PRODUCT SAFETY AND COMPLIANCE CONFERENCE

Thursday, October 19, 2017 | The Reverie Saigon | Hồ Chí Minh City, Vietnam
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Nate Herman
Senior Vice President, Supply Chain
AAFA
KEYNOTE ADDRESS

Josue Solano
President and COO
BBC International LLC
Robert C. Campbell  
Chairman/CEO

"Strategic foresight, innovation, unique design, quality, and dedication to satisfying the needs of our customers are words we have lived by since our inception in 1975. It is the foundation of who we are at BBC."

Donald Wilborn  
Vice Chairman/CFO

"For over 40 years, we have hired and retained the best people in the industry. Our people are not just employees, they are part of the BBC family and the application of their talents are the reason for BBC’s growth and success."
NGO = Non Governmental Organization
Physical Safety

✓ Slip
✓ Flex
✓ Bonding
✓ Pull Strength
✓ Sharp Edges
✓ Sharp Point
✓ Worker Safety
✓ Worker Hours
✓ Proper Pay
✓ Waste Management
✓ Eco-Friendly
California – Proposition 65 – 800+ Chemicals Listed
In 2016 there were 760 Settlements totaling $30 Million related to California Proposition 65.
There have been 25 Chemical Bills introduced in 18 States in 2017
Outside the U.S.

- Europe
  - REACH
- China
  - GB Standards
- Korea
  - KC Mark Standards
• Stay informed on changing regulations
• Understand who you are in the supply chain
• Understand who your customer is and what their requirements are
• Build a program that meets those demands for yourself and your suppliers
• Don’t Cheat yourself - Hope is not a strategy
Thank you
THE TRADE OUTLOOK IN WASHINGTON, D.C.

Nate Herman
Senior Vice President, Supply Chain
AAFA
THE ISSUES

• Tariffs
• Trade Policy
• NAFTA
• Trade Preferences
  ▪ GSP
  ▪ AGOA
  ▪ MTBs
## TARIFFS

### U.S. Import Duties Collected – Top 15 Countries

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Jan – Aug 2017</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>$8,849,606,702</td>
<td>40.60%</td>
</tr>
<tr>
<td>2</td>
<td>Vietnam</td>
<td>$2,202,569,281</td>
<td>10.11%</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>$1,564,794,477</td>
<td>7.18%</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>$1,112,285,208</td>
<td>5.10%</td>
</tr>
<tr>
<td>5</td>
<td>Indonesia</td>
<td>$832,863,663</td>
<td>3.82%</td>
</tr>
<tr>
<td>6</td>
<td>India</td>
<td>$782,397,742</td>
<td>3.59%</td>
</tr>
<tr>
<td>7</td>
<td>Italy</td>
<td>$735,809,882</td>
<td>3.38%</td>
</tr>
<tr>
<td>8</td>
<td>Bangladesh</td>
<td>$594,445,642</td>
<td>2.73%</td>
</tr>
<tr>
<td>9</td>
<td>Taiwan</td>
<td>$443,527,877</td>
<td>2.03%</td>
</tr>
<tr>
<td>10</td>
<td>United Kingdom</td>
<td>$359,482,694</td>
<td>1.65%</td>
</tr>
<tr>
<td>11</td>
<td>Thailand</td>
<td>$298,455,055</td>
<td>1.37%</td>
</tr>
<tr>
<td>12</td>
<td>France</td>
<td>$294,722,338</td>
<td>1.35%</td>
</tr>
<tr>
<td>13</td>
<td>Cambodia</td>
<td>$278,266,710</td>
<td>1.28%</td>
</tr>
<tr>
<td>14</td>
<td>Mexico</td>
<td>$265,402,693</td>
<td>1.22%</td>
</tr>
<tr>
<td>15</td>
<td>Spain</td>
<td>$244,976,559</td>
<td>1.12%</td>
</tr>
</tbody>
</table>

### Total U.S. Imports – Top 15 Countries

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Jan - Aug 2017</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>$318,317,755,018</td>
<td>20.96%</td>
</tr>
<tr>
<td>2</td>
<td>Mexico</td>
<td>$206,014,903,290</td>
<td>13.57%</td>
</tr>
<tr>
<td>3</td>
<td>Canada</td>
<td>$197,632,985,671</td>
<td>13.01%</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>$89,269,126,050</td>
<td>5.88%</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>$74,972,442,272</td>
<td>4.94%</td>
</tr>
<tr>
<td>6</td>
<td>Korea</td>
<td>$47,206,771,957</td>
<td>3.11%</td>
</tr>
<tr>
<td>7</td>
<td>United Kingdom</td>
<td>$34,260,772,971</td>
<td>2.26%</td>
</tr>
<tr>
<td>8</td>
<td>France</td>
<td>$30,383,798,044</td>
<td>2.00%</td>
</tr>
<tr>
<td>9</td>
<td>India</td>
<td>$32,095,963,037</td>
<td>2.11%</td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
<td>$32,078,690,376</td>
<td>2.11%</td>
</tr>
<tr>
<td>11</td>
<td>Ireland</td>
<td>$33,040,567,605</td>
<td>2.18%</td>
</tr>
<tr>
<td>12</td>
<td>Vietnam</td>
<td>$30,165,405,536</td>
<td>1.99%</td>
</tr>
<tr>
<td>13</td>
<td>Taiwan</td>
<td>$27,639,153,816</td>
<td>1.82%</td>
</tr>
<tr>
<td>14</td>
<td>Malaysia</td>
<td>$24,164,313,765</td>
<td>1.59%</td>
</tr>
<tr>
<td>15</td>
<td>Switzerland</td>
<td>$23,610,570,840</td>
<td>1.55%</td>
</tr>
</tbody>
</table>
## VIETNAM - #2 & GROWING FAST

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Garments</td>
<td>947.4 Million SME</td>
<td>4.2%</td>
<td>3.4 Billion SME</td>
<td>12.5%</td>
<td>253.7%</td>
</tr>
<tr>
<td>Footwear</td>
<td>90.1 Million Pairs</td>
<td>3.8%</td>
<td>365 Million Pairs</td>
<td>15.7%</td>
<td>305.4%</td>
</tr>
<tr>
<td>Travel Goods</td>
<td>$115.6 Million</td>
<td>1.7%</td>
<td>$1.1 Billion</td>
<td>10.0%</td>
<td>816.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>January – August 2017</th>
<th>% of U.S. Imports</th>
<th>% Change 2016-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garments</td>
<td>2.4 Billion SME</td>
<td>13.5%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Footwear</td>
<td>277.7 Million Pairs</td>
<td>16.7%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Travel Goods</td>
<td>$732.1 Million</td>
<td>10.3%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

TRADE POLICY

• Trade Policy Review/Overhaul/Studies
• Trade Remedies
  • Ex. Steel/Aluminum Section 232
• Enforcement
  • Ex. China IPR Section 301
• Buy American
• Trade Agreements Review
  • KORUS (Korea FTA)
• Focus on
  • Lowering Trade Deficits,
  • Increasing Enforcement, &
  • Growing U.S. Exports

Donald J. Trump @realDonaldTrump · Sep 3
The United States is considering, in addition to other options, stopping all trade with any country doing business with North Korea.
TRADING POLICY

The Future of FTAs
• Cancel TPP
• TTIP On Slow Track
• Renegotiate NAFTA
• Renegotiate KORUS
• Future FTAs?

Lighthizer says a slew of Latin American free trade deals must be "modernized" after NAFTA

Axios · @axios · Oct 1
"No, no, no," Trump interrupted his trade rep. "Tell them, 'this guy's so crazy he could pull out any minute.'"
NAFTA

Donald J. Trump @realDonaldTrump · Aug 27
We are in the NAFTA (worst trade deal ever made) renegotiation process with Mexico & Canada. Both being very difficult, may have to terminate?

U.S. Commerce Dept. @CommerceGov · Sep 22
@SecretaryRoss: These NAFTA Rules Are Killing Our Jobs

Op-Ed: These NAFTA Rules Are Killing Our Jobs
Our nation’s ballooning trade deficit has gutted American manufacturing, killed jobs and sapped our wealth. That is going to change under President Trump, and rules of ...
commerce.gov

Donald J. Trump @realDonaldTrump
I received calls from the President of Mexico and the Prime Minister of Canada asking to renegotiate NAFTA rather than terminate. I agreed.

...subject to the fact that if we do not reach a fair deal for all, we will then terminate NAFTA. Relationships are good-deal very possible!
GENERALIZED SYSTEM OF PREFERENCES (GSP)

- Renewal (12/31/17)
- Travel Goods
- Footwear

USTR announces GSP trade preference updates, including travel goods for all GSP countries, Bolivia compliance review ustr.gov/about-us/polic...
MISCELLANEOUS TARIFF BILL (MTB)

- Three Factors:
  - No domestic production
  - Less than $500,000
  - Implementable

- USITC

- Congress

#USITC now accepting MTB petition comments. Your input ensures relief for U.S. manufacturers while preventing abuse: usitc.gov/mtb
USTR announces AGOA review for Rwanda, Tanzania & Uganda re: their decisions to ban used clothing/footwear imports: ustr.gov/about-us/polic …
1:18 PM - 20 Jun 2017
THE FUTURE

Axios @axios · Aug 27
Trump: "I know there are some globalists in the room. And they don’t want them. But I’m telling you, I want tariffs"
axios.com/exclusive-trum...
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A POST TPP WORLD & WHAT THAT MEANS FOR VIETNAM

Jon Fee
Senior Counsel
Alston & Bird LLP
America first as US trade policy
RIP Trans-Pacific Partnership
NAFTA and other FTA renegotiations
What to expect from the United States

- Greater trade leadership from China and Europe as the United States becomes increasingly protectionist.
- Greater reliance by the US presidential administration on the United States’ strengths as an attractive market and competitive producer, and less reliance on the “benefits” of trade.
Selected US apparel import data

• For the 12 months ended August 31, 2017, US apparel imports from China, in SME, increased by only 0.16 percent over the previous 12 months.

• US apparel imports from the Central American Free Trade Agreement (CAFTA) countries decreased by 1.43 percent.
Selected US apparel import data

- US apparel imports from North American Free Trade Agreement (NAFTA) countries decreased by 4.49 percent
- US apparel imports from Bangladesh and Indonesia decreased by 2.33 and 2.43 percent
- US apparel imports from India increased by 2.62 percent
- US apparel imports from Viet Nam increased by 8.74 percent
Selected US footwear import data

- For the 12 months ended August 31, 2017, China accounted for 72.09 percent of all US footwear imports, in pairs, followed by Viet Nam’s 16.67 percent.
- For the same 12 months, US footwear imports from China decreased by 0.66 percent over the previous 12 months.
- US footwear imports from Viet Nam increased by 11.83 percent.
Don’t write off exports to the United States!

- Viet Nam is a robust exporter of apparel and footwear to the United States, second only to China in both categories.
- Its growth in apparel and footwear exports to the United States continues to outpace that of its competitors for the US apparel market, even without the benefit of any trade preference program or free trade agreement.
- US retailers and consumers continue to recognize Viet Nam’s strengths in quality, price and delivery.
Trump administration policies may inadvertently work to Viet Nam’s advantage

- Pending changes to NAFTA and possible changes to CAFTA, including removal of NAFTA’s tariff preference levels, proposed 5-year “sunset” features and proposed use of FTAs to remedy trade deficits will put those countries at a disadvantage
- Possible trade remedies against China, particularly focusing on SOEs and government subsidization, could dampen US trade with China
Programs of possible interest

- Regional Comprehensive Economic Partnership (RCEP)
- European Union – Viet Nam Free Trade Agreement (EVFTA)
- China’s Belt and Road Initiative (BRI) and Viet Nam’s complementary Two Corridors and One Economic Circle Plan
East Asia’s FTA background

• Approximately 80 bilateral and multilateral free trade agreements (FTAs) are in effect in East Asia
• Each contains traditional FTA terms: tariff reduction, rules of origin and dispute settlement
• But they tend not to cover more difficult issues: intellectual property protection, competition policy, e-commerce, environmental policy and regulation of state-owned enterprises (SOEs)
The “noodle bowl”

- The proliferation of FTAs in the region has created a so-called “noodle bowl” of complicated free trade networks.
- Rules of origin, phase-in schedules of tariff concessions, and cross-border procedures are not coordinated.
- Differing FTAs tend to increase costs, foster protectionism, and curtail the efficiency of production networks.
Viet Nam’s FTA background

- In 2007, Viet Nam became the 150\textsuperscript{th} member of the World Trade Organization (WTO), which accommodates FTAs.
- Viet Nam is a party to bilateral FTAs with Chile, the Eurasian Economic Union, Japan and Korea.
- Viet Nam is a member of the Association of Southeast Asian Nations (ASEAN) and a party to the ASEAN Free Trade Area (AFTA).
Viet Nam’s FTA background

- As an ASEAN member, Viet Nam enjoys the benefits of “ASEAN+1” FTAs
- Viet Nam is also negotiating FTAs with the European Free Trade Association (EFTA), the European Union (EU) and Israel
- And Viet Nam is a party to the pending RCEP
ASEAN background

- ASEAN was founded by Indonesia, Malaysia, Philippines, Singapore and Thailand in 1967, mostly for political and secondarily for economic reasons.
- During 1984 – 1999, the founders were joined by Brunei, Cambodia, Laos, Myanmar and Viet Nam.
- AFTA, covering trade in goods, went into effect in 1992.
- ASEAN+1 FTAs took effect during 2004 - 2010 with Australia/New Zealand, China, India, Japan and Korea.
Incentives for ASEAN+1 FTAs

- Heavy direct foreign investment (DFI) by Japan after the 1985 Plaza Accord and the appreciation of its currency
- Rivalry between Japan and China, which has historical ties in the region
- Korean DFI
- Blurring of differences between Northeast and Southeast Asia caused by the 1997 Asian financial crisis
Incentives for ASEAN+1 FTAs

- Sluggish progress in WTO multilateral trade negotiations
- Formation of trade blocs in other regions, such as the EFTA, NAFTA and EU, that have diverted trade
- Historical trading relationships among the non-ASEAN parties
- These incentives also motivate the parties toward implementing RCEP
RCEP covers 24 percent of world GDP (NAFTA covers 21 percent and the EU covers 19 percent) and 45 percent of world population.

The parties are the ASEAN countries and the ASEAN+1 foreign partners (AFPs): Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Korea, Thailand and Viet Nam.

(TPP parties are in italics)
RCEP

• RCEP was introduced in November 2011 at an ASEAN summit
• The first round of negotiations was conducted in May 2013
• The 19th round was conducted in July 2017 and the 20th is scheduled for October
• It is unlikely that negotiations will conclude in 2017 in time for the ASEAN 50th anniversary
• The ASEAN countries set the agenda and drive the negotiations

• In fact, the ASEAN countries meet separately and present unified negotiating positions to the AFPs

• But with the demise of TPP, China has reason to lead and can be expected to assume a greater role
RCEP

- RCEP will be more robust than AFTA and ASEAN+1 FTAs, addressing subjects like intellectual property protection, competition policy, e-commerce, environmental policy and regulation of SOEs
- It should also resolve the “noodle bowl” inefficiencies, at least among its parties
RCEP rules of origin and tariff elimination

• RCEP rules of origin and tariff elimination for apparel and footwear are not yet final

• But we can speculate whether RCEP might “borrow” rules of origin from TPP, AFTA, or the ASEAN+1 FTAs, or whether duties will be eliminated immediately or reduced over time
RCEP could use TPP’s yarn forward model, which for most garments would have allowed preferential treatment only if the component determining classification was knit or woven in TPP countries from yarn spun or extruded in TPP countries and the apparel was cut or knit to shape, or both, and sewn or otherwise assembled in TPP countries.
TPP rules of origin for apparel

- Yarn forward was insisted upon by the United States under TPP because the United States wanted to exclude garments made with non-TPP yarn and fabric, such as yarn and fabric from China and India.
- But RCEP will include countries producing yarn and fabric, including China and India, so that the yarn forward model would be unnecessarily restrictive.
TPP rules of origin for footwear

- TPP had two options to qualify footwear as originating
- The first option was for footwear made in TPP countries with parts also made in TPP countries
- The second option was for footwear made in TPP countries with foreign (non-TPP) parts (except uppers and assemblies of uppers) provided there was also a regional value content of 45 or 55 percent under either of two computation methods
AFTA rules of origin for apparel

- AFTA’s rules of origin, unlike TPP’s, are liberal, simple and uniform
- For example, the rule for men’s cotton knit shirts of Harmonized System (HS) subheading 6105.10 says: A *regional value content of not less than 40 percent; or A change to subheading 6104.23 from any other chapter and the good is both cut and sewn in the territory of any Member State; or Process Rules for Textile and Textile Products*
- “Process rules” for apparel say: 
  *Manufacture through the processes of cutting and assembly of parts into a complete article*
AFTA rules of origin for apparel

• Notice that, under AFTA, the producer can choose any one of the three discrete rules
• The same rules are used for all apparel
• Theoretically, a knit-to-shape sweater or a pair of socks would have to meet the regional value content rule, because they are not “cut and sewn” or subjected to “cutting and assembly”
• But the attraction of AFTA rules is their simplicity
AFTA rules of origin for footwear

- AFTA’s rules for origin for footwear are also more liberal than TPP’s
- Footwear will be originating if it has a regional value content of not less than 40 percent or if all non-originating materials used in production undergo a change in tariff classification at the four-digit level
- Originating footwear can therefore be made with non-originating uppers and soles because those parts are classified under a different four-digit heading (6406) than finished footwear (6401 to 6405)
ASEAN+1 rules of origin for apparel

- Some of the ASEAN+1 rules are more complex
- The ASEAN+1 FTA with Australia/New Zealand (AANZFTA) requires the following for a men’s knit cotton shirt: *RVC(40)*
  
  provided that the good is cut or knit to shape and assembled in the territory of one or more of the Parties or CC
ASEAN+1 rules of origin for apparel

- Under the AANZFTA, “RVC(40)” means that the shirt must have a regional value content of not less than 40 percent.
- And “CC” means that all non-originating materials used in the production of the good have undergone a change in tariff classification at the 2-digit (chapter) level.
ASEAN+1 rules of origin for apparel

The ASEAN+1 FTA with India (AIFTA) requires the following for apparel and other goods:

(i) the AIFTA content is not less than 35 per cent of the FOB value; and

(ii) the non-originating materials have undergone at least a change in tariff sub-heading (CTSH) level of the Harmonized System,

provided that the final process of the manufacture is performed within the territory of the exporting Party.
ASEAN+1 rules of origin for footwear

- The rules of origin for footwear under the AANZFTA are the same as those under the AFTA.
- The rules of origin for footwear under the AIFTA are the same as the rules for apparel under the AIFTA (35 percent regional value content, change of tariff subheading and final manufacture in the exporting country).
Comment on possible RCEP rules of origin for apparel and footwear

• As shown by the examples, AFTA and the ASEAN+1 FTAs are themselves a “noodle bowl” of origin rules!
• Maybe RCEP will adopt the simple, uniform AFTA rules for all apparel and footwear
• TPP had no regional value content rules (RVCs) for apparel
• RVCs in RCEP could distort trade among parties with different labor costs, especially between lesser and greater developed parties
Among themselves, the AFTA parties have eliminated tariffs on apparel and footwear; but some of the ASEAN+1 parties have not.

For example, under the AANZFTA, originating men’s cotton woven trousers of HS 6203.42.00 imported into Australia from Viet Nam and other ASEAN countries are dutiable at the rate of 10 percent until 2020.
AFTA and ASEAN+1 FTA tariff elimination

- Some of the highest duty rates remain in effect for footwear imported into Japan from Vietnam and other ASEAN countries under the ASEAN+1 FTA with Japan (AJCEP)
- Japanese duty rates several classifications of footwear under the AJCEP are 30 percent and are not scheduled for elimination or reduction over time
RCEP comments

• Uniform origin rules and elimination of tariffs will facilitate undistorted trade among the RCEP parties
• RCEP will also promote integrated, rational supply chains in the region
• Duty-free raw materials (such as yarn, fabric, and parts of footwear) sourced from other RCEP parties should make Viet Nam’s exports to countries outside the RCEP region, including the United States and Europe, more cost competitive
The EU is Viet Nam’s second largest trading partner, after China, and its second largest export market, after the United States.

The EU has more than 45 FTAs in force or provisionally in effect, including the EU–Korea FTA, which became effective in 2011.

On September 21, the Canada–EU Comprehensive Economic and Trade Agreement (CETA) became provisionally effective.
Despite the United Kingdom’s withdrawal from the EU (Brexit); the fall of TPP has made the EU more proactive in seeking to replace the United States as a leader in international trade in Southeast Asia

The EU announced in June that it resumed stalled FTA talks with Malaysia, and it will likely accelerate pending FTA negotiations with Indonesia, New Zealand, Philippines, and Thailand
The EU and Viet Nam conducted 14 rounds of negotiations over three years and concluded their talks on the EVFTA in late 2015.

The agreement is expected to go into effect in 2018, pending ratification by the parties.
EVFTA rules of origin for apparel

- The EVFTA origin rules are not nearly so liberal as those of AFTA or the ASEAN+1 FTAs
- For knitted apparel obtained by sewing or otherwise assembling two or more pieces of fabric, the knitting and making-up (including cutting) must occur in Viet Nam
EVFTA rules of origin for apparel

- For knit to shape apparel, such as socks, spinning of staple fiber or extrusion of filament yarn and knitting must occur in Viet Nam, or
- Dyeing of yarn of natural fiber and knitting must occur in Viet Nam
EVFTA rules of origin for apparel

- For woven apparel, weaving and making up (including cutting) must occur in Viet Nam, or
- Making up must occur in Viet Nam and must be preceded by printing accompanied by at least two preparatory or finishing operations in Viet Nam, provided that the value of the unprinted fabric does not exceed 47.5 percent of the ex-works price of the product.
In the case of certain woven apparel (women’s, girls’ and babies’ clothing and clothing accessories for babies) that is embroidered, the goods can be manufactured in Viet Nam from unembroidered fabric, provided that the value of the unembroidered fabric does not exceed 40 percent of the ex-works price of the product.
EVFTA rules of origin for apparel

- Two types of “cumulation” are allowed
- First, the Vietnamese manufacturer can use originating materials from the EU
- Second, the Vietnamese manufacturer can use fabric originating in Korea (because the EU has an FTA with Korea)
- But, unlike AFTA and the ASEAN+1 FTAs, EVFTA does not allow the use of foreign fabric
EVFTA rules of origin for footwear

- A single rule of origin applies to all classifications of footwear.
- The rule requires “Manufacture from materials of any heading, except from assemblies of uppers affixed to inner soles or to other sole components of heading 6406”.
EVFTA tariff elimination

- EU duties on apparel and footwear are eliminated in staging categories
- For staging category A, duties are eliminated immediately upon entry into force
- For staging category B3, duties are eliminated in four equal annual stages
- For staging category B5, duties are eliminated in six equal annual stages
- For staging category B7, duties are eliminated in eight equal annual stages
• Men’s cotton knit shirts of HS subheading 6105.10 (presently at 12 percent) are in staging category B5
• Women’s synthetic knit dresses of HS subheading 6104.43 (presently at 12 percent) are in staging category B3
• Men’s cotton denim blue jeans of HS subheading 6203.42.31 (presently at 12 percent) are in staging category B5
EVFTA tariff elimination examples

- Basketball shoes with outer soles of rubber or plastics and uppers of textile materials of HS subheading 6404.11 (presently at 16.9 percent) are in staging category A.
- Certain men’s shoes with outer soles of leather and uppers of leather or composition leather of HS subheading 6403.59.35 (presently at 8 percent) are in staging category B7.
The Belt and Road Initiative is an ambitious, and very expensive, Chinese development strategy.

President Xi Jinping announced his plans for BRI in September 2013 after state-led industries succeeded in building China’s new cities and infrastructure and the rate of economic growth could not be sustained.
• The plan is to promote economic cooperation among the affected countries
• China envisions an economic “belt,” roughly following the Silk Road of the 16th century, linking South, Southeast and Central Asia, China, the Middle East, Russia and Europe
• The BRI would also follow ancient maritime routes from China’s ports across the South China Sea, the Indian Ocean and the South Pacific.
China has committed US$1.4 trillion to the project for investment in roads, rail, airports, ports, pipelines, communications and heavy industry in the linked countries, fueled by SOEs, state financing and excess productive capacity.

The apparent aim is to make Eurasia a trading and economic center to rival the US-led transatlantic region.
Viet Nam’s complementary plan

- Viet Nam has embarked on a plan called “Two Corridors and One Economic Circle,” seeking to build economic ties and cooperation to connect China’s southern region with Viet Nam’s coastal areas.
- Viet Nam stands to benefit from China’s FDI and infrastructure development, as well as from the enhanced trade that might follow.
Jon Fee

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AUDITING FOR SOCIAL COMPLIANCE & WORKING CONDITIONS

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AUDITING FOR SOCIAL COMPLIANCE & WORKING CONDITIONS:
Why is it so Important for Today’s Supply Chain?

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Agenda

- Introduction to WRAP
- Living in Uncertain Times
- Today’s Supply Chain
- Why Social Compliance Auditing Matters
- Ensuring Social Compliance
- Conclusion
Introduction to WRAP

World’s largest independent certification program

Focused on the apparel, footwear, and sewn products sectors

We inspect and certify factories all over the world

Objective, non-profit team of global experts dedicated to promoting safe, lawful, humane, and ethical manufacturing around the world through certification and education
We’re reaching new levels of uncertainty

- Markets
  - Both consumer markets and manufacturing markets
- Politics

... In a 24/7-communication world

- The ubiquity of social media
Today’s Supply Chain...

• ... Is fragmented, complex, and worldwide.
• ... Is further complicated by the fact modern technology makes for global, instant communication.
  ○ Any event – be it in Vietnam, Bangladesh or anywhere else – now appears on CNN and BBC (and Facebook and Twitter!) within a matter of minutes or hours.
• ... Is operating in an environment where reputation and supply chain management are global issues, with very high stakes.
• ... Needs constant, proactive management.
Why Social Compliance Auditing Matters

• It is a very practical means of protection against today’s supply chain challenges.
• Social compliance audits / verification has become an increasingly important aspect of supply chain management, especially given how today’s global value chain operates in an instant communication media environment.
Ensuring Social Compliance

- Must integrate social compliance objectives with general management systems
- Engaging with all stakeholders to build relationships
  - Fostering trust is key to greater transparency
- Auditing as the base of a process, not an end in and of itself
  - Continuous improvement
- Education is essential
What Should You Look For?

- Commitment from the top
- Management systems approach
  - Maintain supporting documentation
- Continuous engagement with all stakeholders
  - Including employees
    - Training is key
Conclusion

• Today’s apparel and footwear supply chain is fragmented, complex, and worldwide, and further complicated by the fact modern technology makes for global, instant communication
• These challenges posed by these realities mean supply chains issues (especially social compliance) need to managed proactively
• Social compliance audits represent an important and practical solution
Thank you!

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Corporate Social Responsibility
LIVE THE CODE EVERY DAY!

HANES Brands Inc
Hanesbrands is a company with.....

- Around 65,000 employees in over 40 countries worldwide
- Direct manufacturing/sourcing products: intimate, active wear, underwear, hosiery & socks
- Licensing products: apparels, shoes, sunglasses, fashion accessories
- Our brands including:
Hanesbrands CSR Value.....

Hbi is committed to “DOING the RIGHT THING”

- We embrace a standard of excellence in every aspect of our business and in every corner of the world
- Expect ethical and responsible conduct in all of our operations including our own manufacturing plants
We Live By the Code

GEC   GPS

C-TPAT  GCC  FCPA

GEMS   GSMS

WRAP  FLA  GSS  UKBA
Our Reputation is Important

- The media and NGOs will use newspapers, internet, television and shareholders meetings on negative reporting on brands:
  - Child labor
  - Forced labor
  - Environmental crisis
  - Product safety concern
  - Poor working conditions
A Message from Rich Noll

Our Global Code of Conduct is a reminder to all of us of our personal responsibilities, including what we must do to comply with the law and HBI’s ethical standards.

Remember - work hard, compete aggressively, but **Always Do the Right Thing!**
We Treat Others as We Wish to be Treated

- No harassment
- No discrimination
- Safe and healthy workplace
- Quality, value, safety and trust
- Safeguard Personal Information
- Honesty in marketing and sales activities

We Treat Others as We Wish to be Treated
We are a Responsible Corporate Citizen

We comply with all environmental laws, regulations and Hanesbrands’ policies

We participate in political processes with integrity

We comply with laws governing international trade

We do not bribe government officials!
Bribery will not be tolerated!

We comply with the **Foreign Corrupt Practices Act**

- Consult the law department if you have any questions
- Perform due diligence for suspicious behavior
- Never maintain “off-book” accounts
- Maintain accurate records
FCPA & UK Bribery Act civil & criminal penalties are SEVERE.

**FCPA Anti-Bribery Provisions**
- Criminal penalties for HBI (per violation) of up to **US $2 million** in fines or **twice** the benefit sought through the corrupt payment
- HBI officers, directors, employees or agents can be criminally fined individually up to **US $100,000** and/or imprisoned up to **five years**. **Up to 10 years for UK Bribery Act.**
- Civil fines of up to **US $100,000** may be brought against HBI as well as any officer, director, employee, or agent acting on HBI's behalf
- HBI cannot reimburse such fines imposed on individuals for violations of the FCPA even though the acts were for the benefit of HBI. **This comes out of your pocket!**

**Books & Records Provision/Internal Controls**
- Up to **US$25 million** per willful violation for business entities
- Individuals may face criminal fines of up to **$5 million** and/or receive sentences of **up to 20 years imprisonment** for willful violations
- **Unlimited fines for HBI under UK Bribery Act.**

**Other Potential Penalties:**
- Appointment of an independent corporate monitor
- Excluded from government contracts
- Loss of export licenses
- Adverse tax consequences due to inaccurate books and records
- Loss of market capital and shareholder confidence **MASSIVE HITS TO OUR REPUTATION!**

**PEOPLE GO TO JAIL FOR THIS!**
We Maintain Strong and Fair Business Relations

Standards

- Partner with responsible suppliers
- Promote free and fair competition
- Appropriately acquire business intelligence
- Ethically manage conflicts of interest
- Only give/receive appropriate gifts and entertainment
Partner with Responsible Suppliers

OUR RESPONSIBILITIES

1. Document all supplier relationships with appropriate written contracts and perform due diligence when choosing suppliers to ensure they meet our standards.
2. If you are in a management position at HanesBrands, you must ensure the suppliers and business partners you hire have received and signed a copy of our Global Standards for Suppliers.
3. Be vigilant, watch for and report any signs that our business partners are violating our Global Standards for Suppliers or applicable laws and regulations, including local environmental, employment and safety laws.
4. Cooperate with audits of suppliers and stop purchasing from those who fail to timely correct any deficiencies found.
Minimum Requirements

All must “COMPLY”……..

☑️ **Accuracy of Business Records**
  Provide ACCURATE & COMPLETE time and wage payment records for review
  (Don’t accept double booking)

☑️ **Compensation**
  Meet or exceed minimum legal requirements

☑️ **Freedom of Association and Collective Bargaining**
  Respect the right of employees to exercise their lawful right of free association and collective bargaining
Minimum Requirements

✓ Safety and Health
Operate a safe and healthy work environment for their employees

✓ Working Hours
Maintain reasonable work hours in accordance with local Labor Law; if no legal requirement in specific country, then follows ILO standard 60 total working hours per week including one rest day
Minimum Requirements

ALL MUST “NOT”……

❌ Child Labor (zero tolerance)

No employee is hired under the minimum age established by local Law.

❌ Workplace Harassment or Abuse (zero tolerance)

Not subject employees to physical, verbal, sexual, or psychological harassment
Minimum Requirements

ALL MUST “NOT”…….

❌ Forced Labor (zero tolerance)

Not use forced or involuntary labor whether bonded, prison or indentured or passport withholding, owed wage.

❌ Discrimination

Not discriminate bases on personal characteristics, race, gender, disability or beliefs
Hanesbrands Social Compliance Monitoring Correlation
Resort to the mirror test if faced with a tough ethical decision:

The Mirror Test

Is it Legal?
If not, don’t do it.

Is it Right?
If you were to explain your actions to your manager, family or the news media, could you justify what you have done?

What Will Others’ Think?
How does your conscience feel?
What would a trusted friend say?
QUESTIONS?
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