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HUMAN RIGHTS AND SUPPLY CHAIN ISSUES: IMPACTS ON THE AUTOMOTIVE INDUSTRY

September 20

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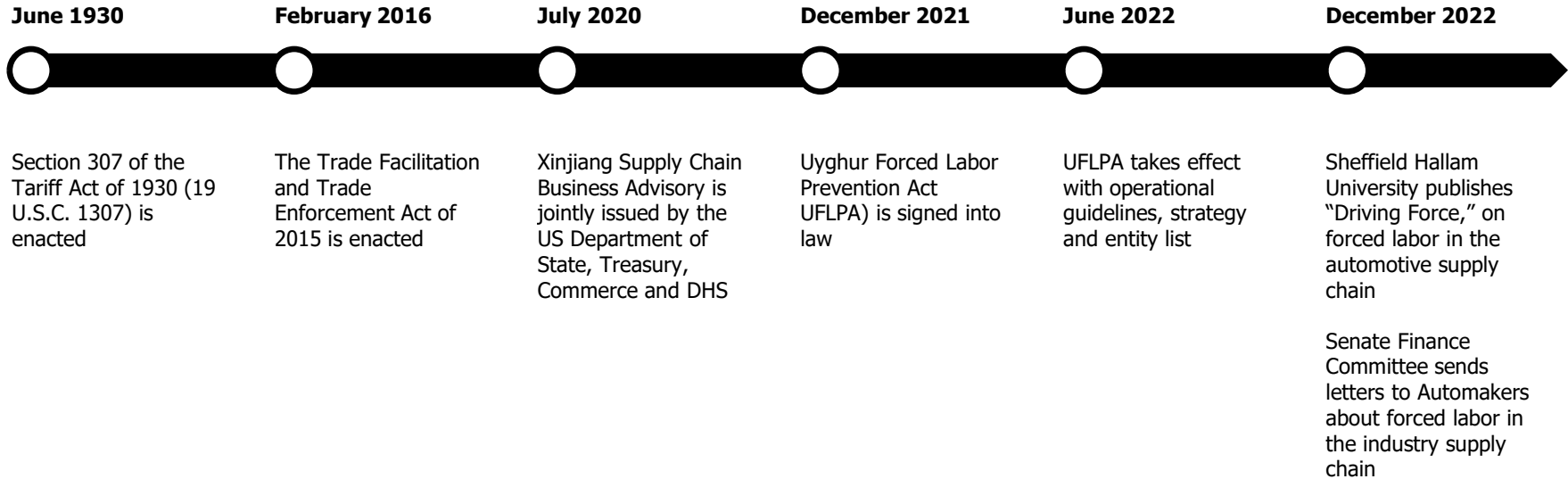
Legislation and Regulation

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Supply Chain Integrity – What Is at Stake?

- Reputational Damage/Poor ESG Ratings for Lack of Supply Chain Integrity
- Market Access – China Retaliation over Xinjiang Sanctions
- Erosion of Customer Base from Consumer Boycotts and Demonstrations
- Products Detained at Border and Denied Entry
- Private Litigation for Consumer Fraud Under State Law
- Increased Government Enforcement of Importation Bans and Designation of Persons Supporting Forced Labor
- Shareholder Proposals on Supply Chain Integrity and Potential Shareholder Securities Litigation
- Potential for New US Federal Legislation Mandating Forced Labor Disclosure. Private Right of Action? Criminal Cases for Customs or Consumer Fraud?

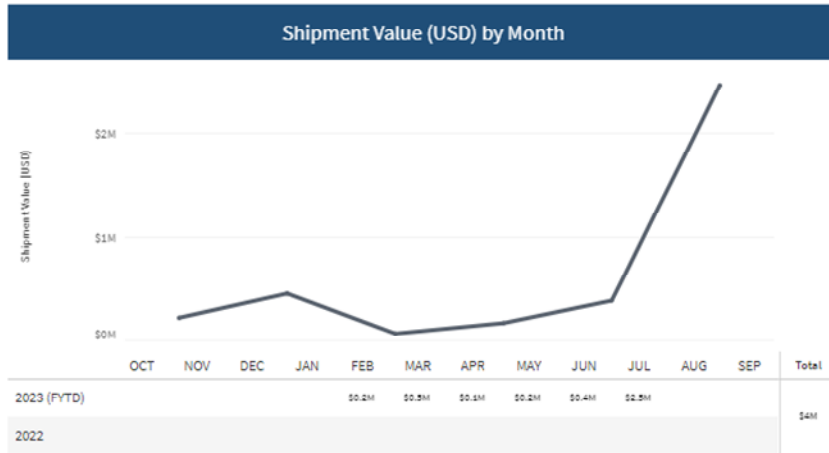
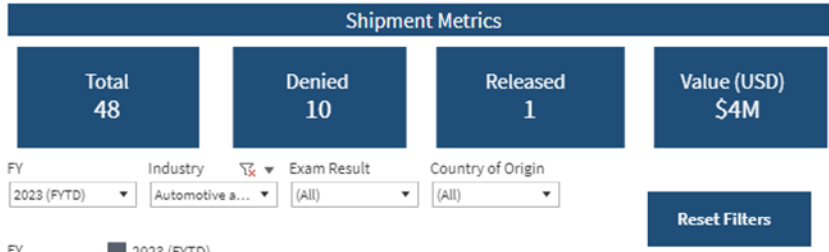
Legal and Regulatory Timeline



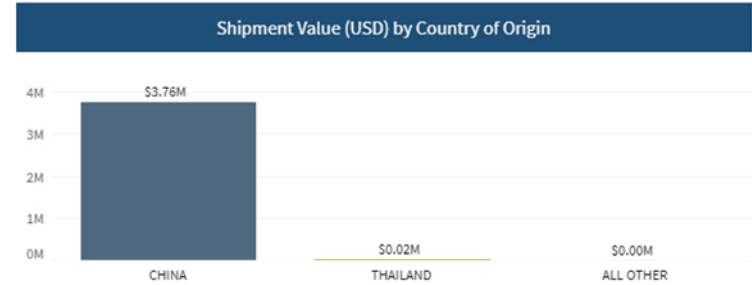
Uyghur Forced Labor Prevention Act

- Uyghur Forced Labor Prevention Act (UFLPA) signed into law December 2021 with enforcement commencing June 2022
 - Establishes a rebuttable presumption that goods mined, produced, or manufactured in China's Xinjiang Uyghur Autonomous Region are made with forced labor and will be barred from importation into the US
- Since the one-year anniversary we have seen:
 - [More additions to the UFLPA Entity List](#) (and other lists) and one legal challenge to the addition
 - Continued scrutiny by Congress with suggestions on additions to the UFLPA list
 - Updated Strategy Plan
 - Request for additional resources

UFLPA Enforcement Stats: Automotive and Aerospace



Shipment Count by Industry and Exam Result



Disclaimer & Data Source: Statistical information is subject to change due to corrections or additional information. Data is provided by the Forced Labor Division and is current as of 08/01/2023.

Shipment Count by Industry and Exam Result

Automotive and Aerospace



UFLPA Enforcement Stats: Beyond Automotive and Aerospace

- Automotive companies may also be impacted by detentions in other categories:
 - Apparel, Footwear and Textiles – 877 detentions/\$36M
 - Base Metals – 175 detentions/\$69M
 - Electronics – 2,247/\$1,453M
 - Industrial and Manufacturing Materials – 929/\$63M
 - Machinery – 165/\$53M

USMCA: Canada and Mexico

In 2020, under the terms of the United States Mexico Canada Agreement (USMCA), the three countries agreed to implement measures to ban the importation of goods produced with forced labor

- Canada Bill S-211
 - Approved May 2023
 - Goes into effect January 2024
 - Mandates reporting on where forced labor might occur in the supply chain and due-diligence procedures connected to forced labor.
- Mexico Import Ban
 - Effective May 2023
 - Administrative Regulation
 - Prohibits imports of goods produced with forced labor

EU/UK Developments

- EU
 - Proposal for an EU Directive on Mandatory Human Rights, Environmental and Good Governance Due Diligence (approved by the EU Parliament on March 10, 2021)
 - Guidance on Due Diligence for EU Businesses to Address the Risk of Forced Labor in Their Operations and Supply Chains (Issued by Commission and European External Action Service in July 2021)
 - Proposal for a regulation banning products made with forced labor on the EU market (adopted by Commission On September 14, 2022)
 - NGO Redlines to the Regulation
 - German Supply Chain Act (went into effect January 2023)
 - ECCHR filed a complaint against the three automakers with the German Federal Office for Economic Affairs and Export Control (BAFA) under the Act.

UK Activity

- UK: Modern Slavery Act 2015
 - Modern Slavery Statement Registry (launched March 2021)
 - Proposed Modern Slavery (Amendment) Bill (introduced June 2021)
 - Proposed Amendment to the UK Energy Bill requiring solar energy companies to demonstrate that their goods were not produced by forced labor

Navigating Conflicting Regimes

- China
 - Legislative Tools
 - Blocking Statute
 - Anti-Foreign Sanctions Law
 - Blacklisting/Countersanctions
 - Anti-Espionage Act
 - Police Raids on US Firms
 - Market Access

Auto Industry Standards

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Integrated and Comprehensive Approach

- Comprehensive Statements and Policies Integrated with ESG/Sustainability Reporting
 - Modern Slavery Act/California Supply Chain Act statements
 - Human Rights Reports
 - Responsible Material and Conflict Mineral Policy
 - Integrated Responsible Sourcing Report
- Supplier Codes of Conduct; Training of Employees and Suppliers
- Monitoring, Auditing, Remediation
- Industry Alliances and Third-Party auditing/investigation

Shareholder Proposal and Response

- Proposals
 - Requesting annual reports on the nature and extent of dependence and vulnerability to human rights violations in the supply chain
- Response
 - Recommendation to vote against, which have generally been followed, citing:
 - Longstanding commitment to respecting human rights
 - Policies, procedures and statements
 - Training -- employees and suppliers
 - Due diligence and auditing of third parties
 - Investment in alternatives

Allegations and Response

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Auto Industry in the Spotlight

- Sheffield Hallam University
 - “Driving Force: Automotive Supply Chains and Forced Labor in the Uyghur Region”
December 2022
- *AutoWeek* Article On Sheffield Report

Report Alleges Chinese Forced Labor In The Automotive Supply Chain

♦♦ The British report documents how automakers may be complicit via their long supply chains.

Using publicly available sources, including corporate annual reports, websites, and publicity campaigns; government directives and state media, and customs records, we identified the following:

- 96 mining, processing, or manufacturing companies relevant to the automotive sector operating in the Uyghur Region, including at least 38 that have documented engagement in state-sponsored labor transfer programs.
- over 40 automotive-sector manufacturers in China that are sourcing from the Uyghur Region or from companies that have accepted Uyghur labor transfers across China.
- more than 50 international automotive parts or car manufacturers (or their joint ventures) that are sourcing directly from companies operating in the Uyghur Region or from companies that have accepted Uyghur labor transfers across China.
- more than 100 international automotive parts or car manufacturers that have some exposure to forced Uyghur labor made goods.

Several major international auto manufacturers—including **Volkswagen Audi Group, Honda, Ford, General Motors, Mercedes-Benz Group, Toyota, Tesla, Renault, NIO, and Stellantis Group** had several supply chain exposures to the Uyghur Region.

Industry Response

- Response to Sheffield report
 - 15 companies named in the report responded to the research, many citing their supply chain integrity statements
 - Referrals to public statements, policies and reports
 - Correction of inaccuracies
 - Reinforcement of commitment to supply chain integrity
 - Request for clarification and underlying data

Congressional Inquiries

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Key Committees

House

- Select Committee on the CCP
- Ways and Means
- Energy and Commerce
- Foreign Affairs
- Financial Services
- Oversight and Accountability

Senate

- Finance
- Banking, Housing, and Urban Affairs
- Foreign Relations
- Homeland Security & Government Affairs (PSI)

*Congressional-Executive Commission on China

Letter to Auto Manufacturers

- Letter to Auto Manufacturers

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United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

December 22, 2022

- Letter to Auto Suppliers

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United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

March 28, 2023

March 28, 2023

- Letter on Conflict Minerals
- Letter on Brazilian Leather

United States Senate
WASHINGTON, DC 20510

July 17, 2023

What's Next in Congress?

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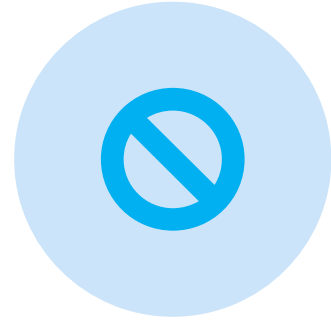
What's Next in Congress?



HEARINGS



LEGISLATION



INCREASED
DESIGNATIONS

Potential Congressional Actions

- Congressional Attention on Forced Labor Is Not Going Away
 - Interest has been sustained through Republican and Democratic majorities and through both the Trump and Biden Administrations
- Congress will likely seek to harden and expand UFLPA and Entity List
 - Potential Focus on Dual-Use Technology (AI, Camera, and Sensor); Uyghur Human Rights Sanctions Review Act
 - Additional Priority Sectors?
- Partial Justification for Including Cutting-Edge Automotive Technologies in Outbound Investment Regime
- Encourage Foreign Partners to Adopt Similar Policies



Key Takeaways

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Supply Chain Integrity – What Is at Stake?

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- Shareholder Proposals on Supply Chain Integrity and Potential Shareholder Securities Litigation

Key Takeaways

- Increased focus on forced labor may be inextricably linked to broader US-China relations. Unlikely that the issue disappears and may expand in the near future.
- There are unique challenges for the auto industry in risk management and supply chain integrity
 - Complex global sourcing
 - Large number of Tier 1 suppliers
- China presents a dynamic in which automakers must balance supply chain integrity with market access
- Given the complexity of operating between the diverging interests of the U.S. and China, responses to forced labor inquiries must be: measured, deliberate, and fact-based.
 - Facts will dictate the response. Don't let Public Relations take the driver's seat.



Biography



Carl A. Valenstein

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Carl Valenstein focuses his practice on domestic and international corporate and securities matters, mergers and acquisitions, project development, and transactional finance in a variety of industries. In addition to his transactional practice, Carl advises clients on international risk management, including compliance with the foreign investment review process, export control and sanctions, and anti-money laundering, antiboycott, anticorruption laws and regulations and supply chain integrity/forced labor and international human rights. He also advises on, and has participated in, internal investigations, enforcement cases, and dispute resolution proceedings relating to his transactional and regulatory practice. Carl co-chairs the firm's ESG and sustainability advisory practice and is a member of the Morgan Lewis Committee on Foreign Investment in the United States (CFIUS) working group, as well as China and Ukraine/Russia conflict task forces. He previously served as co-chair of the International Section of the Boston Bar Association and the leader of the Boston Corporate and Business Transactions Group. Carl has practiced law for 40 years, the first 30 years of which were in Washington DC before moving to Boston.

Biography



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Amanda B. Robinson focuses her practice on white collar issues, including congressional inquiries and governmental and internal corporate investigations. She represents large and midsize companies before Congress, the US Department of Justice (DOJ), the US Securities and Exchange Commission (SEC), and other federal agencies. Amanda represents clients in a wide range of industries, including healthcare, life sciences, financial services, and technology. She handles a wide array of major corporate investigations and crises, including those involving #MeToo claims. Her work is concentrated on defending clients in Qui Tam lawsuits and investigations arising under the False Claims Act (FCA), Foreign Corrupt Practices Act (FCPA), as well as the federal antitrust laws.

Biography



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David Mendelsohn leverages 15 years of government relations experience to advise Morgan Lewis attorneys and clients on legislative and regulatory policy matters and implement comprehensive government relations strategies. David works with clients and Morgan Lewis subject matter experts on a wide range of legislative issues, including: national security, trade, digital assets, transportation, energy, and health care.

David is an active member of Morgan Lewis' responsible labor working group, US-China working group, Ukraine Conflict task force, digital assets working group, and automotive and EV industry groups.

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- **JANUARY 18** | Warranty Claims and Trends in the Automotive Industry
- **FEBRUARY 22** | Key Issues Facing the EV Industry in 2023
- **MARCH 29** | Recent Trends and Developments in Automotive Class Actions
- **APRIL 19** | 2023 Congress: Potential Impact on EVs
- **JUNE 21** | Advancements in Autonomous Vehicles
- **JULY 19** | Latest Developments in Automotive Finance and Consumer Protection
- **SEPTEMBER 20** | Human Rights Violations and Supply Chain Issues: Impacts on the Automotive Industry
- **NOVEMBER 15** | IP Considerations for EVs and Beyond

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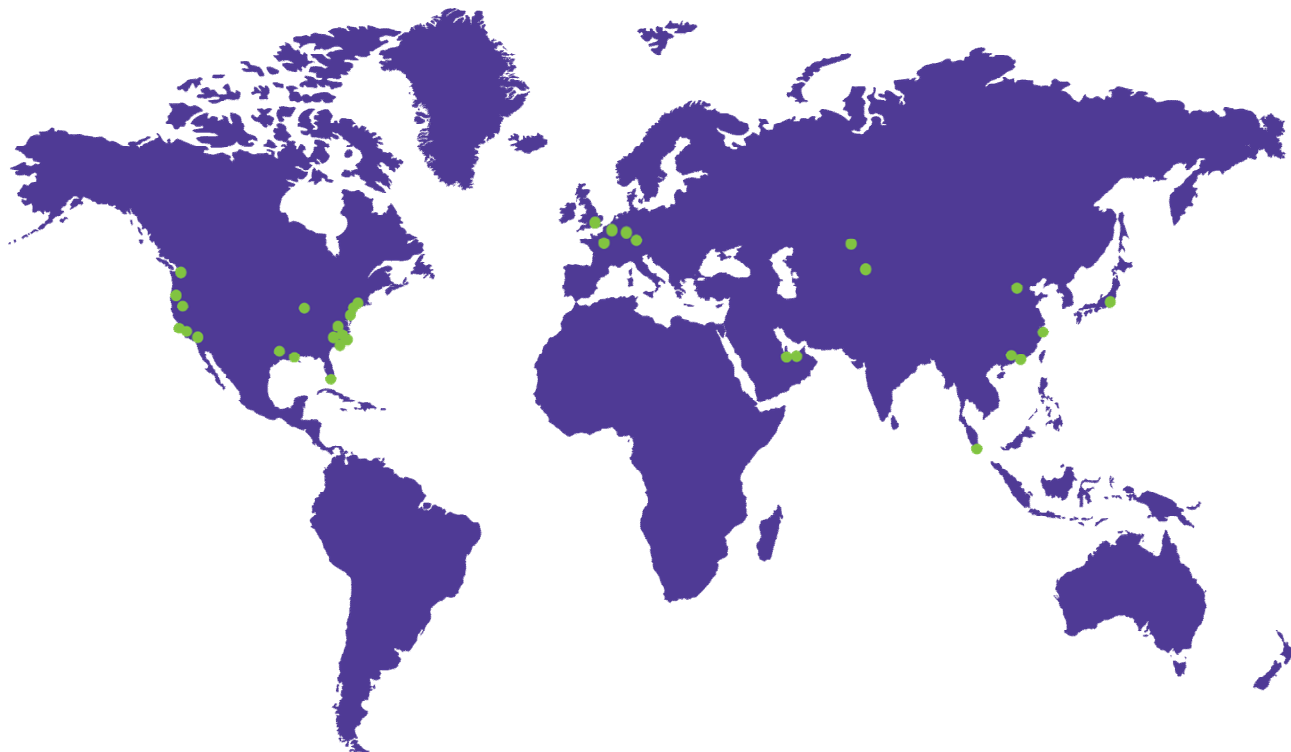


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