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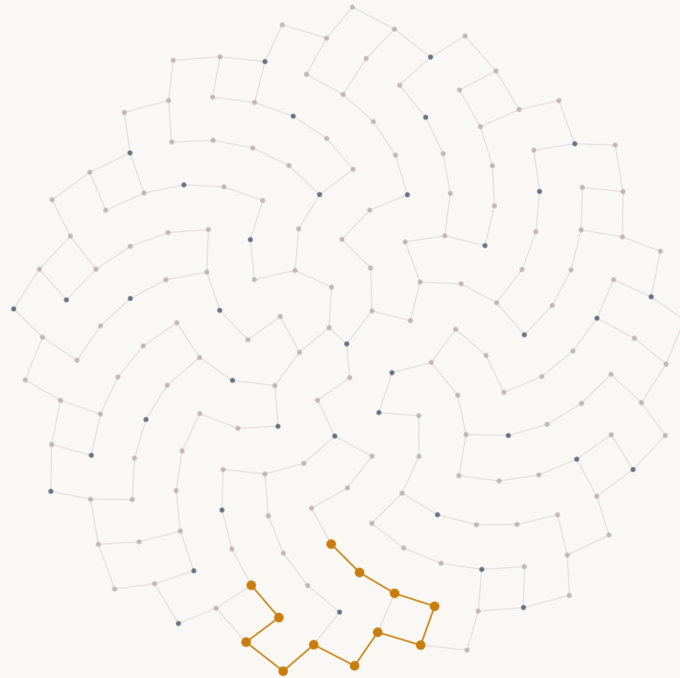

Forced Labor Risk Has Two Layers–Watchlists Only Cover One

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It catches one kind. Here's what it misses, why regulators are cracking down, and how to protect your business.

By Sayari Analyst Team . Published May 2025 . sayari.com

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Most supply chain teams think watchlist screening catches forced labor risk. It catches one kind. Here's what it misses, why regulators are cracking down, and how to protect your business.

Most compliance teams believe watchlist screening solves forced labor risk. That assumption is dangerously incomplete. Watchlist checks flag known violations but miss structural risks: beneficial ownership chains, sub-tier relationships, and complex entities obscuring accountability. UFLPA's rebuttable presumption shifts the burden onto importers. This two-layer problem is now a regulatory emergency. Compliance officers treating watchlist screening as complete expose their organizations to detention, port delays, and reputational damage.

The Regulatory Landscape Has Shifted From Risk Assessment to Presumed Liability

Global enforcement for forced labor has fundamentally changed. UFLPA, effective June 2021, introduced rebuttable presumption: CBP presumes Xinjiang goods are made with forced labor unless importers prove otherwise. The EU's Corporate Sustainability Due Diligence Directive and EU Forced Labor Regulation require human rights due diligence with accountability for indirect supply chains. Canada's Bill S-211 mandates modern slavery reporting for revenues exceeding CAD 20 million, with enforcement starting 2024. Australia's Modern Slavery Act requires transparency and remediation. These laws treat forced labor as regulatory violation with direct corporate liability.

But CSDDD and EUFLR go further than UFLPA's rebuttable presumption framework. The CSDDD creates affirmative due diligence obligations-companies must prove they've identified, assessed, and mitigated human rights risks throughout supply chains. The EUFLR prohibits

placing goods on the EU market if they involve forced labor, shifting from presumption to outright prohibition. These directives create strict liability environments where good-faith questionnaires no longer provide defensible compliance narratives. UFLPA's rebuttable presumption at least allows importers to present evidence; the EU regulatory framework moves toward absolute responsibility. Regulators globally are moving toward presumed liability and mandatory due diligence, but enforcement trajectories differ sharply in stringency.

Surface Risk and Hidden Risk Are Fundamentally Different Problems

Forced labor risk operates in two domains. Surface risk is what watchlist screening catches: entities with known violations or designation. Hidden risk emerges from structural factors watchlists cannot see: beneficial ownership structures obscuring control, sub-tier supplier networks with labor abuses, and corporate complexity hiding violations. A supplier might pass every watchlist check yet source from a facility in a complex ownership chain connected to forced labor.

Consider Xinjiang supplier chains in practice. A Tier 1 electronics component manufacturer sources materials from what appears to be an independent distributor. That distributor operates as a shell entity with ownership registered in Hong Kong, held by a Singapore-registered holding company, which ultimately traces to a family office managing stakes in multiple industrial clusters. One of those clusters has production facilities in Aksu Prefecture, Xinjiang. Layers of shell companies and subsidiaries mask true controllers and production locations. The ownership chain obscures decision-making authority and operational control, making it nearly impossible for questionnaire-based due diligence to surface the connection. Hidden risk manifests through geographic concentration-suppliers clustered in high-prevalence regions without visibility into operational networks. Watchlists cannot detect structural vulnerabilities not in public databases.

In solar panel manufacturing and automotive battery production, enforcement has revealed how readily hidden risk consolidates. CBP enforcement actions targeting battery component suppliers have traced forced labor exposure not through designated entities but through complex joint venture structures where Xinjiang-based manufacturers hold minority stakes in nominally separate companies. The JV structure technically limits liability perception but operationally concentrates control. Enforcement has moved beyond tier-1 suppliers entirely, targeting component chains where forced labor risk exists multiple transfers upstream.

Existing Compliance Programs Miss Hidden Risk Because They Stop at Your Direct Supplier

Most supply chain programs conduct due diligence on Tier 1 suppliers. Few have systematic visibility into Tier 3 and below where hidden risk consolidates. This tiered approach fails in modern global commerce where components pass through five ownership transfers. Research shows forced labor violations overwhelmingly occur in lower tiers with weakest oversight. Companies with robust direct supplier due diligence have minimal visibility into subcontractors and raw material producers.

The gap between questionnaire responses and corporate data repositories reveals the problem sharply. A Tier 1 supplier questionnaire reflects what a supplier's procurement team knows or chose to disclose at one moment. It rarely captures operational reality. Many suppliers don't publicly reveal true owners. A Tier 1 supplier might be a trading company with ownership in offshore structures; actual production sits in unexamined subsidiaries. Compliance teams miss these connections because suppliers may not control visibility into their ownership chains. Some sub-tier producers intentionally obscure relationships to avoid scrutiny. The questionnaire captures declarations; corporate ownership records reveal the actual beneficial ownership chains questionnaires explicitly omitted. The result is false assurance built on incomplete information.

Supply Chain Mapping and Ownership Transparency: Building Two-Layer Defense and Resilience

Defending against both surface and hidden risk requires supply chain visibility beyond watchlist screening, integrated with regulatory enforcement expectations. The first step is explicit supply chain mapping: actual ownership and operational data, not just supplier lists. Identify which entities control suppliers, their subsidiaries, and actual production locations. Beneficial ownership transparency reveals who really controls each entity and whether controllers tie to forced labor regions. This catches hidden risk watchlist screening misses.

The second layer is extended watchlist screening beyond Tier 1. Systematic checks of beneficial owners, parent companies, and subsidiaries ensure surface risk is caught throughout the chain. Combined, these address the two-layer problem: ownership transparency reveals vulnerabilities while extended screening catches violations. Organizations pursuing this dual approach report lower risk of detention, audit findings, and discovered violations.

Building supply chain resilience before regulators make comprehensive transparency mandatory positions organizations to move faster through enforcement environments. The CSDDD enforcement begins in 2027; CBP is already targeting sub-tier suppliers and components. Regulators are moving toward mandatory transparency, presumed liability, and explicit human rights due diligence. The regulatory floor is rising: EUFLR's absolute prohibition and CSDDD's affirmative obligations represent enforcement environments where questionnaires alone are insufficient. Organizations building two-layer compliance-surface risk screening plus hidden risk visibility-before mandatory enforcement timelines gain competitive advantage and reduce material regulatory exposure.

Sayari's supply chain mapping platform gives compliance teams ownership transparency and extended supplier visibility. Our sourcing and procurement tools reveal beneficial ownership structures and subsidiary relationships watchlist screening misses. Request a demo to see how ownership transparency strengthens forced labor compliance.

Please visit sayari.com to learn more.

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