



# How corporations are managing compliance with anti-forced labor regulations

KPMG human rights survey illuminates current state of multinational corporations' efforts

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# Introduction

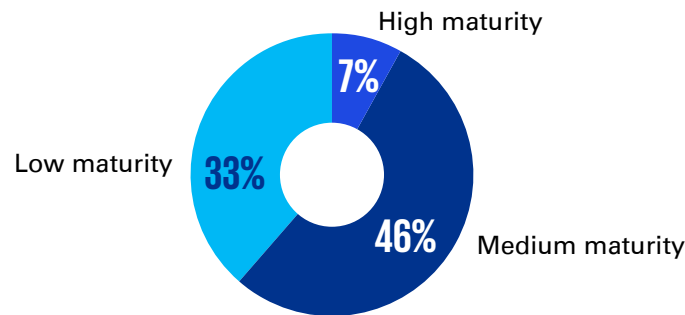
The scourges of forced labor, child labor, and inequitable societal impacts on underrepresented groups are present throughout the world. Globally, more than 28 million people are victims of forced labor,<sup>1</sup> according to the International Labour Organization (ILO).

U.S. Customs and Border Patrol (CBP) and international trade authorities across the globe are raising the bar on anti-forced labor to ensure that companies understand and trace all elements of their production processes and supply chains.

As the following survey report illustrates, companies aren't keeping pace with global regulatory mandates. Most companies feel as if they have a medium maturity level, with a significant portion of companies reporting that they have only reached low maturity. This shows that, although the Uyghur Forced Labor Prevention Act (UFLPA)<sup>2</sup> was signed in December 2021, with an effective date of June 2022,

companies continue to need guidance on navigating broader risk mitigation strategies. Therefore, in addition to reporting on the state of the industry,<sup>3</sup> this report offers guidance on how multinational corporations can make anti-forced labor efforts part of their normal business acumen.

## Maturity level of anti-forced labor programs



“The UFLPA is a landmark piece of legislation that has forever changed how companies manage their supply chains. As a global community this is our opportunity to embrace our obligation to promote human rights, through managing responsible supply chains.”

— Jessica Libby, Human Rights Co-Leader, Principal, Tax—Trade & Customs

<sup>1</sup> “Global Estimates of Modern Slavery: Forced Labor and Forced Marriage,” International Labour Organization, WalkFree, IOM UN Migration, September 2022.

<sup>2</sup> The Uyghur Forced Labor Prevention Act (UFLPA) created a rebuttable presumption that goods mined, produced, or manufactured wholly or in part in Xinjiang or by an entity on the UFLPA Entity List are prohibited from U.S. importation.

<sup>3</sup> All statistics refer to the percentage of respondents to the 2023 KPMG Anti-forced labor Survey.

# Global mandates

The need is growing to monitor for human rights violations on a global basis as new regions introduce regulations and areas of concern expand.

## Regulatory outlook

**78** percent of companies are monitoring global anti-forced labor regulations

## Engagement

**85%** Uyghur Forced Labor Prevention Act (UFLPA)

**44%** Canada's Fighting against Forced Labor and Child Labor in Supply Chains Act

**33%** German Supply Chain Due Diligence Act (SCDDA)

## Geographical areas with increasingly actionable labor mandates



**The takeaway:** The need to monitor global legislation has become more prevalent than in the past. Beyond the US and Europe, Asia has become an area of concern for most companies as well. The level of focus on Asia is appropriate given the fact that a large percentage of manufactured goods made with cotton are sourced from high-risk areas on the continent, such as the Xinjiang region of China,<sup>4</sup> as well as countries like Vietnam, Malaysia, and Indonesia, to name a few. Under the auspices of the UFLPA and through enforcement by CBP, there has been a 90 percent decrease in cotton imports from Xinjiang to the U.S. to date.<sup>5</sup> Further, US Customs has detained 3,588 shipments worth nearly \$1.1 billion under the UFLPA since its inception in 2021.<sup>6</sup>

Although most companies are aware of current and pending anti-forced labor regulations, there are still some compliance challenges. According to a senior manager of global customs and trade risk compliance at a major international chain: "Our company has internal controls in place of human rights, encompassing forced labor. However, the challenge is the implementation of more in depth activities to action to meet regulatory requirements."

<sup>4</sup> Richard Vanderford, "Lawmakers Look for Tough Implementation of Forced Labor Law Targeting China," Wall Street Journal, April 18, 2023.

<sup>5</sup> Adrian Zenz, "How Beijing Forces Uyghurs to Pick Cotton," Foreign Policy, May 16, 2023.

<sup>6</sup> Richard Vanderford, "Lawmakers Look for Tough Implementation of Forced Labor Law Targeting China," Wall Street Journal, April 18, 2023.



# Global mandates

## Barriers to compliance

Although many companies have found US Customs to be a proactive partner in anti-forced labor efforts, there are still some shortfalls in terms of what companies need to raise the bar on their efforts. Following are some examples of guidance companies would like from CBP:

- **Administration:** Examples of acceptable documentation for proof of no forced labor, clear instructions on due diligence requirements, clearer expectations on supplier tier levels, realistic timelines for review of importer UFLPA submissions, and electronic workflow guidelines for applicability reviews.
- **Violations:** Deeper understanding of how good faith, proactive efforts would be viewed if goods were stopped, and more details on why particular goods are stopped (e.g., which supplier or activity is under suspicion).
- **Tracking and monitoring:** More clarity regarding suppliers/manufacturers of concern, more frequent updates to the entity list, and a consistent definition of forced labor across geographies.
- **Restrictions on information sharing:** Transparency in some regions of the world can be complicated by the fact that information sharing related to forced labor is prohibited by global regulations that include anti-espionage laws and anti-sanction laws.

# 13 Enforcement

Although many companies have yet to receive an inquiry or a detention notice from US Customs relating to forced labor, the organizations that have been subject to this scrutiny have felt the impact.

## Among companies subjected to forced labor-related inquiries



**12%** Have been issued an inquiry



**9%** Have been issued a detention notice or seizure of goods

## Resolutions in regard to detained goods



**45%** Reexported



**27%** Destroyed



**18%** Released



**9%** Still under review

**The takeaway:** In addition to having goods reexported or destroyed, companies with forced labor violations are also having to pay attention to whether they are subject to repercussions related to being detained in a Foreign Trade Zone (FTZ). Of surveyed companies, 27 percent indicated that their goods were detained in an FTZ, although it should be noted that importers can no longer move detained goods suspected of being made with forced labor into an FTZ for storage.<sup>7</sup>

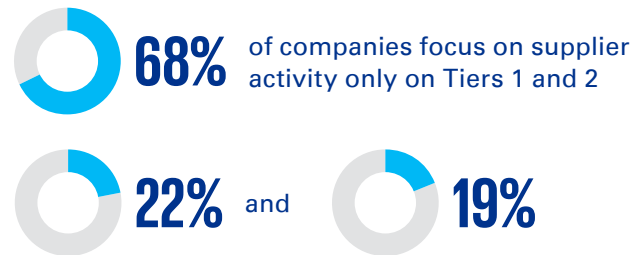
<sup>7</sup> CSMS # 57200992—Movement of Forced Labor Detained Cargo for Storage, U.S. Customs and Border Patrol.

# Focus on the supply chain

In contrast to the UFLPA, the Inflation Reduction Act (IRA)<sup>8</sup> has more of a focus on domestic content. Together, the regulations compel companies to increase their focus on understanding their supply chains, including where and how products are manufactured.

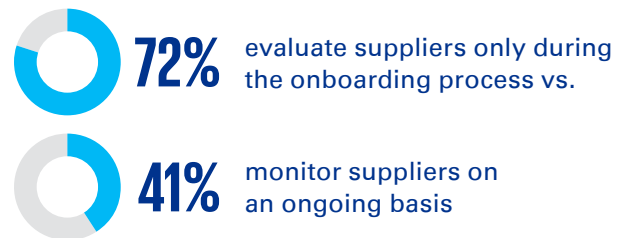
Companies are largely focused on the right areas, with 94 percent of our survey respondents that carry out UFLPA risk assessments saying they are focused on suppliers. Further, more than half (54%) have terminated partnerships with suppliers due to forced labor issues. However, there are still a number of areas where companies are falling short:

## Organizations aren't delving deep enough with supplier assessments

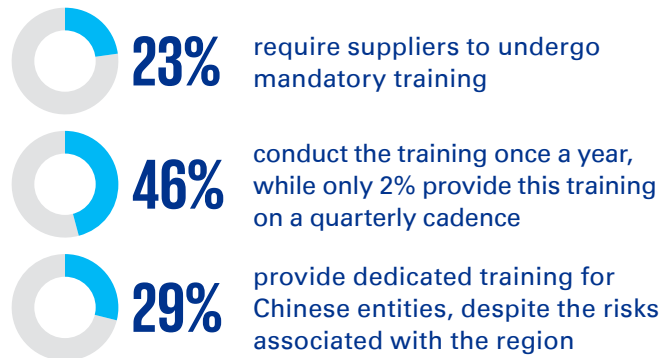


respectively, examine supplier activity on Tier 3 and Tier 4

## Supplier evaluations are too infrequent



## Supplier training needs to expand and be more focused



**The takeaway:** Information collected from suppliers stops around the Tier 2 level at most companies, even though regulations require companies to review the full supply chain to the n-tier, and investors are also looking for this level of visibility. True progress will involve delving deeper into supplier activity on at least Tiers 3 and 4, which companies say will require clearer expectations from CBP on how to define the levels, as well as greater supply chain transparency. Companies can extend their efforts to consistently monitor their suppliers through audits, questionnaires, and ad hoc outreach, etc. Further, half of surveyed companies say they are using external providers to conduct supplier audits, and nearly a quarter have started issuing anti-forced labor affidavits or certifications. That said, many companies lack operating models that are conducive to direct oversight.



Food and beverage companies, for example, often purchase key ingredients through brokers or other third parties where the risk of forced labor is highest. Some companies are reshaping their procurement models to include direct sourcing, as well as more of a presence in the countries where risk is highest.



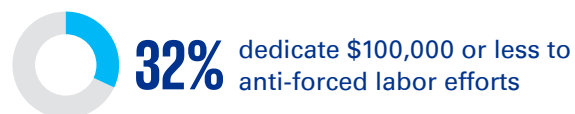
— Julia Wilson, KPMG Advisory Principal

<sup>8</sup> H.R. 5376—Inflation Reduction Act of 2022, Congress.gov.

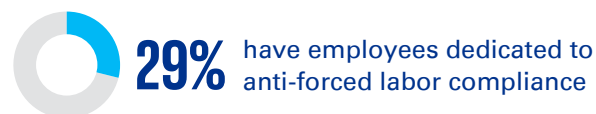
# 5 Current state of AFL programs

Companies' internal efforts to build out anti-forced labor efforts have room for improvement.

## Insufficient budgeting



## Minimal headcount



**The takeaway:** A cross-functional team is essential for sharing information and collaborating, especially when setting up new policies and procedures. Currently, UFLPA program enforcement, and particularly government inquiries, is predominantly handled by Trade (as reported by 21 percent of survey respondents) and Corporate Compliance (also 21 percent). Some companies are assigning this responsibility to Procurement divisions (19 percent), although it's important to note that not all sourcing functions have responsibilities around ethical (or responsible) sourcing. Twelve percent of survey respondents are currently tapping into Sustainability/ESG teams for anti-forced labor enforcement, primarily due to new European reporting requirements associated with environmental provisions and emerging global forced labor legislation under sustainability (ESG) laws. More than one-third of companies surveyed are involving their ESG teams in implementation support, policy development, governance, and monitoring, and we expect these numbers to increase.

“

Initially, many companies responded to forced labor regulatory requirements and enforcement actions by instituting cross-functional collaboration across the ESG, Trade, Compliance, and Legal functions. Now their roles have shifted further to include monitoring supply chains, highlighting the complexity of supplier audits, and implementing viable technologies to meet traceability needs and compliance obligations.

”

— George Zaharatos, KPMG  
Principal, Trade & Customs



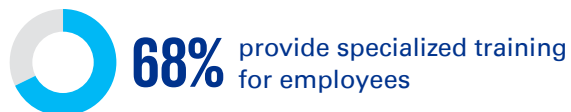
# 5 Current state of AFL programs

## Cross-functional teams



**The takeaway:** Lack of budget and personnel dedicated to anti-forced labor efforts has been an acute struggle for many companies. Survey respondents reported that their biggest hurdles were unclear roles and responsibilities (47 percent), insufficient funding for personnel and technology (31 percent and 29 percent, respectively), and a need for stronger support from leadership (19 percent). According to a senior manager of global customs and trade risk compliance at a major international chain: “There are increased responsibilities in the trade teams. However, our business is looking to grow the team even further within trade, while also bringing in ESG and creating a cross-functional task force.”

## Employee training



**The takeaway:** It is encouraging that nearly 70 percent of businesses are providing employees with specialized training, which is instrumental to creating cultures of respect for human rights and ethical behavior, establishing codes of conduct that outline expectations around employee behavior, and providing avenues to report concerns about human rights abuses or ethical lapses.

## Audit readiness



**The takeaway:** Although mock supply chain audits are effective strategies for preparing for US Customs applicability reviews, at present only slightly more than a quarter of companies are conducting them, and only six percent are involving more than half of their suppliers in these exercises. One of the obstacles is uncertainty related to whether suppliers can provide requested documents within a tight timeframe. Specifically, US regulators require companies to present documents to customs within 30 days of when a concern is raised (with the ability to request two 30-day extensions), which most suppliers find challenging.



Forced labor crosses into both supply chain security and social responsibility. Therefore, creating a forced labor program that is comprehensive and aligned with both functions has been difficult.

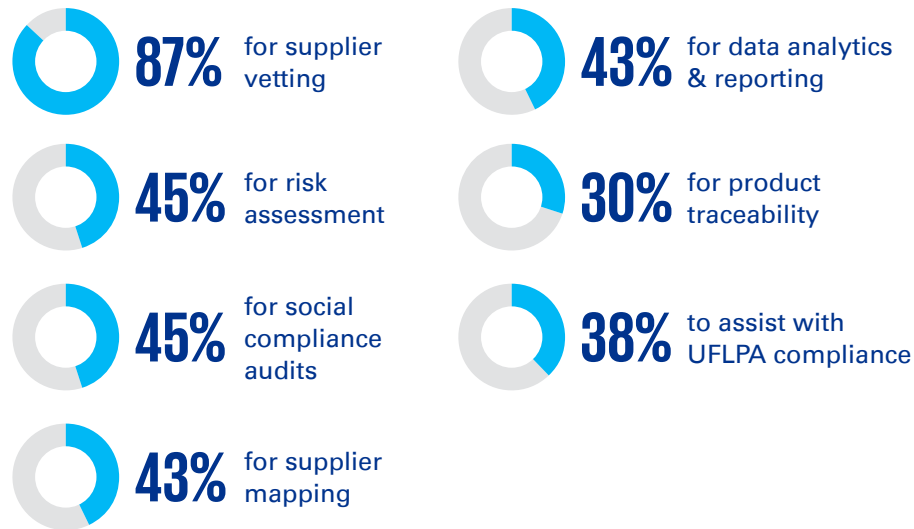


— Director of Customs and Trade Advisory, major consumer packaged goods company

# 6 Technology and data

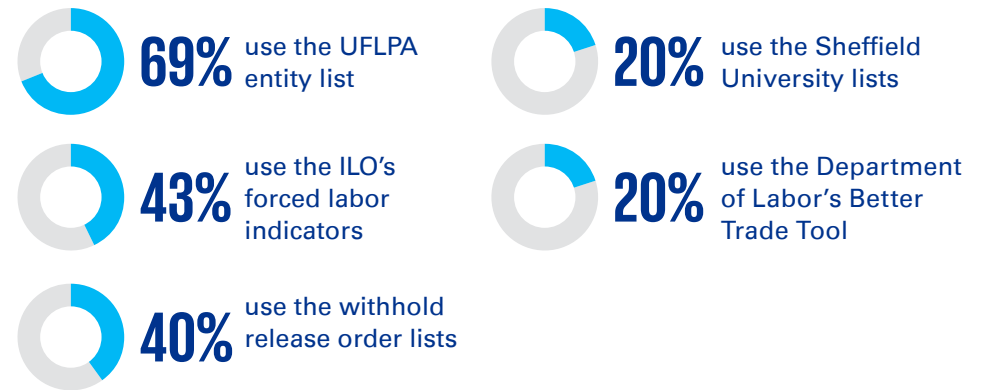
Tracking and analyzing suppliers' forced labor risks require a wide variety of technology tools, including advanced data & analytics. It is encouraging that companies seem to be making some progress on this front, with a focus on future automation development to support anti-forced labor efforts.

## Companies use automation for a variety of critical tasks



**The takeaway:** There is a wide spectrum of automation platforms that use artificial intelligence (AI) and machine learning (ML) tools to map supply chains, create deep dive processes for the highest-risk suppliers, administer slavery trafficking risk surveys to suppliers, create supplier scorecards, and more. There is, however, some frustration that, among the many software suppliers, none can currently meet the full spectrum of regulatory and due diligence requirements under the UFLPA or other similar legislation. A director of customs and trade advisory at a consumer-packaged-goods company stressed the need for a software solution to help them identify 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> tier suppliers.

## Data viewed as an essential tool for defining risks

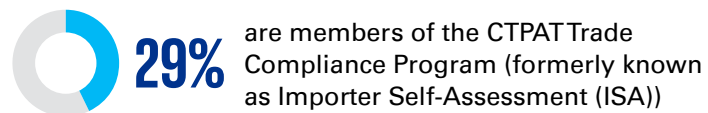
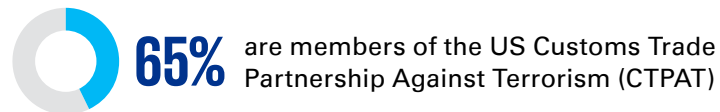


**The takeaway:** Companies who monitor risks via dashboards—such as the KPMG Forced Labor Dashboard (see page 14)—start by looking at government lists to screen for potential violations at the product, entity, and/or country level. Dashboards illustrate a company's risk exposure at a high level, including chain of custody across the supply chain (from raw materials to finished goods). This level of mapping extends well beyond the historical focus on Tier 1 and 2 suppliers and could include 4 or 5 different tiers (and maybe more), depending on access to a supplier's sub-tiers. Organizations can incorporate the dashboard into their broader risk assessment programs and country threat assessment efforts to better focus their limited program resources. Among other things, the dashboard informs the list of suppliers from which a company issues "requests for information," as well as regularly monitors against entity and/or adverse media lists.

# 07 Industry-wide efforts

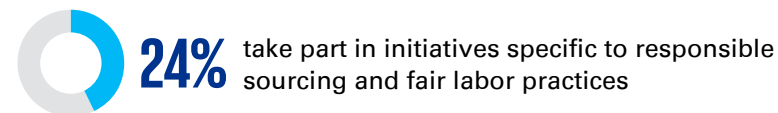
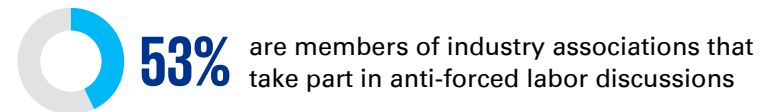
While there is a great deal that companies can do on an individual basis, tapping into the resources and guidance of industry organizations and sharing information on a cross-institutional basis will be critical to stemming the tide of forced labor violations worldwide.

## Organizational membership



**The takeaway:** Most survey respondents are members of CTPAT, which has made a significant push for forced labor program implementation. Additionally, for those companies involved in CTPAT Trade Compliance, six new forced labor program requirements went into effect on August 1, 2023.<sup>9</sup>

## Information sharing



**The takeaway:** Partnerships and collaborations with organizations that promote ethical principles and respect for human rights are critical to creating momentum. Although only a quarter of survey respondents participate in initiatives like the Responsible Business Alliance (RBA)<sup>10</sup> and Fair Labor Association (FLA),<sup>11</sup> the hope is, as regulatory mandates become more stringent, companies will tap into these valuable resources to help bolster their efforts.

<sup>9</sup> [CTPAT Trade Compliance FAQ Forced Labor Requirements \(cbp.gov\)](https://www.cbp.gov/ctpat/faq-forced-labor-requirements)

<sup>10</sup> <https://www.responsiblebusiness.org/>

<sup>11</sup> <https://www.fairlabor.org/>

# 18

## Conclusion

As we seek to tackle the daunting global issue of forced labor in the supply chain, it is important to remember that human rights are the basic rights and freedoms belonging to every person in the world, regardless of their race, religion, nationality, gender, or other characteristics. While many companies are appropriately concerned about these issues, progress is needed, from making greater investments of time and budget to forging mutually beneficial partnerships with other organizations dedicated to responsible sourcing and fair labor. With significant resources and visibility into many corners of the globe, multinational corporations are in a unique position to take a leading role in the effort to ensure the rights that many enjoy are extended to our most vulnerable individuals and communities worldwide.

**Multinational corporations can lead the way in safeguarding the rights of the world's most vulnerable individuals and communities.**



# How KPMG can help



**Design policy.** Consulting on designing and implementing human rights policies.



**Build capacity.** Guidance on building internal commitments and capabilities to act on human rights and implement human rights programs.



**Identify and assess risk.** Identification and assessment of human rights risks across an entity's value chain, focused on risk of harm to people and integrating assessments into other risk processes.



**Develop strategy.** Development and assistance with implementation of effective and transformative strategies that address human rights risks and opportunities.



**Support reporting and communications.** Review and assurance of organizations' communications activities, as well as human rights reporting and efforts to comply with regulatory requirements for public reporting.



**Set targets.** Guidance on appropriate human rights performance targets and development of frameworks to monitor performance and measure impact.



**Establish anti-forced labor programs.** Assistance designing anti-forced labor programs, policies, and procedures and establishing risk processes to evaluate and map supply chains.

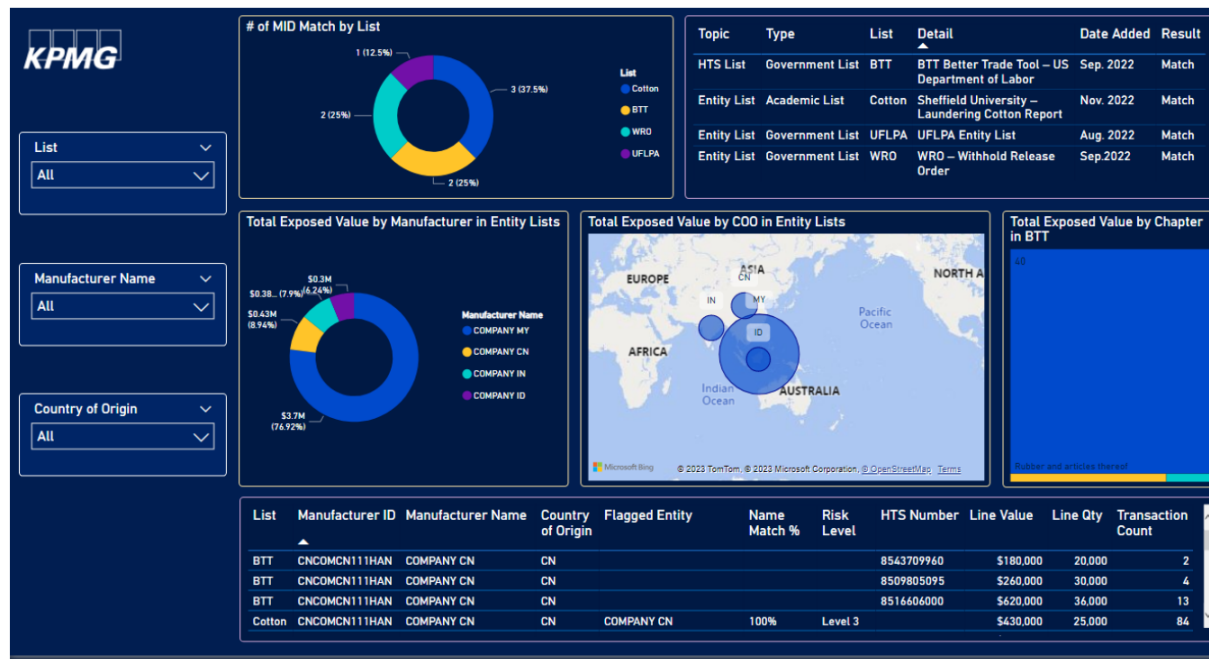


**Deliver stakeholder, grievance, and remediation frameworks.** Design and delivery of effective stakeholder engagement programs on human rights issues and help with implementation of grievance mechanisms and remedies for potential harms that are uncovered.

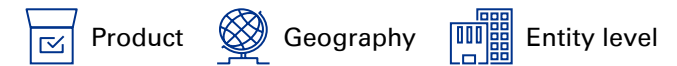


# KPMG anti-forced labor dashboard

As emerging shifts in regulations and legislation call for greater visibility into supply chains, KPMG developed a dashboard that is able to identify a company's high-risk goods and entities by using import and other relevant supply chain data.



The KPMG anti-forced labor dashboard provides a risk profile based on the following categories:



As the regulatory environment continues to evolve, KPMG has been engaged by a number of Fortune 500 companies to develop a dashboard for their broader anti-forced labor program management. We tailor the dashboard to reflect a client's needs; all "blocks" are modifiable and scalable.

### Our clients have:

- Incorporated the dashboard into a broader risk assessment process
- Used the dashboard output to issue "requests for information" to identified suppliers
- Integrated the dashboard into a broader country threat assessment
- Developed extensive screening protocols to be incorporated into existing screenings (e.g., sanctions, Specially Designated Nationals (SDNs), export controls)

## Contributors

**Jessica Libby**  
**Human Rights Co-Leader,  
Principal, Tax—Trade & Customs**  
T: 612-305-5533  
E: jlibby@kpmg.com

**George Zaharatos**  
**Principal,  
Tax—Trade & Customs**  
T: 718-404-222-3292  
E: gzaharatos@kpmg.com

**Elizabeth Shingler**  
**Senior Manager,  
Tax—Trade & Customs**  
T: 267-256-2691  
E: eshingler@kpmg.com

**Pierfilippo Natta**  
**Manager,  
Tax—Trade & Customs**  
T: 858-750-7216  
E: pnatta@kpmg.com

## Resources

- [ILO handbook](#)
- [CBP Resource Center](#)
- [UFLPA operational guidance for importers](#)
- [Strategy to Prevent the Importation of Goods Mined, Produced, or Manufactured with Forced Labor in the People’s Republic of China](#)
- [List of Goods Produced by Child Labor or Forced Labor](#)
- [KPMG ESG](#)
- [KPMG Tax ESG Insights](#)

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