

January
2020

SOCIAL COMPLIANCE: IT'S FAIR, IT'S SMART, IT'S PROFITABLE

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International Compliance Group is pleased to offer a periodic highlight of news and articles on issues which may impact international trade, global supply chains, proposed legislation, retail, manufacturing, human rights and the environment and therefore your business.

While we celebrate our 20th anniversary, we would like to offer a special Thank You to all buyers and suppliers who have trusted us to audit their facilities, to a wide range of standards and codes of conduct, around the world. ICG was one of the first firms to offer social compliance audit services. In 1999 we started auditing and assisting a few clients in developing their Codes of Conduct and audit protocols. Today, our practice extends from South Africa to Canada and Ho Chi Minh City to Sao Paulo Brazil. Through our dedicated auditors we perform audits in over 50 countries, from Asia to the Americas. ICG is an APSCA member firm and our auditors are members of APSCA. ICG belongs to the SEDEX Stakeholder Forum, is a WRAP accredited monitoring firm, and an approved SLCP verification body. We look forward to continuing to work with you to ensure your supply chain supports your business and your growth, both ethically and legally, and in a manner which safeguards your hard-earned reputation.



AMERICAS

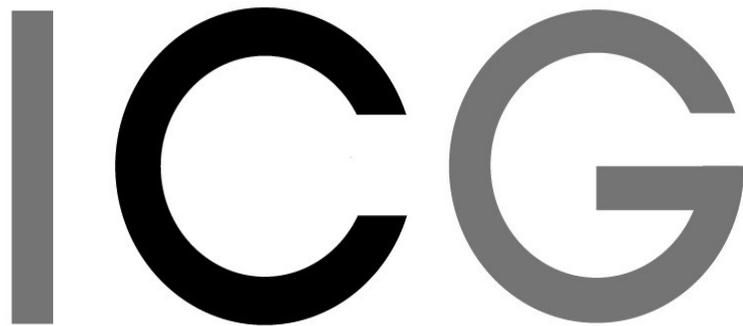
Cross-Country Delivery with an AI Tractor-Trailer Succeeds

Plus.Ai, a California-based trucking company completed its first cross-country trip of 2,800 miles in a fully autonomous truck (L4) for the dairy company Land 'O Lakes carrying a refrigerated load of butter from its facility in Tulare, CA to a distribution hub in Quakertown, PA. A Level 4 autonomous truck has the technical capability to drive through various weather and road conditions on its own. For safety, a licensed truck driver and safety engineer were on board to ensure safety on public roads for the non-stop, three-day trip. The driver took control to leave the highway for rest breaks and fuel.

Source: https://www.supplychaindive.com/news/plusai-autonomous-truck-completes-coast-to-coast-delivery-in-3-days/568729/?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202019-12-10%20Supply%20Chain%20Dive%20%5Bissue:24547%5D&utm_term=Supply%20Chain%20Dive

Forever 21 Files for Bankruptcy

Family-run Fashion 21 filed for bankruptcy saying it owes between \$1billion and \$10billion to over 100,000 creditors including Fed-Ex, Simon Properties and A&E Clothing. The closely run company has continued to rely on "fast fashion" where they planned for consumers to wear a garment a few times and then throw it away. However, consumer choices have changed significantly with sustainability



and slow fashion taking over, and with consumers not buying the volume of clothes they have in the past. And, the company relied upon brick-and-mortar stores and did not embrace ecommerce. The company said it plans to close 87 of its retail outlets as it seeks to reorganize and reposition the business according to Linda Chang, daughter of the founders Do Won Chang and Jin Sook Chang.

Source: <https://www.apparelnews.net/news/2019/dec/05/forever-21-bankruptcy/>

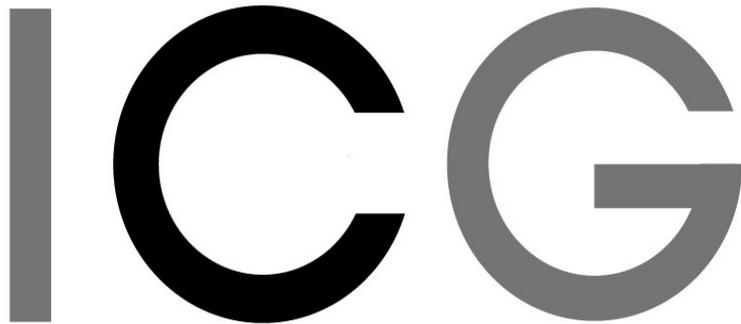
Canada, Mexico and US Agree on New Trade Pact

Trade representatives from Canada, Mexico and the United states agreed on December 11 to a new trade pact between the three countries. The agreement was signed by the designated representatives: Jesus Seade of Mexico, Chrystia Freeland of Canada and Robert Lighthizer of the US. The respective governments will now need to ratify the agreement before it can go into effect.

Source: <https://www.wsj.com/articles/house-democrats-reach-agreement-with-trump-administration-on-usmca-trade-deal-11575989670?mod=searchresults&page=1&pos=3>

USMCA Includes Key Changes for the Textile and Apparel Sectors

The Office of the United States Trade Representative issued a Fact Sheet which includes a section focused on textiles and apparel. Below is exact language on this issue. Readers are encouraged to read the entire fact sheet and the entire agreement with links to both below.



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“Key Achievement: Strengthening Supply Chains to Provide New Market Opportunities for the Textile and Apparel Sector

The provisions will:

- Promote greater use of Made-in-the-USA fibers, yarns, and fabrics by:
 - Limiting rules that allow for some use of non-NAFTA inputs in textile and apparel trade.
 - Requiring that sewing thread, pocketing fabric, narrow elastic bands, and coated fabric, when incorporated in most apparel and other finished products, be made in the region for those finished products to qualify for trade benefits.
- Establish a Textiles chapter for North American trade, including textile-specific verification and customs cooperation provisions that provide new tools for strengthening customs enforcement and preventing fraud and circumvention in this important sector.

The new Textiles chapter provisions are stronger than those in NAFTA 1.0 with respect to both enforcement and incentivizing North American production of textiles.”

Source: <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/rebalancing>

USMCA: <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between>



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US Trade Representative Responds to Mexico Complaint on USMCA Enforcement

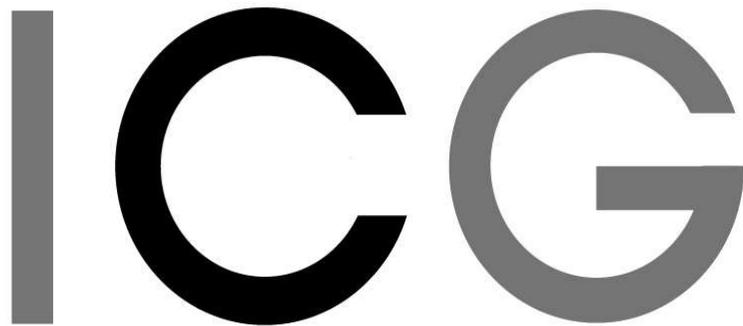
Representatives of the Mexican government raised objections to language in the legislation sent to the US Congress for ratification on the USMCA that it contained language that "labor attaches" would be sent to Mexico to confirm compliance with the agreement. On Monday, December 17, Mexico Trade Negotiator Jesus Seade met with US Trade Representative Robert Lighthizer in Washington, D.C. to address the issue. After the meeting, a letter was sent to Mr. Seade confirming that US Government "labor attaches" will not be conducting audits but an independent panel of three people, chosen by both governments, will conduct the audits. This is from the letter of December 17:

"...the USMCA's first-of-its-kind, facility-specific, rapid-response mechanism allows an independent, three-person panel chosen by both Parties to request on-site verifications in any of our three countries when there are good faith questions about whether workers at a particular facility are being denied key labor rights. But those verifications will be conducted by the independent panelists not by the labor attachés."

Here is a link to the full letter to Mr. Seade from Mr. Lighthizer. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/ustr-responds-mexico-usmca>

After the meeting, Mr. Seade said he was "very satisfied" with the assurances provided by Mr. Lighthizer.

Source: <https://mexiconewsdaily.com/news/trade-negotiator-very-satisfied-with-outcome/>



Macy's and JC Penney Partner with Clothing Reseller ThredUp

In a departure from the usual business model, the large US retailers, Macy's and JC Penney, recently partnered with the clothing reseller (used clothing) ThredUp to open 70 clothing departments within their stores to sell used clothing versus new clothing. This move is aimed at the eco-conscious consumer who values recycling and reuse, and reduction of waste on the planet. In addition, the J.Crew brand, Madewell, partnered with ThredUp to open locations in five metropolitan cities in the US. The longer-term question is: what impact will this have on the retail, textile and apparel industry's opportunity for growth in an already overcrowded market? Sales of gently used clothing has grown significantly in recent years.

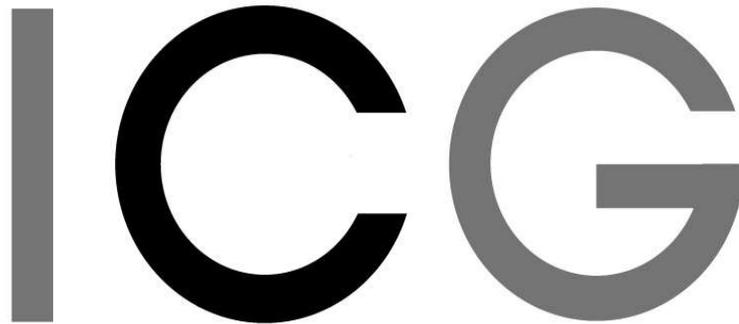
Source: https://www.retaildive.com/news/disruptor-thredup-dive-awards/566185/?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202019-12-

11%20Retail%20Dive%20Newsletter%20%5Bissue:24563%5D&utm_term=Retail%20Dive

Mexico Considers Minimum Wage Increase to 127 Pesos per Day (US\$6.61)

The current wage of 102.68 Pesos per day could increase to 127 Pesos per day is being considered for 2020 by the Mexico Federal Wage Commission, a 23% increase. In January 2019 the minimum wage was increased 16% which kept the majority of families above the poverty line. Given the current state of the Mexican economy, many are worried that even a 23% increase may not be enough to sustain workers and their families.

Source: <https://mexiconewsdaily.com/news/minimum-wage-commission-considers-increase-to-127-pesos/>



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Brazil's Economy Has Grown the Past Six Quarters

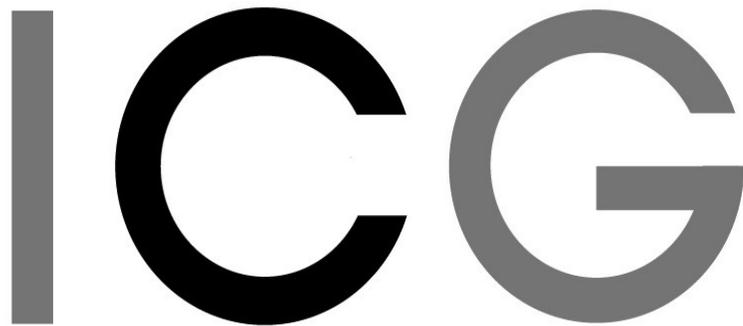
The economy has grown 1.3% in the last year and is projected to grow a further 2.2% in 2020. Consumer price increases have slowed considerably while the central bank interest rate is at 5% compared to 14.25% in 2016. The unemployment rate continues to fall as demand for consumer lending for vehicles and home mortgages ticks upward. Consumer spending is up almost 2% in the last 12 months.

Source: <https://www.wsj.com/articles/brazils-economy-expands-at-fastest-pace-in-six-quarters-11575377914>

Mexico Economy Slips into Recession

New economic data shows the economy in Mexico has fallen 0.1% in each of the last three quarters starting with the last quarter of 2018. Two successive reductions in an economy meet the technical definition of a recession. Zero growth has been projected for all of 2019. There is hope that the signing of the USMCA by Canada, Mexico and the US will help jumpstart the economy. At the same time, President Lopez Obrador's popularity has dropped to 57.4%, a drop of 10% in the past seven months.

Source: <https://www.ft.com/content/eb4e29da-0fad-11ea-a7e6-62bf4f9e548a>



Fashion Nova Named in Article for Sourcing Apparel from under-paid workers in Los Angeles, California

Richard Saghian, founder of Fashion Nova, has created a powerhouse brand using celebrities and Instagram to promote his line of clothing. Some celebrity apparel lines will sell out a new item in one day creating a huge demand for “fast fashion”. However, an investigation by the New York Times uncovered small sewing shops in Los Angeles that do not pay their workers the legal minimum wage. A number of those small companies have, in turn, been investigated and fined by the US Department of Labor for wage and hour violations. While many fingers are pointed at sewing factories overseas as violators of wages and benefits, unfortunately the US has its own share of businesses who flaunt the law.

Source: <https://www.nytimes.com/2019/12/16/business/fashion-nova-underpaid-workers.html>

Walgreen and Kroger Form Purchasing Alliance

Walgreen Boots Alliance (Walgreen, Boots UK, Duane Reed and others) has formed a purchasing alliance with the US grocer Kroger called the Retail Purchasing Alliance. The purpose of the alliance is to combine their buying power for their respective private label brands, and to have a more competitive position with the giants Walmart and Amazon. Their combined revenue is approximately US\$253 billion compared to Amazon of US\$233 billion and Walmart of US\$500 billion. The group which will likely face the greatest challenges are the suppliers of Walgreen and Boots. When the French retailer Carrefour and the UK retailer Tesco formed a similar alliance last year, their suppliers told Reuters that such an alliance could “threaten their survival”.



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Source: https://www.retaildive.com/news/walgreens-kroger-form-group-purchasing-organization/569141/?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202019-12-16%20Retail%20Dive%20Newsletter%20%5Bissue:24661%5D&utm_term=Retail%20Dive

Compliance Highlight

An Introduction to Sedex

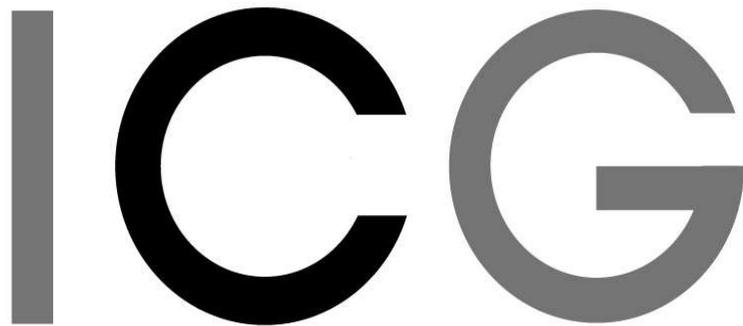


Sedex is one of the world's leading ethical trade service providers, working to improve working conditions in global supply chains. Sedex provides practical tools, services and a community network to help companies improve their responsible and sustainable business practices, and source responsibly.

Through Sedex Advance it provides a collaborative platform for buyers, suppliers and auditors to store, share and report on information quickly and easily. Sedex offers a tool for facilitating access to information and collaboration and does not audit and does not certify.

With 60,000 member companies in over 180 countries the Sedex platform is used extensively across multiple industries. SMETA, the audit protocol provided by Sedex, is accepted for Social Compliance audits by suppliers such as Walmart and Marks and Spencer. ICG is product to be associated with Sedex, through membership in the Sedex Stakeholder Forum, and by providing third party social compliance audits via the SMETA audit protocol.

Learn more about Sedex by visiting <https://www.sedexglobal.com/>



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ASIA

Phase One US-China Trade Agreement No Big Deal for Apparel

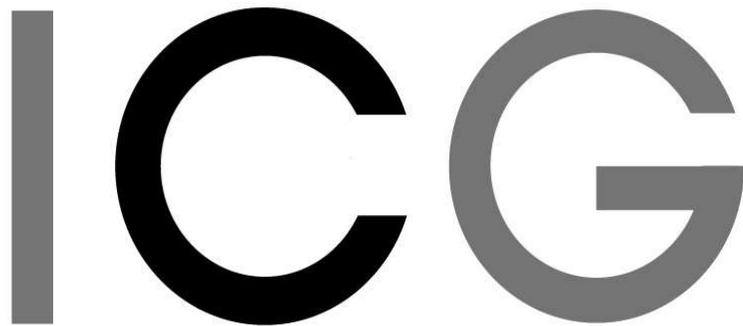
Rick Helfenbein, President and CEO of the American Apparel and Footwear Association is "really, really glad" both sides are talking about resolving the tariff-trade issue between the US and China, but is "incredibly not happy" with the Phase One as it relates to apparel and footwear. "But for our industry, in particular, there's nothing in this deal for us. We're under tariff now. We will remain under tariff" said Helfenbein. "We have to reduce our exposure in China, which is something, quite frankly, we don't want to do and it's very difficult to do." He doesn't see apparel manufacturing returning to the US because the US doesn't have the capacity anymore. With China being such an integral apparel supplier to the US, "we're just going to have to pay those tariffs."

Source: <https://www.cnbc.com/2019/11/05/us-china-phase-one-deal-is-not-a-win-for-apparel-industry-aafa-says.html>

China's Denim Exports Drop Dramatically with September 1 Tariffs

Exports of denim from China have dropped almost 22% through October compared to 2018. While China dropped, Mexico remained the top supplier of jeans for the US market with 21.98% of the market while Bangladesh grew slightly to 15% of the US market. At the same time, denim imports are down 1.5% as brands and retailers are reducing their inventories. However, denim jeans remain a fashion fixture whether low rise, high rise or slim cut.

Source: <https://sourcingjournal.com/denim/denim-business/jeans-imports-china-tariffs-mexico-vietnam-western-hemisphere-otexa-183664/>



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Drought in Southeast Asia Causing Major Agricultural Losses and Economic Disruption***

"No Southeast Asian country can afford to ignore drought when trying to mitigate the economic impact of natural disasters, according to experts.

Bonapace said the significance of economic losses due to agricultural drought was consistent across all countries for which data is available.

"The agricultural losses are highest in Indonesia. In Vietnam, we estimate it to be around US\$6.5 billion or 3 per cent of GDP," she said.

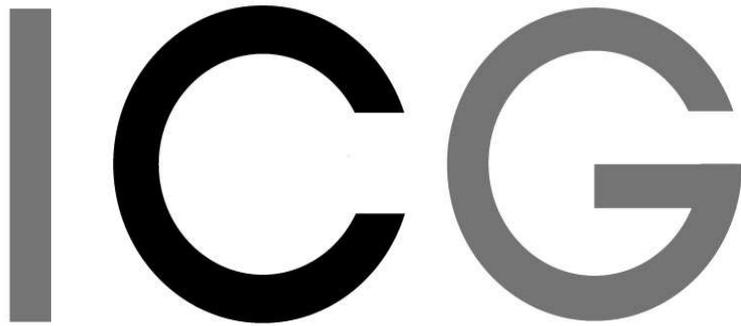
Disasters continue to erode economic gains. Ultimately this means that disasters will limit the ability of economic growth to eradicate poverty."

With the Mekong River at a 50-year, low agriculture losses will undoubtedly lead to higher food prices which will lead to demands for higher wages which will then push sourcing costs higher.

In Cambodia, dried up rivers in some areas has stopped the production of electricity from hydroelectric dams thus threatening local commerce and lifestyles, but also threatening the vitality and reliability of business and the people who live in the region.

Source: <https://vietnamnews.vn/environment/569686/asean-to-take-immediate-steps-to-combat-drought-in-se-asia.html>

***A follow-up article noted that the Hoa Binh Hydropower dam is 16 meters below the normal working level and at the lowest level since its opening. Five other dams in Vietnam are also suffering from low water due to the drought and must decide



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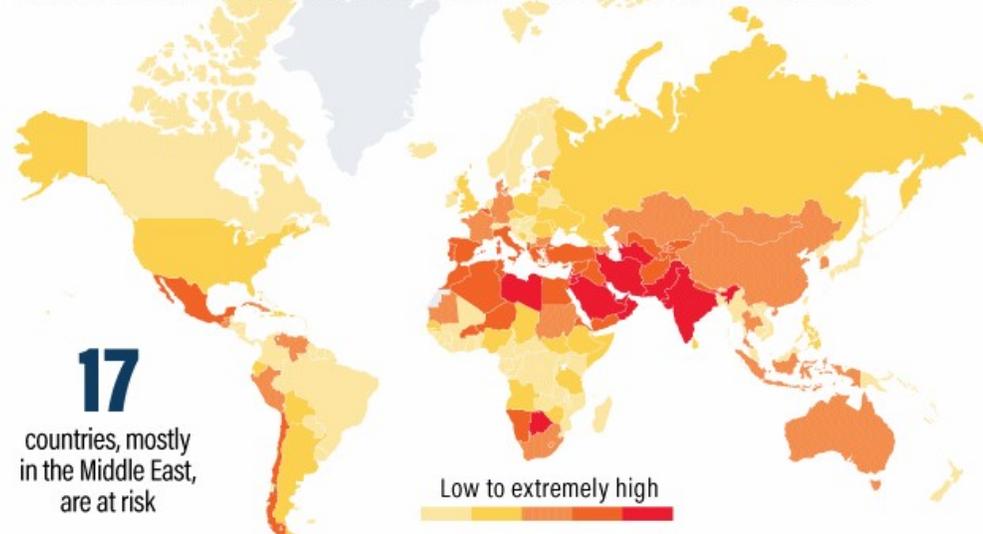
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between producing electricity and releasing water for downstream residents, farms and businesses.

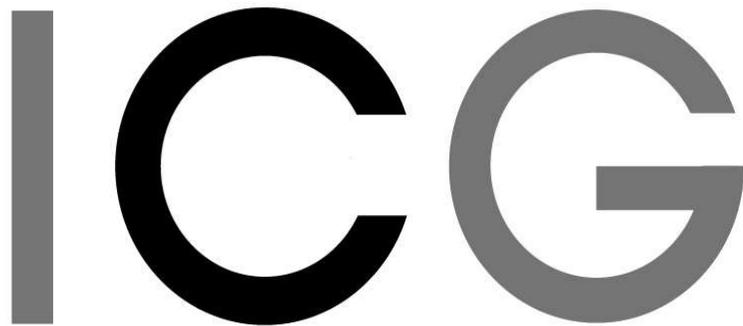
Source: <https://vietnamnews.vn/society/569991/hoa-binh-dam-sounds-drought-warnings-as-water-level-hits-record-low.html>

The map below shows areas on the planet which are threatened by drought and which are at high risk for a water crisis. Parts of Mexico, India, Morocco, Bangladesh, most of Southeast Asia and others are already facing a severe shortage of water. Changes in global weather patterns are projected to only worsen areas already suffering water shortages and droughts.

COUNTRIES THAT ARE MOST AT RISK FROM WATER CRISIS



Source: World Resources Institute



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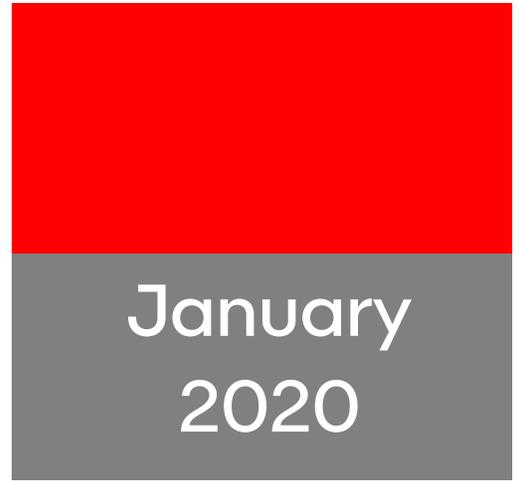
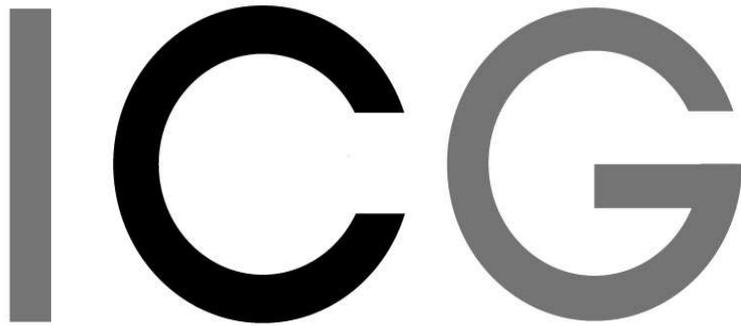
Viet Nam Seeks Stronger Business Ties with Europe

During the Asia-Europe Foreign Ministers Meeting in Madrid, Spain (December 15-16, 2019), Vietnam Deputy Prime Minister and Minister of Foreign Affairs Pham Binh Minh met with Josep Borrell, the EU High Representative for Foreign Affairs and Vice President of the European Commission to express his desire to further issues of mutual concern. The Vietnamese Deputy Prime Minister also broached the subject of asking the EU Parliament to approve a Vietnam-Europe Free Trade Agreement and an EU-Vietnam Investment Protection Agreement. The year 2020 will be the 30th anniversary of the development of formal relations between Vietnam and the European Union.

Source: <https://vietnamnews.vn/politics-laws/569935/viet-nam-eu-boost-comprehensive-cooperation.html>

Rising Sea Levels Bring Beginning to Destroy Cities, Crops and Force Migration

Rising sea levels in the Mekong Delta are bringing sea water farther and farther inland so that agriculture is being negatively affected as the sea water increases the salinity of fresh water and leaches into the underground aquifers. In the next 30 years, 300,000,000 people will likely be in danger around the world from the Nile Delta in Egypt to the main cities in Southeast Asia. Ho Chi Minh City and Southern Vietnam could be under water by 2050 causing major disruption to commerce, agriculture, transport and whole residential areas. Significant action by cities and countries will be immediately required to mitigate the looming disaster.



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Sources: <https://www.worldpoliticsreview.com/articles/28333/on-climate-change-southeast-asia-isn-t-doing-enough> and <https://www.voanews.com/east-asia-pacific/rising-sea-levels-threaten-flood-southern-vietnam-2100>

Loss of GSP Benefits with the US Won't Dampen Thai Economy

The US Government removed the GSP (Generalized System of Preferences) for Thailand, primarily in the seafood and shipping industries which will lift tariffs for those areas to 4.5%. However, the new tariffs will increase cost by only 0.1%, or US\$30 million, of overall exports to the US which totaled US\$28 billion last year. The US is Thailand's #2 export partner with China being #1.

Source: <https://www.thailand-business-news.com/banking/76889-thailands-loss-of-trade-privileges-with-us-is-credit-negative.html>

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About International Compliance Group

www.humanrightscpliance.com

International Compliance Group is a privately held US based organization focused on social compliance monitoring. Since 1999 our auditors around the world have supported Corporate Social Responsibility programs through third party audits. Our auditors leverage decades of combined experience in labor intensive industries to provide a unique, operationally relevant set of audit skills, treating social compliance as a business supporting activity and not a required checklist exercise. ICG is a WRAP approved monitor, member of the Sedex Stakeholder's Forum, member of APSCA and signatory of SLCP.

