

COUNTER FORCED LABOR QUARTERLY JOURNAL

VOLUME 2 | ISSUE 2

Educating corporations and corporate counsels on the business risks associated with human trafficking, forced labor, and modern slavery within supply chains, and promoting the adoption of counter-human trafficking corporate policies and adherence to human trafficking legislation and regulations.

Counter Forced Labor Technologies is a global compliance and advisory company that provides **on-site** assessments, improvement plans, training, research, and supply chain transparency required for corporations to combat human trafficking, forced labor, and modern slavery. We offer a wide array of services designed to help corporations understand intricate legislative policies and **mitigate risk** within their global supply chain.

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COUNTER
FORCED LABOR
TECHNOLOGIES

EDITOR'S NOTE

SPRING 2017

The first 100 days of President Trump's Administration has been a wildfire of Executive Orders, business regulation changes and trade negotiations. The turbulent strategy of the initial 100 days has yet to reveal itself fully leaving international trade and supply chains in a holding pattern.

In this Spring 2017 Counter Forced Labor Journal, we attempt to summarize the first 100 days of changes as they relate to supply chain transparency focusing on the ground-level as neighborly relations with both Mexico and Canada are effected.

Also, in this edition of the Journal we added a new recurring section dedicated to ethical investing which will cover a swath of future topics related to social impact, investments and supply chain management.

With a great deal of anticipation, Counter Forced Labor Technologies is proud to release our first edition of the **Counter Forced Labor Risk Global Assessment Technology™ (GRAT)** designed to help with managing and reducing the risk of slave labor in supply chains. Read more in the *CSR Check* section of the journal.

As the rising swell of compliance and regulation changes roll in from Brexit and the Trump Administration continues to make waves, the Counter Forced Labor Journal will continue to focus on the topic of trade relations in our Summer 2017 Counter Forced Labor Journal.

Respectfully,

JESSICA VINCENT

Director of Intelligence & Editor

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HUMANE TRADE

An upheaval of trade issues crossed President Trump's desk in his first 100 days. Within the first few days, a Presidential Memorandum was released to withdraw the United States as a signatory to the Trans-Pacific Partnership (TPP) and permanently withdraw the U.S. from further negotiations. After seven years of protracted negotiations by former President Obama's administration, the not-so-unexpected memorandum revoked an already controversial free trade deal.

Negotiated between developing and developed countries from New Zealand to Malaysia to Mexico, the TPP meant to open trade for underdeveloped countries also opened concerns of human rights abuses. Scrutiny of human rights advocacy grew after Malaysia joined the TPP in the shadow of the U.S. State Department's 2015 Trafficking in Persons (TIP) Report where Malaysia received an upgraded Tier status. Simultaneously throughout the summer of 2015, mass grave sites were discovered near the Thailand border revealing the gruesome practice of human trafficking undocumented immigrants from Burma and Bangladesh.

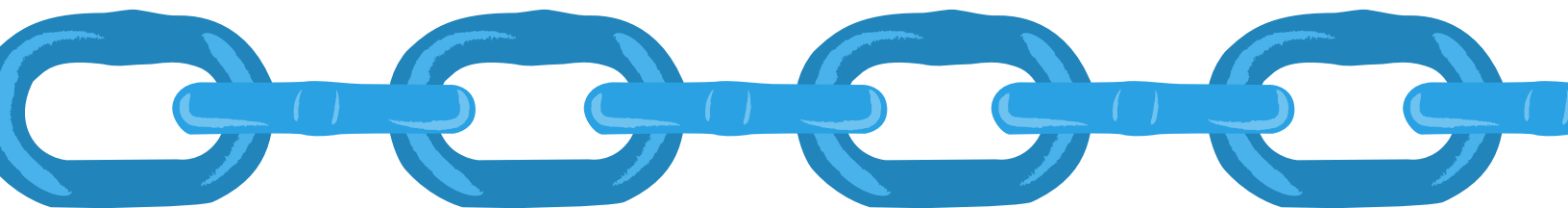
The 2,000-page pact involving high labor standards, intellectual property rights, environmental rules and other issues remains to be ratified. Not one of the 12 signatory countries have completed the ratification process and many may resolve to continue to pursue other bilateral and multilateral trade deals. For instance, Vietnam is already benefiting from a huge skilled labor force who has supported an 4% increase in the U.S. apparel market from 2012-2016, resulting in \$10.79 billions of apparel exports, according to the Office of Textiles and Apparel (OTEXA). Already enjoying benefits as an ASEAN member, Vietnam also has bi-lateral agreements with Korea, Japan, and the EU.

More recently on Day 94, President Trump signed an executive order regarding changes to the Dodd-Frank Act after a short review of the effectiveness of the legislation. The first order directs the Treasury Department to look at a process known as 'orderly liquidation review'. Established by the Dodd-Frank Act, the review is a process for winding down a large, failing financial company in a way that protects

taxpayers from large bailouts like the ones paid out in the aftermath of the 2008 financial crisis. The second order review looks at the Dodd-Frank law provision that called on federal regulators to identify which financial institutions were large enough to merit enhanced regulation, as their collapse could destabilize the whole economy.

Among the myriad of compliance measures under Dodd-Frank, an overhaul of the conflict minerals disclosure is fraught with concern. The impact of conflict mineral reporting compliance has directly affected mining and smelting operations of gold, tin, tungsten, and tantalum in the Democratic Republic of the Congo (DRC) spurring positive changes to supply chain transparency, the world over. As reconsideration of conflict mineral rule implementation was being proposed, the SEC opened a 45-day comment period receiving almost 300 responses from various industries and the compliance community. Initially, the Trump Administration may have been poised to suspend or rework the reporting rule until the Conflict Free Sourcing Initiative (CFSI), a coalition with 350 company members to include, Apple, Dell Inc, Ford Motor Company, Tiffany & Co among others, filed a letter to the SEC in support of continued conflict mineral regulation. The overwhelming response stimulated a pause.

In a separate inquiry, the State Department opened a month-long comment period to support changes or alternate solutions to the Dodd-Frank Act "seeking input from stakeholders to inform recommendations of how best to support responsible sourcing of tin, tantalum, tungsten, and gold." Originally spurred by the Dodd-Frank Act, conflict mineral transparency has infectiously evolved into responsible supply chain methods. Enduring changes to conflict mineral supplies will require both government regulation and private business initiation. The fluidity of changes to trade in the first 100 days of President Trump's administration has many roads, but the road to solving human rights abuses through trade sanctions, trade agreements and trade transparency will remain persistent no matter the method.



VOLUNTARY DISCLOSURE OF EACH CONFLICT MINERAL IN 2015

A total of 1,283 companies provided 2015 filings for use of at least one of the four conflict minerals. (Not all companies reported which conflict minerals were in use.)

MINERAL/PERCENTAGE/USES

TIN- Automobile parts, steel coatings, food packaging & some plastics **55%**

GOLD- electronics industry, cell phones, laptops **48%**

TANTALUM- cell phones, computers, aerospace **40%**

TUNGSTEN- automobile manufacturing, drill bits, industrial manufacturing tool, lightbulbs **37%**

JUST THE FACTS

Supply Chains Act of 2010 (CA-TISCA) study by [iPoint Systems](#), in partnership with [Development International](#). A total of 1,961 brands were evaluated against their disclosure compliance based on the law's Risk Verification, Audit, Certification, Internal accountability and Training (VACIT) framework as a compliance matrix.

3,336	Number of companies identified as being subject to CA-TIS
3,079	Number of US companies subject to CA-TISCA
257	Number of Non-US Companies subject to CA-TISCA
1,961	Number of companies evaluated through the study
1,909	Number of companies with a disclosure statement
334	Number of companies exceeding the minimum standard through pro-active anti-slavery initiatives
538	Number of companies with a superior transparency score (clear description of the applied methods – and outcomes – of their anti-slavery programs)
847	Number of evaluated companies identified as manufacturers The most represented manufacturing SIC codes; Semiconductor Industry, Pharmaceutical sector and Apparel/Textile sector
179	Number of evaluated companies identified as retail sellers
1,118	Number of evaluated companies that are publicly traded
843	Number of evaluated companies that are privately held
\$48.4 Trillion	The combined global revenue of the 1,961 evaluated companies
3%	Percentage of anti-slavery disclosure statements also prepared for U.K. Modern Slavery Act.

ASEAN ANTI TRAFFICKING

Eighteen months after the Association of Southeast Asian Nations (ASEAN) made an essential proposal by creating the ASEAN Convention and Plan of Action Against Trafficking in Persons Especially Women and Children (ACTIP), the action plan has finally been ratified by six ASEAN member countries. In February, the Philippines became the last ASEAN country to submit an instrument of ratification joining ranks with Cambodia, Singapore, Thailand, Myanmar and Vietnam. The format of ACTIP closely follows the structure of the United Nations Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children or the Palermo Protocol. The three main goals of the ACTIP are to strengthen the rule of law and border control, prosecute more traffickers and strengthen regional cooperation through progressive capacity building, resource allocation and education requirements.

Philippines deposits instrument of ratification on anti-trafficking convention, ASEAN, February 2017.

One Year Later: ASEAN Anti-Trafficking Action Plan Still Dormant, Human Trafficking Center, September 2016.

POTENTIALLY FRAUDULENT USE OF TN VISAS

Labor shortages in agricultural industries are the impetus behind an alleged fraudulent recruitment scheme of professional Mexican veterinarians under the TN visa program. Six licensed veterinarians from Mexico, hired by Funk Dairy of Murtaugh through the TN visa program, are claiming to have been defrauded and coerced to work as general laborers on the dairy farm not as professional-level employees as promised. The alleged criminal conspiracy proposes the dairy farm fraudulently hired general laborers under the temporary professional visa program. The plaintiffs claim to have been victims of forced labor conditions through threats of deportation, unhygienic working conditions and inadequate pay. The former dairy employees are seeking unspecified monetary and punitive damages.

Veterinarians Accuse Dairy Farm of Trafficking Scheme, Law360, January 2017.

Mexican veterinarians sue Idaho dairy, Capital Press, January 2017.



DANISH GET TOUGH ON BUSINESS AND HUMAN RIGHTS

The trending interest in global development and human rights was solidified in two year-end rulings out of Denmark. The Danish Mediation and Complaints-Handling Institution for Responsible Business Conduct also known as the Danish Nation Contact Point for the Organization for Economic Co-operation and Development (NCP OECD) issued its first final statement for the failure of a supplier to fulfill the due diligence requirements as provided by the OECD Guidelines for Multinational Enterprises. A separate ruling by the Danish Complaints Board for Public Procurement established a precedence for future contractual obligations. It was determined a contractor's violation of certain labor clauses was a material breach of contract. The cited contractual clause or requirements were derived from four international conventions and declarations on human rights, environment and corruption.

Human rights and business – the first final statement from the Danish NCP and the trend towards increased accountability. Lexology, December, 2016.

JLL NAMED MOST ETHICAL BUSINESS FOR 10TH CONSECUTIVE YEAR

The Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices, recognizes Jones Lang LaSalle, Inc. (NYSE:JLL) as one of the 2017 World's Most Ethical Company for the 10th consecutive year. Other 2017 honorable mentions include 124 international companies such as Accenture, HASBRO, T-Mobile, and Waste Management. Each company participated in Ethisphere's The Ethics Quotient, a benchmarking tool for developing a company's ethics and compliance programs, policies and procedures. The scorecard includes an independent, third-party review and Ethics Inside Certification.

JLL Named to World's Most Ethical Company's List: Ethisphere Institute Recognizes JLL for the 10th Consecutive Year, CSRwire, March 2017.

World's Most Ethical Companies Honorees, Ethisphere, 2017.

COMPANY USING 3RD PARTY HIRING FIRM FINED

Bartash Printing, Inc located in Philadelphia has received judgement to pay \$273,892 in back wages and liquidated damages to a group of temporary employees to resolve past violations of the federal Fair Labor and Standards Act (FLSA). Bartash used a temporary hiring agency, VQ Management, Inc, - doing business as Managed Staffing and/or Best Staff - to acquire 136 temporary employees to work as machine operators and general laborers. As a joint employer, Bartash failed to ensure the workers received the required overtime payments and failed to maintain required payroll records resulting in not only back wages and liquidated damages but also a civil monetary penalty of \$31,350.

CORRECTED: US Labor Department, Philadelphia Printer Enter into Consent Judgement to Resolve FLSA Violations, Workers to Recover Back Wages, United States Department of Labor, April 2017.

FOLLOW THE THREAD

Four years after Rana Plaza factory collapse, killing more than 1,000 garment workers, the non-profit Human Rights Watch calls for the fashion industry to adopt their Apparel and Footwear Supply Chain Transparency Pledge. Detailed in their newly released report called "Follow the Thread: The Need for Supply Chain Transparency in the Garment and Footwear Industry", a series of pledge details and the rationale behind each pledge is listed. The Transparency Pledge is an effort to level the playing field in the industry and move it toward a minimum standard for publishing supplier factory information. The Transparency Pledge is endorsed by a coalition of nine labor and human rights organizations; IndustriALL Global Union, International Trade Union Confederation, UNI Global Union, Human Rights Watch, Clean Clothes Campaign, Maquila Solidarity Network, Worker Rights Consortium, International Corporate Accountability Roundtable, and International Labor Rights Forum.

Follow the Thread: The Need for Supply Chain Transparency in the Garment and Footwear Industry, Human Rights Watch, April 2017.

ECOCHIC DESIGN AWARD

Across China, a growing number of high-end designers are working to promote sustainability throughout the fashion cycle. In its seventh year, the EcoChic Design Award is a sustainable fashion design competition organized by the non-governmental organization, Redress. By inspiring emerging fashion designers and students to create mainstream clothing with minimal textile waste, the EcoChic Design Award encourages environmentally friendly practices and sustainability throughout the fashion cycle. In this current competition cycle, the EcoChic Design Award opened to designers in Asia, Europe and for the first time, the USA.

China's High-Fashion Players Are Hungry for Sustainable Design, Jing Daily, April 2017.

INVESTORS DEMAND AUSTRALIAN MODERN SLAVERY ACT

A joint statement sent to the Joint Standing Committee on Foreign Affairs, Defence and Trade of the Parliament of Australia addressed an inquiry into establishing a Modern Slavery Act in Australia. The statement was signed by global investors representing US \$2.13 trillion assets and welcomed a Modern Slavery Act which would improve transparency on how companies operate in Australia when managing modern slavery risks in their operations and supply chains. Signatories included 35 fund management organizations.

Investor Statement in Support of Establishing a Modern Slavery Act in Australia, Business & Human Rights Resource Centre, March 2017.

OVER 100 CHINESE NATIONALS

A four-year HSI investigation revealed a fraudulent scheme where many foreign nationals could improperly obtain U.S. green cards through the EB-5 visa program. Through the EB-5 program, which allows foreign investors to gain legal U.S. residency by investing at least US \$500,000 in a business – creating at least 10 American jobs – 100 Chinese nationals invested US \$50 million into the California Investment Immigration Fund (CIIF). The CIIF allegedly collected money from the Chinese investors for construction projects that didn't exist, skimmed money off the top and then returned some of the money to investors while their immigration applications were pending. Much of the money originated from mainland China or Hong Kong with at least three investors who obtained green cards through the program were fugitives wanted by the Chinese government.

U.S.: FBI Raids California Business Suspected of Green Card Fraud, Organized Crime and Corruption Reporting Project, April 2017.

CONSUMER PROTECTION

Missouri Attorney General Josh Hawley released a three-tiered plan for solving Missouri's encroaching human trafficking problem. Beginning with the establishment of a statewide enforcement unit to prosecute violators, a multi-stakeholder task force will be developed and training and education resources for communities and law enforcement will be provided. In addition, AG Hawley will be targeting human traffickers through new regulations under Missouri's consumer protection laws. Typically used to combat unfair trade practices, consumer protection regulations will extend culpability to business establishments and expand prosecutions.

Missouri Attorney General's New Initiatives Look to Combat Human Trafficking, The Maneater, April 2017.

MAQUILADORAS

In a raucous of rumors, promises, and realities, the Trump Administration is vacillating a clear solution for updating the North American Free Trade Agreement (NAFTA) and a potential border adjustment tax. As a result, business on the U.S. border will continue as usual with business supply chains using the Maquiladora industry through the Maquiladora program, IMMEX, to manufacture goods.

Based on the eternal search for low-wage labor sources, the Maquiladora industry was born in Nogales, Sonora 50 years ago under the National Border Development Program (PRONAF) by the Mexican government. Subsequently, a diverse development of first, second, and third-tier maquiladoras now perform manufacturing services from simple assembly to more complex production operations. Growing with global economy demands for on-time delivery, quality manufacturing, and low labor costs, the Maquiladora industry is a mix of foreign-owned and locally-owned businesses found mostly along the U.S./Mexico border.

Essentially, the Maquiladora Manufacturing Industry and Export Services or IMMEX is a program affording Mexican manufacturing companies a 16% value added tax incentive from the Mexican government. Basically, a foreign-owned or locally-owned business operating a factory that produces goods, may "temporarily" import production inputs and assets if they are then exported in a final product. The inception of NAFTA in 1993, enhanced the IMMEX program by creating a free trade zone through tax exemptions Mexico-wide. Maquiladoras mainly service US-based clientele, but through 11 different free trade agreements with 43 countries, Mexico hosts maquiladoras investments from many other countries including Germany, Canada, Great Britain, Australia, Korea, Japan, Israel and several South American countries.

IMMEX REGISTRATIONS

HOLDING COMPANY IMMEX

With more than one legal entity operating in Mexico, one entity is designated the "holding" company operating as the controlling entity for IMMEX compliance.

INDUSTRIAL IMMEX

Typical maquiladoras registration for transforming raw materials into finished goods that are exported.

SERVICES IMMEX

At the discretion of the Department of Economy, a service provider that distributes goods meant for export from one manufacturer to another within Mexico.

SHELTER IMMEX

Operates as a "shelter" entity for foreign manufacturers who want to make products in Mexico without registering with IMMEX.

THIRD-PARTY IMMEX

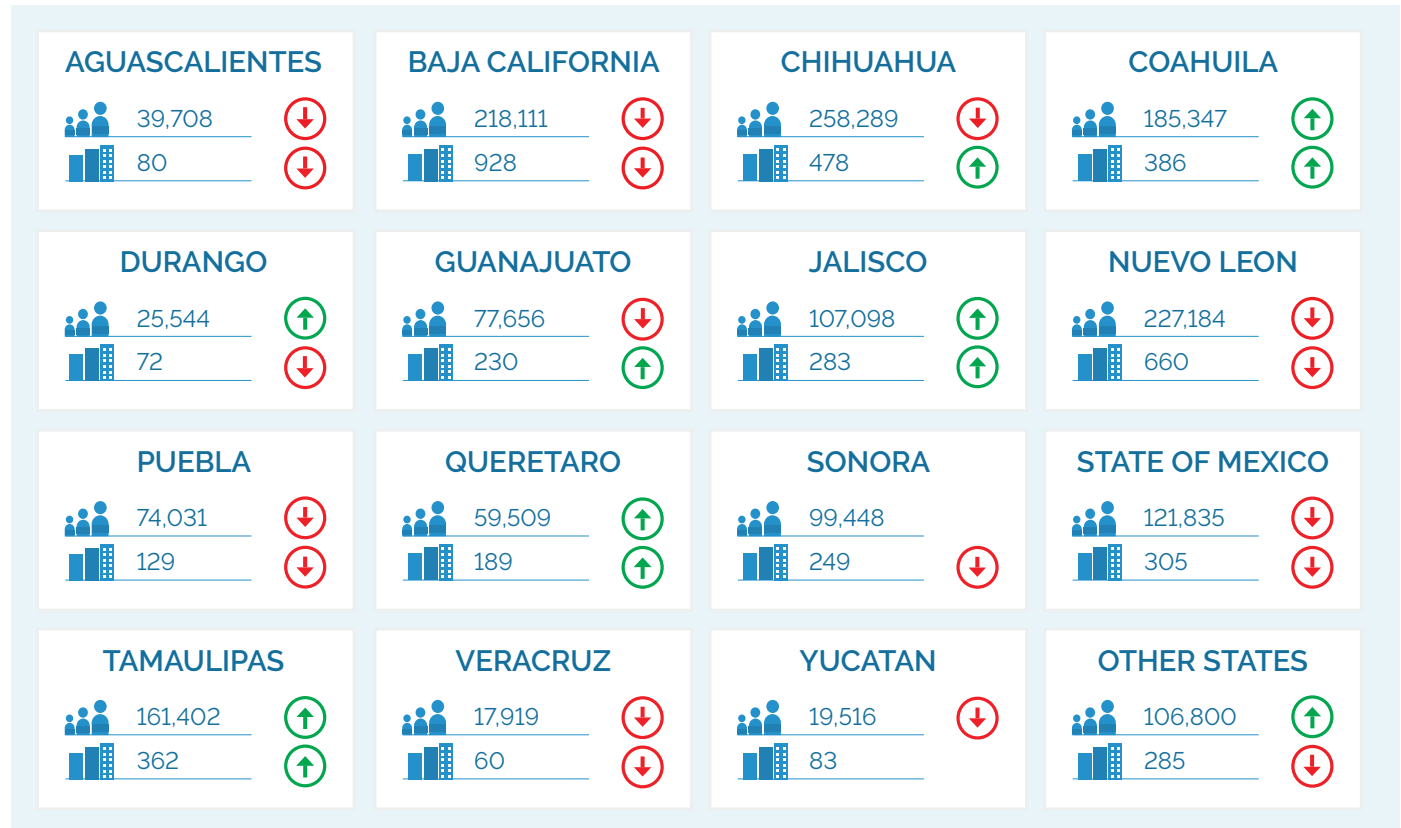
Registration for a manufacturing entity operating with third party manufacturers or subcontractors.

Maquiladora operations are primarily found in industrial and business parks adjacent to the U.S.-Mexico border reaping additional benefits from designated Foreign Trade Zones. The manufacturing ecosystem of Nogales, Mexico and Santa Cruz County, Arizona is an example of the symbiosis of increased flexibility and trade benefits. Strategic border locations offer flexibility for distribution costs and easy transportation through new larger Ports of Entry. The Ambos Nogales manufacturing hub allows for reduced inventory costs for importers who enjoy shipping duty-free or delaying duty payments.

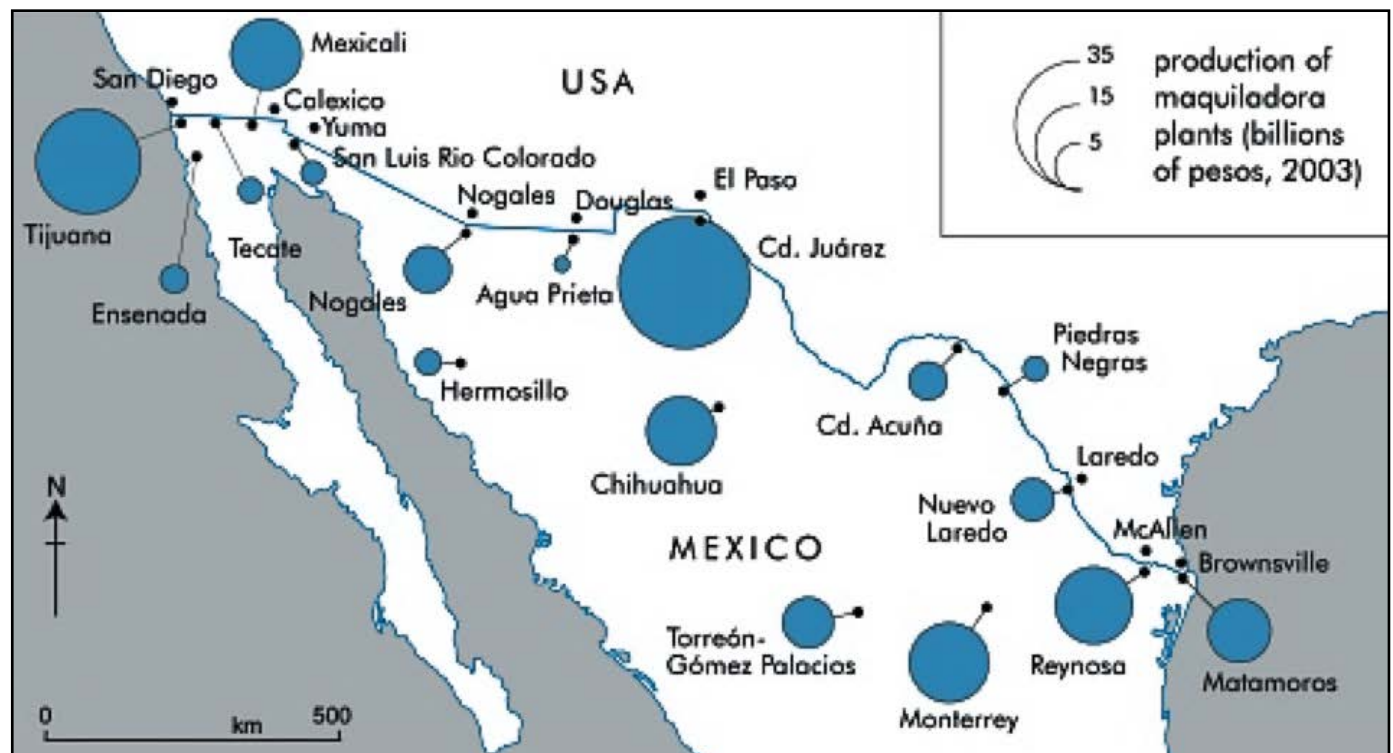


IMMEX* EMPLOYMENT & PLANTS by State

*Maquiladora Manufacturing Industry and Export Services

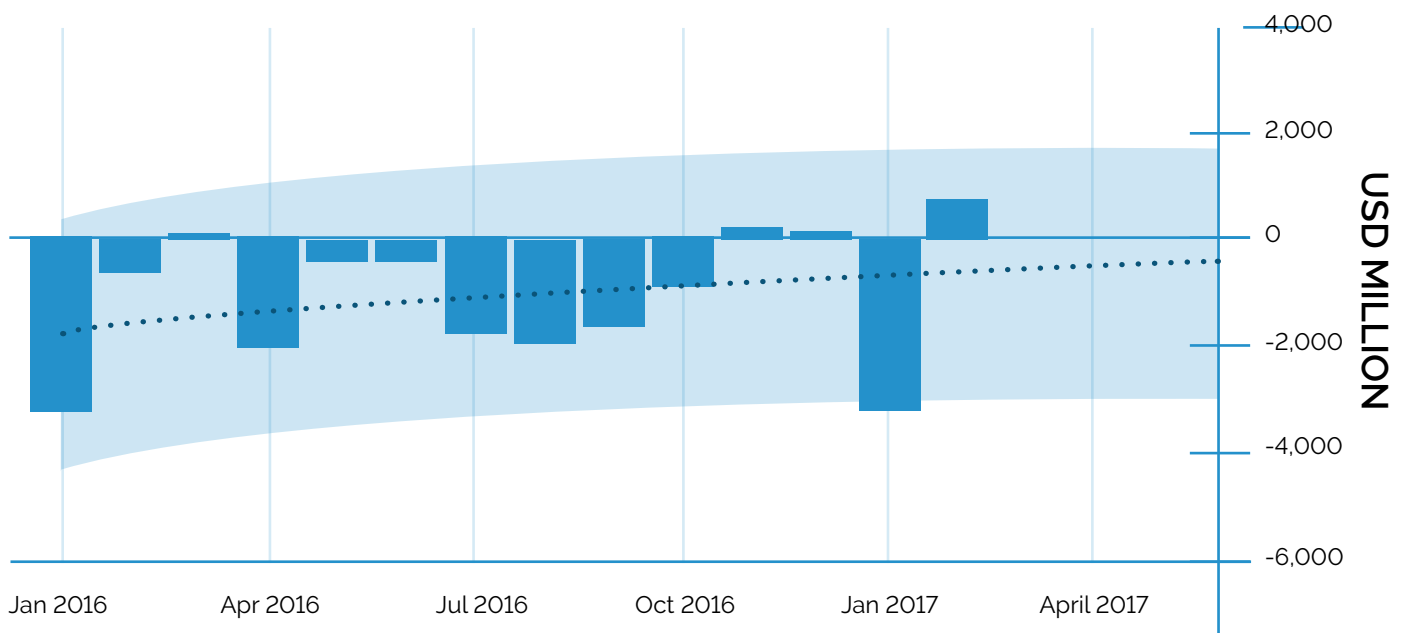


IMMEX Employment & Plants by State, Instituto Nacional De Estadística y Geografía



Bursting the Maquiladora Bubble with Human Rights, Champlain College Global Connections.

MEXICO'S BALANCE OF TRADE



The outlook for Maquiladoras is fuzzy. Global trade participation has reached the limits of cheap labor, and the U.S. continues to embrace nationalism whilst rejecting globalism. The balance of trade forecast for Mexico has been dubious but is projected to downturn to -1,000 USD million by years end and exceed -4,000 USD million by 2020. Increased competition with China has hampered Maquiladora growth but has also strengthened Mexico's resolve to improve the ratio of production output to wages. Changes to NAFTA and a border tax adjustment are pending, but it isn't halting the Maquiladora industry growth as expected. Just last month, Salvador Maese Barraza, President of the Association of Maquiladoras of Mexicali revealed the electronics industry will invest \$1.6 billion in new plants and production lines this year adding to the already 300,000 direct and indirect jobs in Mexicali, Baja California.

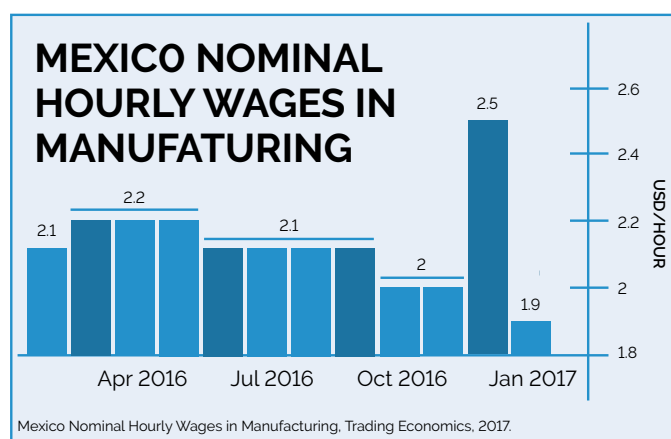
MAQUILADORA INDUSTRIES



Mexico Manufacturing Industries, North American Production Sharing, Inc., 2017.

PROS OF MAQUILADORAS

- Location
 - Foreign Trade Zones offer tariff advantages and reduced paperwork.
 - Lower distribution costs
- Large skilled & non-skilled employment base
- Women in the workforce
- Political improvements; multi-party democracies
- Economic growth
 - Increase workforce buying power
 - Low labor costs; \$1.90/hour



CONS OF MAQUILADORAS

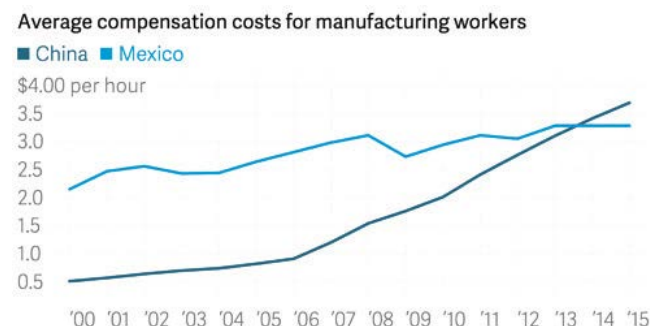
- Environmental negligence
- False "paper" unions
- Living wages near or at poverty level
- Health risks
- Unsafe working conditions
- Poor labor protection laws
- Sexual harassment
- Inadequate housing for employees

Without overgeneralizing, the Maquiladora Industry has reaped a labor supply chain nightmare over the last 50 years. Businesses from the U.S. with high compliance standards have slowly improved the workforce environment, but many abusive working conditions still exist in the Maquiladora Industry. Generations of workers have been underrepresented allowing for an unsettling cycle of near forced labor conditions. Some rigidly controlled maquiladoras where political partnerships between companies, government authorities, and unions disempower the workforce. Laborers are silenced from asking for safer living/working conditions, better wages, and fair treatment in fear of reprisal such as less overtime or firing. Very few choices are presented to the Maquiladora working class to improve their work environment placing the burden of improvement on the Maquiladora Industry itself.

Mexico Manufacturing Industries, North American Production Sharing, Inc., 2017.
Mexico Nominal Hourly Wages in Manufacturing, Trading Economics, 2017.
Average compensation costs for manufacturing workers, The Boston Consulting Group, 2016.

The amorous relationship with China's low-cost manufacturing and competitive production capacity has surrendered to ascending labor wages and shipping costs. With campaign rhetoric aside, U.S. businesses are seeking alternatives to the almost 15-year price increases by-way of familiar trade relationships across the border. The manufacturing inequalities for U.S. businesses in China versus Mexico are more prevalent as China trade relations and facilities lag other countries, particularly Mexico, even with talk of North American Free Trade Agreement (NAFTA) renegotiations. Particular strategic and financial benefits are increasing Mexico's competitive edge.

- *Wage stability* in Mexico has led to a competitive advantage over China as labor costs have increased 5 times in 10 years, superseding costs of labor in Mexico by January 2014.



Includes direct pay, bonuses, health care and other social benefits, and labor-related taxes and subsidies.

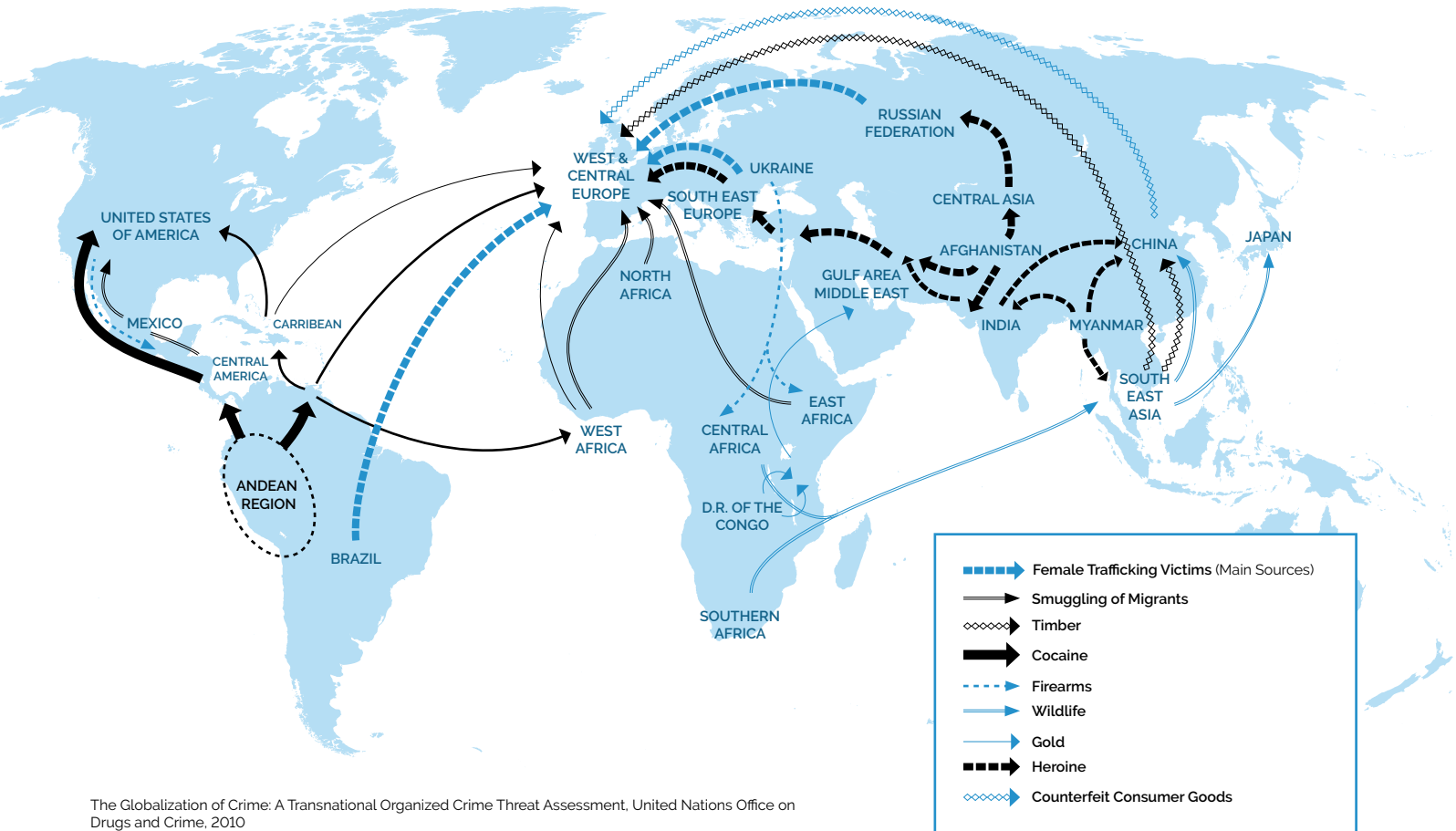
Average compensation costs for manufacturing workers, The Boston Consulting Group, 2016.

- Increasingly poor U.S. trade relations with China resulting in increased taxes and tariffs have significantly affected U.S. business operational costs. Meanwhile, Mexico will continue to enjoy tariff-free imports and exports even as part of the renegotiated NAFTA.
- Offshore manufacturing is benefited by closer proximity to manufacturers like in Mexico. Operation difficulties in China make it increasingly less efficient to conduct due diligence or compliance measures.
- The supply chain backbone of efficient transit time is highlighted in reduced shipping times from Mexico over China thus lower costs.
- Intellectual property protection continues to haunt China manufacturing with a major counterfeit problem while Mexico has ensured its courts will respect the security of intellectual property.
- Mexico has dedicated both labor laws and structured education programs specifically to meet the needs of the industrial sector. In contrast, China has done little to protect its workforce.

Q&A

WITH SECURITY SPECIALIST **GARY SEIDEMAN**

The Influence of Transnational Organized Crime on Supply Chains



The Globalization of Crime: A Transnational Organized Crime Threat Assessment, United Nations Office on Drugs and Crime, 2010

Gary Seideman is a retired U.S. Army Special Forces (Green Beret) Chief Warrant Officer fluent in both Persian Farsi and Spanish. He is practiced in managing and directing International Security Programs at the Chief Security Officer (CSO) level, including threat and security assessments for the Almaraz Nuclear facility in Spain, America's Cup yacht race in Valencia, Spain, Technicas Reunidas Oil and Gas facilities in Saudi Arabia, Pemex Oil and Gas facilities in Mexico, numerous corporate and private facilities in Mexico, as well as the Oil and Gas industry in coastal Texas. Seideman is a K&R Negotiator having participated in various Mexican cases and maintains a private investigator and security consultant license for the Texas Commission on Private Security.

Following 9/11, he served as a national security consultant for the NBC and Fox news affiliate in Dallas, TX and has continued to fulfill public speaking and lecture requests on national security issues and corporate security management. Seideman is a consultant for TV and movie security management and was a technical advisor for script, scene, and actor training in *The Bourne Ultimatum*, *The Green Zone*, *The Bourne Legacy*, and the TV show *Covert Affairs*.

Seideman is the recipient of the Bronze Star with "V" Device for his combat service with the 5th SFG "Scuba Detachment" during Desert Shield/Desert Storm.

Based on your experience, how prominent is Organized Crime in the supply chain?

Organized crime is notably influential within many facets of supply chain and logistical operations, primarily from a susceptibility of conduit businesses to financial exploitation over extensive cross-cultural networks. International markets facilitate the free movement of merchandise and financial assets, providing organized crime with numerous profit opportunities for various exploitation measures such as money laundering, smuggling, blackmail, extortion, and creating counterfeit merchandise.

How have you seen Organized Crime infiltrate business operations or its supply?

As the former Richmond Group International, Mexico City Director, I had the unique opportunity to directly manage and implement critical security methodology into various businesses in Mexico, Central America, and throughout South America.

I have often witnessed organized crime elements methodically infiltrate business operations*, but while infiltration may in some cases be the appropriate word, in other cases, it obscures the role played by business interests that knowingly engage with organized crime groups because they believe it is in their best interests to do so. Such cases suggest collaboration rather than infiltration. This collaboration is generally the result of an organized crime element applying strong extortion techniques to a business until their concession is imminent.

* Specifics, including names of Organized Criminal Networks, have been intentionally excluded.

What are the signs of Organized Crime operating within a supply chain?

Organized crime gangs have strong incentives. Compared with legitimate producers, they have lower costs of production due to the ability to disregard quality and safety standards, tax obligations, minimum wages, or employee benefits. Once established, they may threaten or use violence to eliminate competitors, and can obtain favorable treatment by regulatory authorities either through bribes or threats.

In addition to inflicting financial damage on shippers, carriers, manufacturers, and consumers, cargo theft has even more alarming repercussions. In California, violent gangs such as MS-13 (also known as Mara Salvatrucha; its leaders are from El Salvador), have been known to finance their activities through cargo theft, and in Canada, the Chinese Triad crime organization has been linked to several reported cargo thefts and supply chains. Mexico is in the middle of a serious drug war, and violence is all too commonly associated with cargo theft by these warring drug cartels.

The largest sign of organized crime involvement incorporates efforts to "follow the money." The recognition that organized crime activity facilitates the accumulation of large amounts of cash that must be laundered implies a need to make the money itself the object of policy attention. Money laundering by organized crime groups in the 1980s and 1990s (particularly the profits from the drug trade) has facilitated the relationships between organized crime groups and organizations in the more legitimate economy as well as between such groups and the governments of states for which such money is an important source of revenue. Thus, increasing attention has focused on the development of "money laundering" laws and policies that take the profits away from offenders by seizing or freezing assets derived from organized crimes.

A business from an external vantage point may be displaying exceptional organizational traits with an effective and dedicated supply chain. Organized crime can still have its tentacle deep within a company and may go undetected.

Q&A | WITH SECURITY SPECIALIST GARY SEIDEMAN

The Influence of Transnational Organized Crime on Supply Chains

What are the signs of Organized Crime operating within a supply chain? (continued)

11 CHARACTERISTICS OF ORGANIZED CRIME:

Organized Crime has multitudes of signs showing operations within a supply chain.

Ref: CF Caldwell, 1956: 73-74

TEAMWORK:

It involves an association of a group of criminals which is relatively permanent and may even last decades.

HIERARCHICAL STRUCTURE:

It has a structure with grades of authority from the lowest to the highest, involving a system of specifically defined relationships with mutual obligations and privileges.

PLANNING:

It involves advance arrangements for successfully committing crimes, minimizing risks, and ensuring safety and protection.

CENTRALIZED AUTHORITY:

It functions based on centralized control and authority which is vested either in the hands of one individual or a few members.

RESERVED FUND:

It maintains a reserve fund from profits which serves as capital for criminal enterprises, seeking help from the police, lawyers and even politicians, and for providing security to the arrested members and their families.

SPECIALIZATION:

Some groups specialize in just one crime while some others may be simultaneously engaged in multiple crimes. Those groups which are engaged in multiple crimes are more powerful and influential.

DIVISION OF LABOR:

Organized crime involves delegation of duties and responsibilities and specialization of functions.

VIOLENCE:

It depends upon use of force and violence to commit crimes and to maintain internal discipline and restrain external competition.

MONOPOLY:

It has expansive and monopolistic tendencies. Initially, organized criminal gangs operate in a limited area, and are engaged in a limited type of crime with a limited number of persons, but, gradually they expand into a wider range of activities extended over large geographical areas, involving a large number of carefully selected criminals.

In whatever area they operate, they secure monopoly in their criminal enterprises. They do not hesitate to use violence or threats of violence to eliminate competition.

PROTECTIVE MEASURES:

It arranges permanent protection against interference from law-enforcement authorities and other agencies of government. The protective measures include contacts with policemen, lawyers, doctors, politicians, judges, and influential persons in society.

Giving money in cash or in gifts, providing help in elections, threatening their competitors, and arranging their (influential persons) foreign trips are some of the methods used by these gangs to secure protection and avoid arrest and conviction.

CONDUCT NORMS:

It frames rules of conduct, policies of administration, and methods of operation for members and for the operation of crime. This helps in maintaining discipline, efficiency, loyalty, obedience, and mutual confidence. Penalties are imposed for violating rules.

Which companies are most susceptible to Organized Crime involvement?

A business in any given geographic location can be susceptible to organized crime involvement. In today's global economy, raw materials manufacturing and sourcing often occurs in one part of the world, while the finished product is warehoused and consumed in another. The effects of globalization on integrating supply chains from poorly-regulated and impoverished source regions to their distant markets, often via disparate groups of organized criminals who have linked across their traditional territories for mutual benefit and enhanced profit, are both traditional and newly-created linkages between production, distribution, and retail functions of cooperating criminal networks from different cultures.

What are your lessons learned based on your own experiences?

Based upon my extensive experiences in investigating and consulting on logistical security issues from Mexico and South America to the Middle East and Asia, I've discovered that the majority of cases involved a company which had collaborated with a larger and extorting entity as a way to control and manipulate the supply chain. The reporting authority within the company was not privy to the organized crime influence and soon became susceptible to blackmail and intensified threats.

Why do you think it is so easy for Organized Crime to take advantage of business supply chains?

Modern supply chains are complex networks that link organizations, industries, and economies. Virtually all supply chains operate within a network (except maybe in the case of commodity provider to consumer) of multiple businesses and relationships – the supply chain is not simply a chain of businesses with one-to-one relationships.

Business supply chains "going global" has been an important way for businesses to extend market opportunities, the strategy delivers an additional benefit to organized crime: It can create legal obstacles for law enforcement officials, who often aren't as adept at cross-border collaboration as the criminals they're tracking.

Supply chain networks can comprise of hundreds, if not thousands, of companies which may stretch globally and can be subject to numerous risks. These risks can be largely classified into two types: 1) Weaknesses and potential risks within the supply chain network that impact the ability to meet customer needs. Instability arises when demand and supply are not in balance. Not only can price be affected, but also the total cost, time and performance. 2) Fragility of the supply chain networks to external events/threats both now and in the future.

Business supply chains are complex and vast, operating throughout numerous cross cultural environments, multi-lingual personnel, and various regulatory laws. This complexity provides organized crime elements the opportunity to systematically interpose its tentacles deep within the labyrinth of a business and its supply chain.

What measures can a business take to deter Organized Crime from affecting their supply chain?

Supply chains can involve thousands of third parties, so a methodical approach should be applied to segment risk and prioritize red flag situations which may require deeper analysis.

To ensure that adequate security is executed, a company must develop and implement a logistical security plan that covers all foreseeable contingencies and be flexible to meet the shipment/storage needs of a supply chain.

A supply chain security plan is three pronged and security analysis must be strictly implemented into Personnel, Procedural and Physical methods.

Q&A | WITH SECURITY SPECIALIST GARY SEIDEMAN

The Influence of Transnational Organized Crime on Supply Chains

What measures can a business take to deter Organized Crime from affecting their supply chain?

PERSONNEL:

- Consignee
- Warehouse
- Truck drivers
- Security forces
- Cargo security management/procedures
- Standard order of procedures, drivers, refueling, rest halts
- Standard order of procedures, sniper, ambush
- Communication, contingency, emergency
- Security forces, training, weapons, ammunition, rules of engagement
- Counter-action teams
- Pre-employment screening

PROCEDURAL:

- Packing requirements and procedures
- Receipt procedures at destination
- Provide accurate advance notice of shipments to receiver
- Accurate arrival and departure times of all cargo shipments
- Specific routes of travel

PHYSICAL:

- Route Security
- Use of Seals
- Show if the integrity of a shipment has been compromised
- A lock is not necessarily a seal, and a seal is not necessarily a lock
- There is no particular seal, lock, or combination suitable for every situation.
- Strict seal accountability is a must, and accountability constant
- Accountability starts with the manufacturer and ends with seal destruction
- Seals, to be effective, must meet two basic requirements: construction specifications and accountability
- Issuing seals to users
- Seal application and verification: Record, time, verification (every stop, terminal exits and entrances, docks, transfer points, road stops and driver services)
- Intrusion devices

A successful logistical security plan must include all facets of physical, procedural and personnel implementation. If one segment is tainted, failure is imminent.

When a company finds Organized Crime is affecting their business, what is the first step to fix the problem?

The first step following the discovery that a business is being affected by organized crime is an issue of trust and loyalty within the company. Ideally someone from within the company is the conduit to the organized crime element. An overt investigation would quickly signal organized crime connections. A circle of trust must exist within a company and a covert means to remedy strictly implemented into a company's business continuity and security plan.

Investigation must be conducted by a reliable third party element with reports of the investigation meticulously concealed until final decision is made and an antidote is implemented.

USCIS ANNOUNCES FURTHER MEASURES TO

DETECT H-1B VISA FRAUD AND ABUSE

In April, the U.S. Citizenship and Immigration Services (USCIS) announced multiple measures to further deter and detect H-1B visa fraud and abuse. USCIS has begun taking a more targeted approach when making site visits across the country to H-1B petitioners and the worksites of H-1B employees. According to a press release, USCIS will focus on:

- Cases where USCIS cannot validate the employer's basic business information through commercially available data.
- H-1B-dependent employers (those who have a high ratio of H-1B workers as compared to U.S. workers, as defined by statute).
- Employers petitioning for H-1B workers who work off-site at another company or organization's location.

The targeted visits will allow USCIS to focus resources where fraud and abuse of the H-1B program may be more likely to occur and determine whether H-1B dependent employers are evading their obligation to make a good faith effort to recruit U.S. workers. USCIS will continue random and unannounced visits nationwide. These site visits are not meant to target nonimmigrant employees for any kind of criminal or administrative action but rather to identify employers who are abusing the system.

Employers who abuse the H-1B visa program negatively affect U.S. workers, decreasing wages and job opportunities as they import more foreign workers. To further deter and detect abuse, USCIS has established the email address:

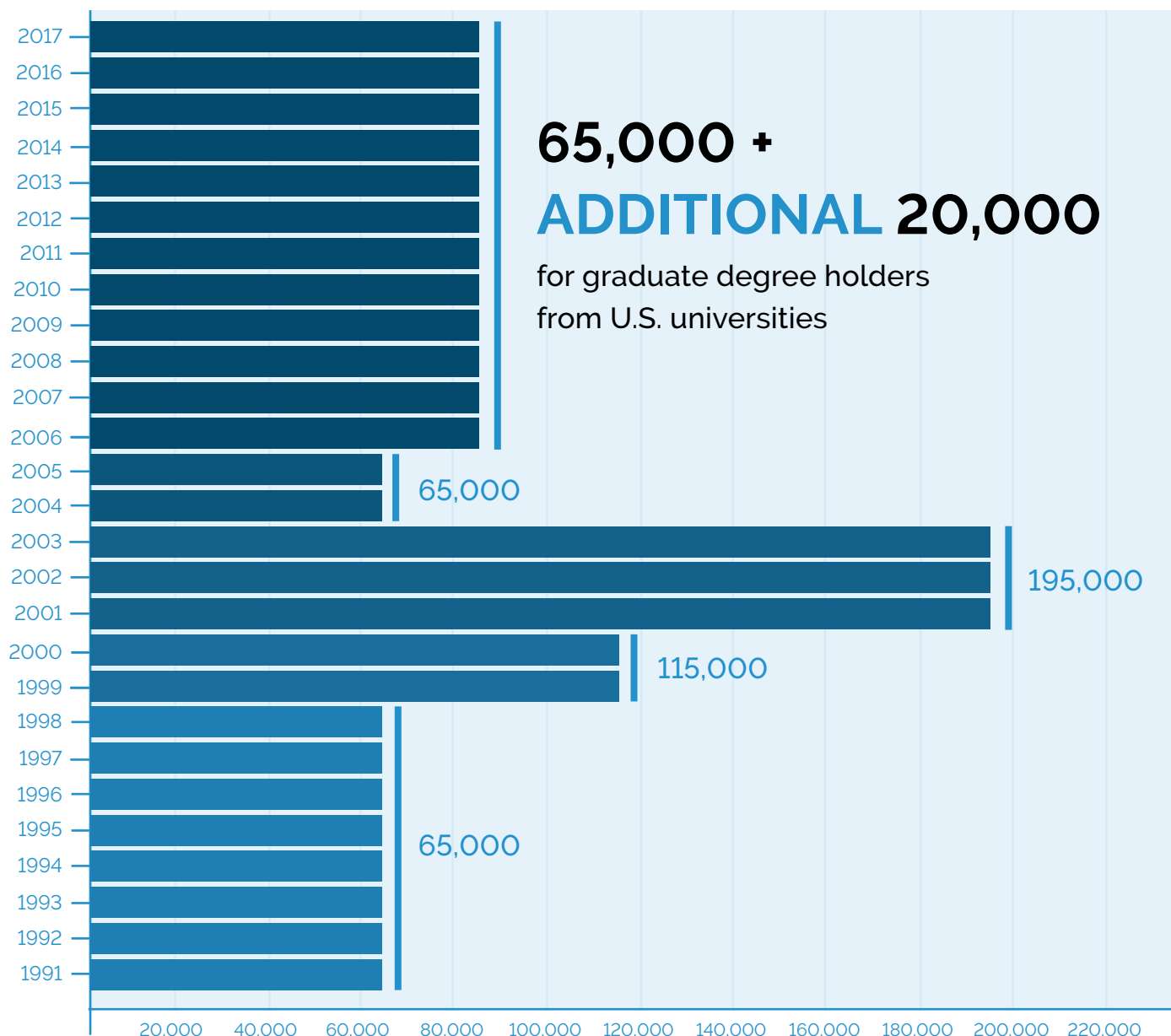
REPORTH1BABUSE@USCIS.DHS.GOV

to allow individuals (including both American workers and H-1B workers who suspect they or others may be the victim of H-1B fraud or abuse) to submit tips, alleged violations and other relevant information about potential H-1B fraud or abuse. Information submitted to the email address will be used for investigations and referrals to law enforcement agencies for potential prosecution.

The H-1B visa program is designed to help U.S. companies recruit highly-skilled foreign nationals when there is a shortage of qualified workers in the country

- The H-1B is a temporary (nonimmigrant) visa category that allows employers to petition for highly educated foreign professionals to work in "specialty occupations" that require at least a bachelor's degree or the equivalent. Jobs in fields such as mathematics, engineering, and technology often qualify. Typically, the initial duration of an H-1B visa classification is three years, which may be extended for a maximum of six years.
- Before the employer can file a petition with USCIS, the employer must take steps to ensure that hiring the foreign worker will not harm U.S. workers. First, employers must attest, on a labor condition application (LCA) certified by the Department of Labor (DOL), that employment of the H-1B worker will not adversely affect the wages and working conditions of similarly employed U.S. workers. Employers must also provide existing workers with notice of their intention to hire an H-1B worker.
- Since the category was created in 1990, Congress has limited the number of H-1Bs made available each year. The current annual statutory cap is 65,000 visas, with 20,000 additional visas for foreign professionals who graduate with a Master's or Doctorate from a U.S. institution of higher learning. In recent years, the limit has been reached only a few days after the petition submission period began.

ANNUAL CAP ON H-1B VISAS



EXISTING H-1B FRAUD MEASURES

Since 2009, USCIS has conducted random administrative site visits to ensure that employers and foreign workers are complying with requirements of the H-1B nonimmigrant classification. USCIS refers many cases of suspected fraud or abuse to U.S. Immigration and Customs Enforcement (ICE) for further investigation.

Citation: Putting American Workers First: USCIS Announces Further Measures to Detect H-1B Visa Fraud and Abuse: Agency Creates Avenue for American Workers to Report Abuse, U.S. Citizenship and Immigration Services, April 2017.

ANTI-TRAFFICKING RISK MANAGEMENT

BEST PRACTICES MEMO

Last December, a joint draft memorandum for public comment was released by the Office of Management and Budget, Department of Labor and Department of State addressing Anti-Trafficking Risk Management Best Practices and Mitigation. Building on the requirements established by Executive Order 13627, *Strengthening Protections Against Trafficking in Persons in Federal Contracts*, and Title XVII of the National Defense Authorization Act (NDAA) for FY 2013, *Ending Trafficking in Government Contracting*, the memorandum is being considered as formal guidance on best practices and mitigating circumstances in support of the final anti-trafficking rules, amending the Federal Acquisition Regulations (FAR) and Defense Acquisition Regulations (DFAR), titled *Ending Trafficking in Persons*.

Developed as a tool for contracting officers to determine if a contract company is taking adequate steps to meet its anti-trafficking responsibilities under the FAR/DFAR rules, the memorandum will promote clarity and uniformity in the implementation of anti-trafficking requirements. The strengthened FAR/DFAR revisions banning human trafficking affect Indefinite Delivery and Indefinite Quantity contracts regardless of company size.

The bulk of the obligation rests in suppliers for any part of a contract (other than COTS items) acquired outside the United States, or services to be performed outside the United States, with an estimated contract value over \$500,000. With mounting government oversight and compliance regarding anti-human trafficking measures, contract companies found to be directly supporting or advancing slavery are subject to contract termination and must possess records exhibiting committed and proactive efforts to address and reduce the risk of human trafficking in their operations and supply chains.

The continued emphasis on human trafficking and government compliance will continue to impact business operations under the new Trump administration as demonstrated by the Presidential Executive Order, *Enforcing Federal Law with Respect to Transnational Criminal Organizations and Preventing International Trafficking*, signed by President Trump in early February and the ensuing reports are anticipated to effect business conduct in high-risk human trafficking countries.

SUMMARY

OF THE ANTI-TRAFFICKING REGULATORY CHANGES

ONE

Regardless of period of performance of a contract, clearly identify prohibited trafficking-related activities for all products and services on (1) engaging in human trafficking, (2) procuring commercial sex acts, and (3) using forced labor. Additional expressly prohibited trafficking-related activities:

- A. Destroying, concealing, confiscating, or otherwise denying access by an employee to his or her identity or immigration documents.
- B. Charging employees recruitment fees.
- C. Using misleading or fraudulent recruitment practices.
- D. Providing or arranging housing that fails to meet the host country housing and safety standards, if housing is provided.
- E. Failing to provide return transportation costs upon the end of employment, except in special cases.
- F. Using recruiters that do not comply with local labor laws in the country where the recruitment takes place.
- G. Failing to provide an employment contract, recruitment agreement, or other required work document in writing, if required by law or in the contract.

SUMMARY

OF THE ANTI-TRAFFICKING REGULATORY CHANGES

TWO

Contractors are required to fulfill additional requirements regarding their own employees:

- A. Inform their employees of prohibited activities and the consequences for violations.
- B. Take appropriate action against employees, agents, or subcontractors that violate prohibitions.

THREE

Contractors **must notify** contracting officers and the Agency Inspector General of any credible information they receive from any sources alleging a violation of the anti-trafficking prohibitions, and any actions taken in response, and to provide reasonable access to facilities and staff to allow audits, investigations, and/or other actions to ascertain compliance.

FOUR

Imposing a number of additional management responsibilities for contracts performed outside the United States that involve the provision of goods or performance of services in excess of \$500,000 where contractors must:

- A. Develop a compliance plan which includes:
 - I. An employee awareness program about trafficking in persons policies, activities prohibited, and remedies when violations occur.
 - II. A process for employees to report violations without fear of retaliation.
 - III. Recruitment and wage plans, including the requirement to only use bona fide recruitment companies and/or trained employees.
 - IV. Housing plans that meet host country housing and safety standards.
 - V. Procedures to place the same requirements on subcontractors at any tier.

The compliance plan must be appropriate for the nature and scope of activities they are performing as well as the size and complexity of their contracts

THE MEMORANDUM AID

offers government contract officers an outline of **best practices** to identify the types of actions a contractor may be implementing to maintain supply chain compliance.

INTERNAL CONTRACTOR STEPS

ACCOUNTABLE OFFICIAL

The designated position has the necessary authority to ensure compliance at all levels of the company and throughout the supply chain, and should be able to ensure the accuracy of its certification to the government.

CODE OF CONDUCT AND POLICIES AROUND TRAFFICKING

As part of this review, the entity developed a code of conduct and/or corporate policies on: hiring recruiters and conducting recruitment, disciplinary processes for employees that commit violations, otherwise ensuring that no prohibited activity takes place, and complying with host country employment law and housing standards (if housing is provided).

WORKER TRAINING

Such training does not necessarily need to be developed in-house, but the program covers the indicators of trafficking, basic worker rights under laws and regulations, required measures, and channels for reporting trafficking concerns.

WHISTLEBLOWER PROTECTIONS

The entity has implemented a whistleblower protection mechanism to safeguard the ability of employees to report violations without fear of retaliation.

COMPLIANCE PLAN

The plan is a "living document" that is structured in a way that allows for tailoring based on the level of risk associated with a particular contract and adoption of best practices and lessons learned as they arise.

EXTERNAL CONTRACTOR STEPS

UNDERSTANDING SUPPLY CHAIN

If the entity has a complex supply chain, it has utilized risk screening tools or procedures to identify high-risk portions of its supply chain, beginning with corporate-owned facilities and tier-1 suppliers.

ENGAGEMENT WITH SUBCONTRACTORS

The entity has made clear to its subcontractors that they should disseminate the code of conduct down to their subcontractors and agents.

VALIDATION OF PROTECTIONS

The entity has ensured that its subcontractors are directly hiring, using licensed recruiters, or using additional scrutiny in those countries where the recruiters are unregulated, and that they have procedures in place to verify that their workers are not being charged recruitment fees.

COMPLIANCE REVIEW

Compliance plans and codes of conduct are to be revisited on a set schedule, with senior-level approval, and if possible, with external validation.

CORRECTIVE ACTIONS

Contractor works with suppliers to implement information reporting processes for high-risk sites, such as through self-audit reports and supplier-conducted employee surveys.



OPERATING PROCEDURES

CSR CHECK QUESTIONS	YES	NO	UNSURE
A. Does your corporate social responsibility program address forced labor and human trafficking?			
B. Are you monitoring the geographic and demographic risk of slave labor to your supply chain?			
C. Is your industry (SIC) at higher risk to forced labor and human trafficking?			
D. Do you know if your company's supply chain has an increased risk of forced labor?			
E. Can you currently identify the forced labor risks within your workforce construction?			
F. Have all your suppliers implemented your company's Code of Conduct regarding forced labor?			
G. Do you know what percentage of your vendors in your supply chain understand forced labor laws and regulations?			
H. Do you know if your tertiary-level suppliers are participating in an anti-human trafficking compliance program?			
I. Does your current monitoring method provide clear easy to read visual reports?			

THE PROBLEM

Adverse human rights impacts can occur at any level of a supply chain – from the first tier of direct or strategic suppliers, all the way down via multiple layers of sub-suppliers and sub-contractors, to those providing the raw material inputs. Identifying who, what, when, where, and why slave labor risks exist in the supply chain is a resource-intensive task with volumes of information involving unknown costs and uncertain impact on the supply chain.

OUR SOLUTION? - GLOBAL RIZK ASSESSMENT TECHNOLOGY™

Counter Forced Labor Technologies has created a risk-based assessment method developed to identify the risk of slave labor and human trafficking in the supply chain. [The Global Rizk Assessment Technology™](#) or "GRAT" provides a risk score based on information pertaining to over 100 factors identified by the Counter Forced Labor Technologies' experts necessary to anticipate and evaluate the risk of slave labor and human trafficking in the supply chain. Through the convenient online [GRAT](#) interface process clients can engage and assess results for any level of supplier.

Results from participation in [GRAT](#) are combined with Counter Forced Labor Technologies' independent data from many sources including without limitation; direct observations, other available databases, other internet based technologies, interviews of many different categories of individual profiles, and government sources. Our monitoring of worldwide forced labor conditions combined with our mathematical algorithms provides an unparalleled technological solution to identifying, monitoring, remedying, and solving the risks of slave labor in the supply chain.

OPERATING PROCEDURES

The **Counter Forced Labor Technologies Global Risk Assessment Technology™** allows for proactive risk assessments at multiple levels from multiple dynamic perspectives.

- Our hosted **dashboard technology** assists companies in evaluating and monitoring the risk of slave labor in their supply chain.
- Our technology creates a **database for suppliers** that can be monitored and used to influence suppliers to mitigate the risk of human trafficking in the supply chain.
- Counter Forced Labor Technologies experts evaluate global data on a daily basis which is used to impact and update the **Counter Forced Labor Technologies risk scoring system**.
- Counter Forced Labor Technologies Global Risk Assessment Technology™ can serve as a vital tool for moving a CSR strategy from reactionary management to **proactive management** of human rights issues.



LET US BE YOUR ALLY.

www.counterforcedlabor.com | 212-980-0100 | www.rizkcompliance.com

DUE DILIGENCE OF ETHICAL INVESTMENTS

Of the \$8.72 trillion ethical investment assets under professional management, the majority, \$8.10 trillion or 93%, falls under the Environmental, Social and Governance (ESG) investment strategy. By monetary value, the leading ESG criteria for institutional investors is Conflict Risk, Climate Change/Carbon, Board Issues, Executive Pay, and lastly Human Rights. Under money managers, the criteria slightly differs, placing Human Rights third in monetary value. Either way, the growth of ESG investment assets has nearly doubled since 2014.

SUSTAINABLE INVESTING GROWTH

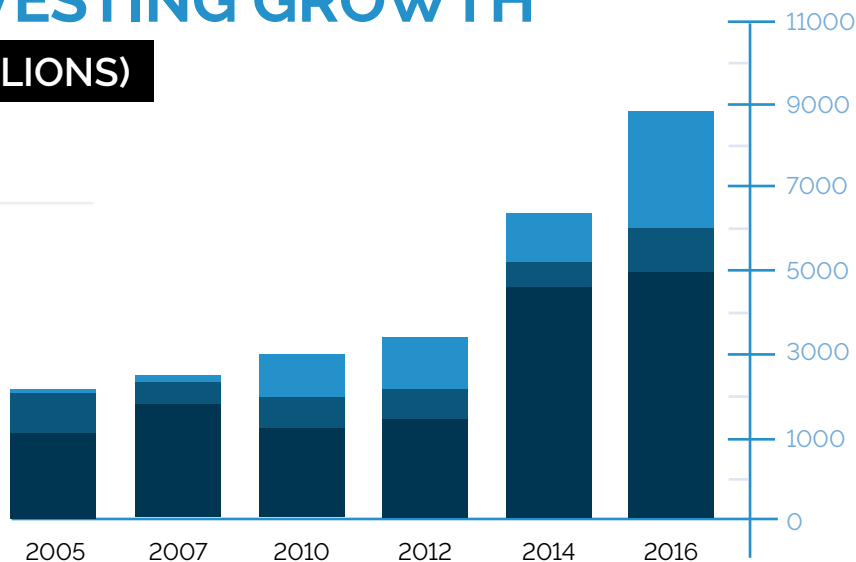
IN THE UNITED STATES (BILLIONS)

2005-2016

- Overlapping Strategies
- Shareholder Resolutions
- ESG Incorporation

33% Sustainable Investing Growth Since 2014

Sustainable and Impact Investing in the United States Overview, US SIF: The Forum for Sustainable and Responsible, 2016.



Even with enduring growth factors like increased performance, better research/information, and Millennial investors supporting perpetual interest in ethical investing, the impact investing industry has its challenges. According to the 2016 Global Impact Investing Network (GIIN) Report, the top ranked challenge to ethical investing is a "lack of appropriate capital across the risk/return spectrum growth", but the two most amplified challenges were the "lack of investment professionals with relevant skill sets" and "inadequate impact measurement practice." A growing demand for professionals with particular skills will remedy itself over time and with experience, but the lack of high-quality impact measurement practices will be a sustained challenge without due diligence measures.

Benchmark studies like the GIIN Report are helpful in identifying issues but not so much in providing solutions or relaying the intimate details of hands-on operations in support of due diligence. At last month's Wharton Social Impact Conference during a "Fireside" chat with Bobby Turner, Principal and CEO of Turner Impact Capital, he reminded the audience that merely recognizing social challenges wasn't enough. Instead, we are meant to create generational investment opportunities which requires understanding the area, the people, and the goals for social growth. Like the GIIN Report, the Wharton Social Impact Conference identified the need to measure the critical axis of value impact and financial return. The conference offered actionable data in conjunction with inspiring stories as a means for due diligence by placing a high importance on the social impact benefactors, their stories, and the long-term generational effects over large profits.

“Impact Investing is not an asset class, it’s **value** investing.”

– Bobby Turner, Principal and CEO Turner Impact Capital, at the Wharton Impact Conference.

Considering Impact Investing is a full lifecycle endeavor, due diligence is the learning phase that sets the path for a mutually beneficial relationship between the company and the investor. For the best due diligence of social impact, an investor must know the metrics or social impact goals they wish to achieve. For instance, having a means to measure transparency in the supply chain, as well as criteria in terms of geography, industry, and compliance like the Counter Forced Labor Technologies Global Risk Assessment Technology™, creates an open dialogue for investors. Monitoring and evaluating company social impact performance based on investor social impact metrics will provide a long-term relationship that generates positive social and/or environmental benefits.

One example of due diligence measures among social investments is the long-term social impact investment firm, Domini Impact Investments LLC, which has been a successful leader in positive socially and environmentally responsible investments since 1991. They manage a combined \$1.6 billion in assets, divided into the following: the Domini Impact Equity Fund (large-cap domestic equity), the Domini Impact International Equity Fund (large to mid-cap international equity), and the Domini Impact Bond Fund (US intermediate term fixed income) based on a set of standards that are organized by partners and themes. Each company’s performance is measured against these verifiable and achievable goals affording the Domini Funds a clear path for due diligence.

COMMUNITY – LOCAL AND NATIONAL

- Generous and Innovative Philanthropy
- Community Partnerships and Trust
- Protection of Community and Public Goods
- Fair Tax Dealings
- Government Relations

COMMUNITY GLOBAL

- Geopolitical Stability, Nuclear Weapons, Nuclear Power, and International Peace
- Endorsement of International Norms and Standards
- Acknowledgment of Human Rights
- Respect for Indigenous Peoples and Local Cultures
- Anti-Bribery, Anti-Money Laundering, and Anti-Corruption Programs

CUSTOMERS

- Harmful and Addictive Products: Tobacco, Gambling, Alcohol
- Commitment to Safety, Quality and Customer Service
- Bridging the Divide in Access to Products
- Innovation and Creativity
- Marketing and Pricing Practices

ECOSYSTEMS

- Renewable and Alternative Energy Sources
- Eco-Efficiency and Resource Conservation
- Recycling, Safer Technologies, and Life-Cycle Design
- Pollution Control and Abatement
- Long-Term Environmental Sustainability

EMPLOYEES

- Continuous Improvement in Health and Safety
- Fair and Just Compensation and Benefit Programs
- Commitments to Diversity in the Workplace
- Empowerment and Investments in Training
- Solidarity with Unionized Workforce

INVESTORS

- Accounting, Credibility and Business Ethics
- Openness in Communication
- Commitment to Diversity of Representation
- Relationships with Controlling Owners

SUPPLIERS

- Labor Practices and Other Human Rights
- Quality, Environment and Other Issues
- Diversity Within the Supply Chain
- Empowerment and Viability

WHAT IS ETHICAL INVESTING?

The Biblical-era concept of "Ethical Investing" has been edging into mainstream conversation under the auspice of Twitter and the hashtag #GrabYourWallet. The consumerism movement is broadly affecting companies through boycotting efforts like #GrabYourWallet and investment strategies that impact company leadership, company image, and overall revenue. Historically, investing ethically had been guided by religious guidance from Jewish law to the Qur'an focused on social justice concepts that advise investors to avoid interest in businesses such as liquor, pornography, gambling, and banks. Under the New Testament teachings of the Methodists and Quakers, an expansion of social justice embraced peace and nonviolence by avoiding profit from products designed to enslave or harm fellow human beings, including war.

The contemporary concept of Ethical Investing is synonymous with various investment terms; Sustainable-Responsible-Impact (SRI) investing, Socially Responsible Investing, and Impact Investing. In the last 60 years, ethical investing has interwoven itself into government policies, improved human rights, and environmentalism as shown in the Vietnam War, Civil Rights Acts, the advent of Earth Day, increased investment funds, the Domini Social Index, and the formation of National Action Plans (NAP).

Today, investors are driven by profit potential integrated with an evaluation of environment, social, and governance (ESG) factors through qualitative and quantitative analysis that aligns with their personal values and social priorities. As a result, a responsible and sustainable approach to ethical investing has culminated into three separate investment strategies.

ETHICAL INVESTMENT GROWTH FACTORS

Since 2006, steady growth of increasing ethical investment participation has been encouraged by the adoption of the UN's Principles for Responsible Investment (PRI), six principles formed by investors, for investors, to inspire development of a more sustainable global financial system that encourages environmental, social, and governance (ESG) factors. Aside from the nearly 1,700 worldwide PRI signatories that represent \$62 trillion, ethical investment growth is powered by several other modern-day influencers:

INFORMATION: Investors are better educated by higher quality information and research.

CLIMATE CHANGE: Increased consumer and investor awareness of the climate crisis has contributed to the avoidance of businesses contributing to the problem and investing in solutions.

PERFORMANCE: Enduring evidence of increased investment performance has dismissed fears of poor returns.

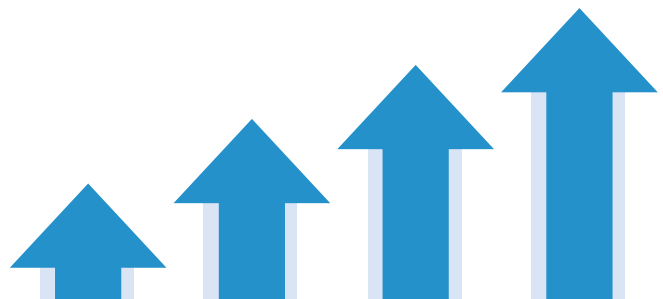
AVAILABILITY: Hundreds of responsible investments options are offered through funds and investment managers.

VALUES AND AUTHENTICITY: Investors recognize their money has an impact through consumer purchases and investment decisions affording investors the opportunity to invest in alignment with their personal, moral and ethical values.

CORPORATE SCANDALS: Trust in leadership from recent scandals and fraud has spurred investors to conduct more research into corporate behavior and impact.

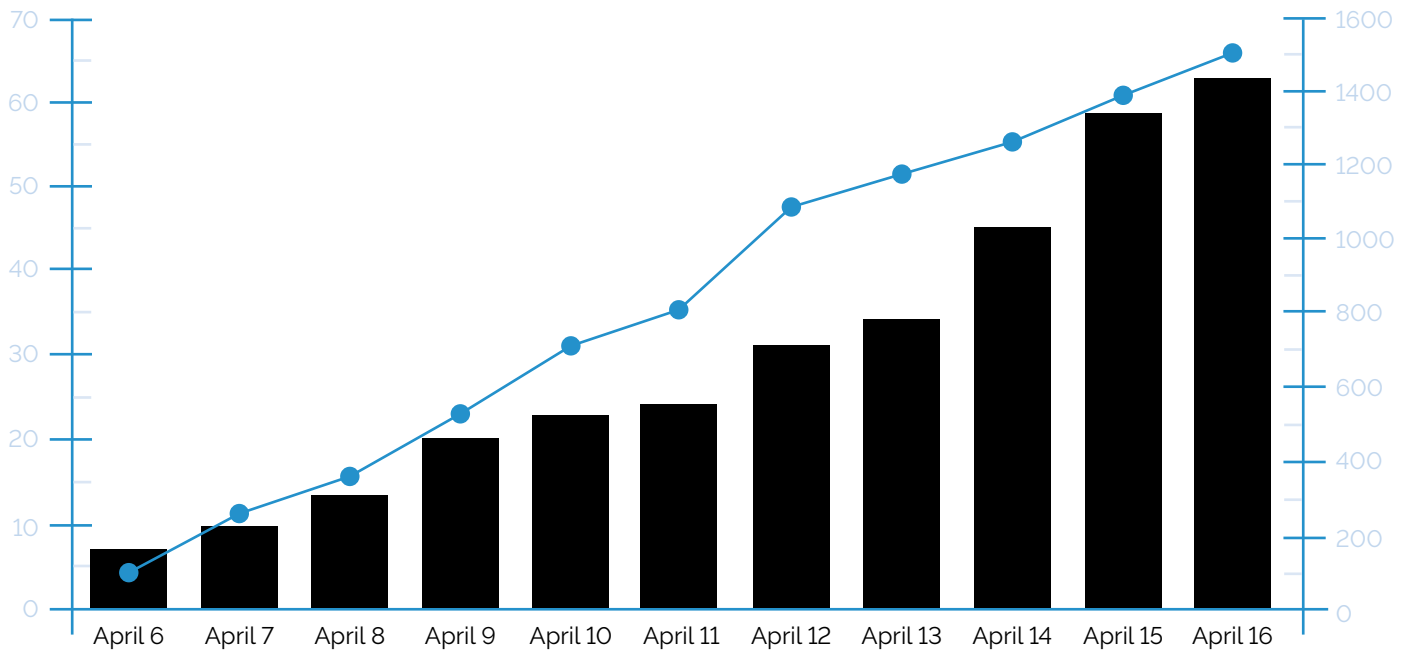
WOMEN: An increased number of woman investors are aligning their money with social impact.

MILLENNIALS: The 85 million strong millennial generation born between the early 1980's and early 2000's is the largest generation in American history, and they are seeking to make a difference in society through their purchases and investment strategies.



ASSETS UNDER MANAGEMENT (US\$ TRILLION)

N° SIGNATORIES



TOTAL ASSETS UNDER MANAGEMENT-

NUMBER OF SIGNATORIES -

Photo courtesy of UN Principles for Responsible Investment (UNPRI)

ETHICAL INVESTMENT INVESTMENT INVESTORS

An assortment of SRI investing opportunities are available to ethical investors. The most common areas of investment are assets held through money managers and community investments. According to a new study released by the Global Impact Invest Network (GIIN), 95% of impact investors reported financial return at or exceeding expectations with 98% meeting or exceeding impact expectations demonstrating duo-fold benefits to ethical investing. With an increased allure, ethical investors are comprised of various backgrounds and interests:

- Individuals who invest in mutual funds with specialties for good labor and environmental practices.
- Credit unions and community development banks that have a specific mission of serving low and middle-income communities.
- Hospitals and medical schools that refuse to invest in tobacco companies.
- Foundations that support community development loan funds and other high social impact investments in line with their missions.
- Religious institutions that file shareholder resolutions to urge companies in their portfolios to meet strong ethical and governance standards.
- Venture capitalists that identify and develop companies that produce environmental services, create jobs in low-income communities or provide other social benefits.
- Responsible property funds that help develop or retrofit residential and commercial buildings to high energy efficiency standards.
- Public pension plan officials who have encouraged companies in which they invest to reduce their greenhouse gas emissions and to factor climate change into their strategic planning.

A Short History of Socially Responsible Investing, The Balance, March 2, 2017.
 About the PRI, UN Principles for Responsible Investment (UNPRI), 2017.
 SRI Basics, The Forum for Sustainable and Responsible Investment, 2017.
 Impact Investing Trends: Evidence of a Growing Industry, Global Impact Investing Network, December 2016.

ETHICAL INVESTMENT STRATEGIES

ESG INTEGRATION

Consisting of 93% of the SRI investment trend, the Environmental, Social and Governance (ESG) incorporation investment strategy focuses on a company's management of ESG factors. The combination of these factors and qualitative insights into a company's corporate policies, practices, culture, and impacts on ESG factors have a material influence on a publicly traded company's profitability, value and share price. Asset managers and asset owners combine ESG issues into the investment process through a variety of ways:

- Positive/best-in-class are selected for positive ESG performance relative to industry peers.
- Negative/exclusionary screening removes companies or sectors deemed unacceptable or controversial from a fund.
- ESG integration is a systematic or explicit inclusion of investment managers of ESG factors into traditional financial analysis.
- Impact investing is targeted investments, typically made in private markets, aimed at solving social or environmental problems.
- Sustainability themed investing selects assets specifically related to sustainability in a single-themed or multi-themed fund.

COMMUNITY IMPACT INVESTING

The goal of alleviating poverty, creating jobs, and providing affordable housing or financing small business development to disadvantaged communities is implemented through Community Impact Investing. The direct capital to people in low-income, at-risk communities is offered through community development financial institutions (CDFIs) that put community first, not the shareholder. CDFIs consist of four different business models and legal structures:

- **Community Development Banks** provide capital to rebuild economically distressed communities through targeted lending and investing.
- **Community Development Credit Unions (CDCUs)** promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people.
- **Community Development Loan Funds (CDLFs)** provide financing and development services to businesses, organizations and individuals in low-income communities through microenterprise, small business, housing, and community service organizations.
- **Community Development Venture Capital (CDVC)** funds are either for-profit or nonprofit entities that provide equity and debt-with-equity-features for small and medium-sized businesses in distressed communities.

SHAREOWNER ENGAGEMENT

In publicly held companies, Shareowner Engagement offers more direct control over responsible corporate citizenship. Shareowner Engagement employs shareholder resolutions or proposals that pertain to company policies and procedures, corporate governance or issues of social or environmental concern. The large societal impact of corporate citizenship improves the financial performance over time by affecting the well-being of all stakeholders: customers, employees, vendors, shareowners, communities, and the natural environment. Shareowner Engagement comprises of about 30% of SRI investments.



Impact Investing Trends: Evidence of a Growing Industry, Global Impact Investing Network, December 2016.

What is a CDFI? Opportunity Finance Network, 2017.

Defining the different ethical investing strategies, Financial Times Adviser, February 2014.



KNOW WHO YOU DO BUSINESS WITH

The Counter Forced Labor Journal is published by the Counter Forced Labor Technologies Intel Team, which is composed of tenured military and business analysts with intimate knowledge and direct experience dealing with human trafficking, forced labor and modern slavery.

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The Counter Forced Labor Journal is a newsletter published by the Counter Forced Labor Technologies Intelligence Division. It is issued four times a year and provides updates for C-suite-level decision making in support of terrorism and human trafficking risk management of the supply chain. The Counter Forced Labor Journal serves to strengthen current corporate social responsibility policies.

We welcome feedback and suggestions for articles in future issues.

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