operational delays, but also could lead to intentional obfuscation of goods sourced by Chinese companies, leading to greater industrial sabotage, espionage and disruption risks
  - **Penalties for violating the law have not yet been made publicly available:** However, enforcement is expected to be significant, including heavy fines and potentially criminal consequences
  - **It has been confirmed that any importers who are found to be in breach of the act by customers will be submitted to congress and the information made available to the public within 30 days**
  - **According to Department of Homeland Security (DHS), the UFLPA specifically identifies cotton, tomatoes, and polysilicon as high-priority sectors**
  - **There is a list of entities published by DHS called the [UFLPA Entity List](#)**
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# National Security Implications



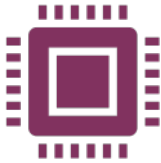
What national security risks does Uyghur Forced Labor present to the USG supply chain?

Chinese  
Police  
Oversight



- Uyghur laborers reportedly have Chinese People's Police members accompanying them
- Government leaders involved in Uyghur forced labor campaign are strongly aligned with the Chinese political and security apparatus and deliberately executing state policy

Possible  
Physical  
Compromise



- Physical access by Chinese police and possibly intelligence groups provides opportunity for physical compromise of components
- Could also provide opportunity for software compromise of components

Possible  
Direct Chinese  
Government  
Ownership



- Xinjiang Production and Construction Corps ("XPCC") allegedly owns hundreds of factories using Uyghur forced labor
- XPCC is a sanctioned paramilitary group that is subordinate to the Chinese Communist Party

# SCRM Challenge



Vetting vendors integrated into the U.S. Government supply chain is required but comes with a number of challenges:

- Open web research can be overwhelming
- Researching in foreign languages like Chinese requires subject matter expertise
- Monitoring the news as new information is uncovered is laborious
- Weeding through the noise and escalating only what matters is time-consuming
- Ability to independently vet supply chain risks





# Interconnected Supply Chains and Risk

## THE ALARM

On June 9, 2021, at about noon local time, Chinese government officials reported a fire and subsequent explosion occurred at a silicone packaging workshop in China's Xinjiang autonomous region.

The facility was part of a Hoshine Silicon manufacturing plant in the Shihezi Economic and Technological Development Zone.

Hoshine Silicon Industry Co Ltd. is a producer of silicon-based materials that were a part of significant market consolidation among polysilicon manufacturers in China and was a critical supplier to many of the top semiconductor and solar panel companies globally. The publicly-traded company was founded in 2005 and has 8,893 employees.

The explosion was widely reported – but there was conjecture that the disruption of polysilicon in the semiconductor sector could be significant; already subject to substantial supply shortages, this was a serious concern.

## THE INVESTIGATION

Exiger's analytics exposed that Hoshine accounted for over 70% of China's silica production. Also, in 2021 China accounted for approximately 70% of the global silica output. This analysis led to estimates of Hoshine's silica global market share being north of 45%.



## THE IMPACT



With Exiger's alert, our customers were able to flag the industrial disaster and ensure they understood the immediate context for their operations. In traditional systems, the alert would have been related to the explosion and our customers would have had to then investigate the issue in-depth. The additional real-time analysis of the global supply dependency provided users crisis severity detail and immediate actionable insight.

## PROACTIVE INSIGHT

Six months later, The Uyghur Forced Labor Prevention Act (UFLPA) was signed into law by President Biden on December 23, 2021. With this supply chain mapping previously complete, Exiger's customers were able to proactively assess the impact of its June 2022 implementation.

# 2022 Trends



Corporates in the defense industrial base are behind in the ability to verify if their supply chain truly does not have hidden modern slavery risk, which has an upstream impact to the U.S. government – therefore, agencies cannot rely on corporate notifications to uncover that it is unknowingly funding modern slavery in China.

**A holistic Supply Chain Risk Management approach to the modern slavery problem needs to tackle the issue from several angles:**

- Enterprise-Wide Sharing  
(Integrating Risk Views Into One)
- Reliable Central Vendor Data Repository
- Technology
- Vendor & Supply Chain Due Diligence Solutions
- Skilled Team Members





# 2022 Call to Action



## In order to protect the US Government, take action now:

- Participate in the enterprise-wide sharing contract (GSA contract available)
- Budget a remediation of vendor and suppliers already in the US Government supply chain ecosystem. Ensure these companies receive appropriate due diligence to ensure they are complying to the UFLPA
- Leverage Technology available to minimize the workload to gather the data and intelligence and maximize the analytical work and engagement with the vendors
- Supply chain risk expertise is changing rapidly, educate internal resources or leverage external resources for immediate uplift



# Questions?

Contact Us: [SCRMenterprise@exiger.com](mailto:SCRMenterprise@exiger.com)



**Brandon Daniels**

[> Connect on LinkedIn](#)



**Erika Peters**

[> Connect on LinkedIn](#)



**Sarah Lord**

[> Connect on LinkedIn](#)

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