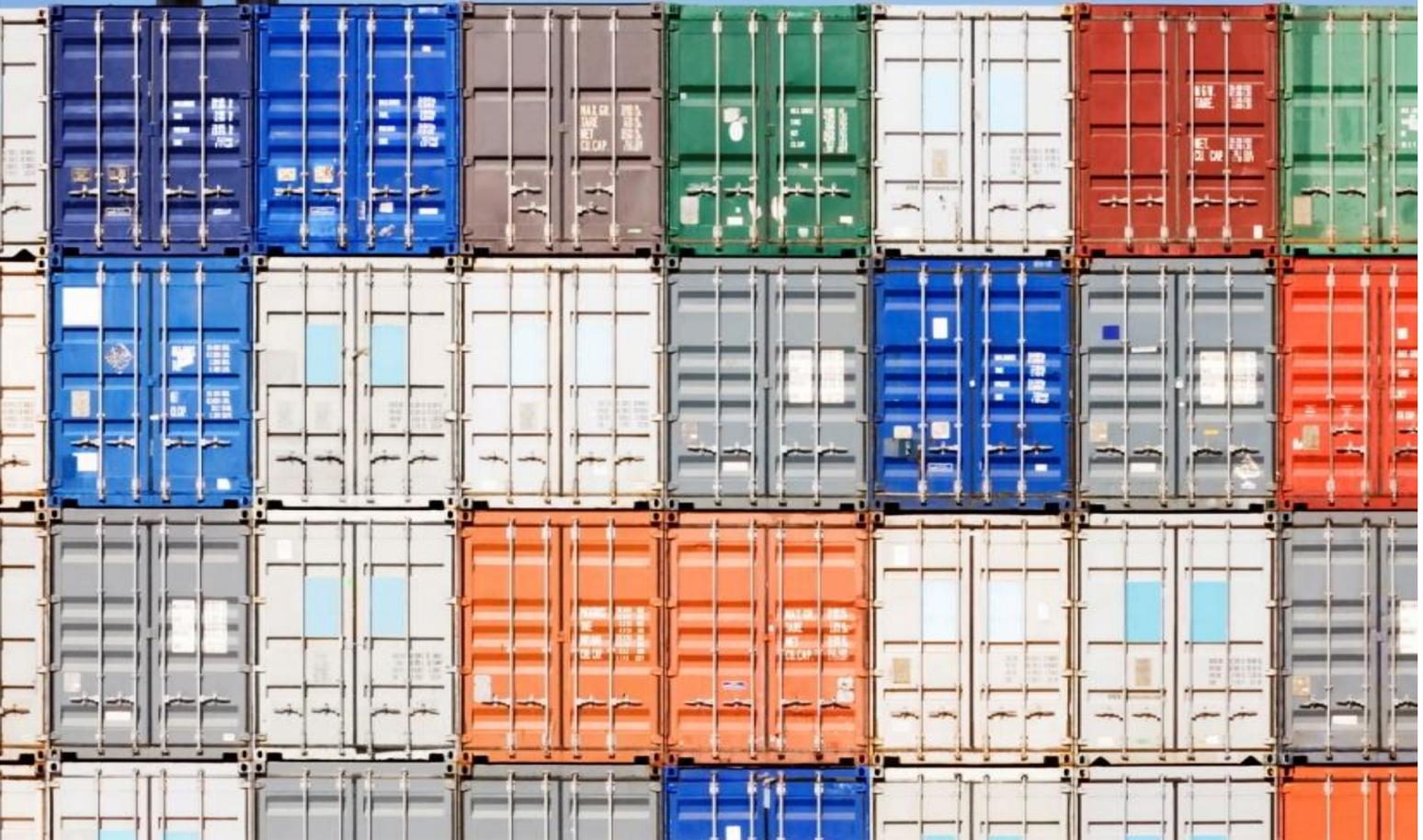




SCAN INSIGHT

Quarter 4 | February 2019





MESSAGE FROM THE BOARD CHAIR

The recent government shutdown affected many people, including our work as importers. Membership in programs like CTPAT are important for many reasons, but are especially important during the shutdown because it helps secure our nations' borders and ports when resources are limited.

In addition, CTPAT continues to be both a cost and time saving advantage for importers when costs associated with import delays and tariffs continue to rise. The updated minimum security criteria (MSC) soon to be released by U.S. Customs will enhance the already robust program. These updates are important as these are the first significant enhancements to CTPAT since the SAFE Port Act ([H.R. 4954](#)) in 2006.

You've read about these updates a few times now over the last several SCAN newsletters as well as from your own CTPAT membership participation. I'm pleased to share the SCAN Association is ready for the MSC updates. The audit committee worked together over several months to identify questions, score categories, and weights that align with the updated MSC's phased roll out approach.

Having the SCAN Association members work together helps reduce workload related to MSC enhancements for every SCAN member. Instead of each individual member rewriting their audits and related content – essentially duplicating identical efforts in silos – the association shares both the efforts and the fruits of that labor.

For a complete update, be sure to both read Ken's Audit Committee Update in this newsletter and join our open member meeting in March. Watch your inbox for a meeting invite from SCAN.



LISA SCHULTE
SCAN CHAIRPERSON | SENIOR DIRECTOR | GLOBAL TRADE SERVICES | TARGET



EXECUTIVE SUMMARY

DAVE BLACKORBY | EXECUTIVE DIRECTOR

As the Executive Director, I have continued to support the members and leadership in all aspect of the SCAN programs. I look forward to becoming more involved in the Audit Committees' finalization of the MSC updated audit questionnaire and training program execution as we wait for CBP's deployment of the expanded criteria.

The Board leadership is continuing initial discussions for expanded member services in such areas as supplier self-assessment security reviews, using block-chain as a communication tool, social responsibility evaluations and specific security, and compliance reviews unique to supply chain processes such as transportation, tier 2 and above manufacturers, food, etc.

We continue to build upon and seek to expand the early success of SCAN's re-audit program where 25% or more of these audits are shared by two or more members resulting in a significant audit costs savings.

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UPCOMING EVENTS:

**MARCH 5TH
AND
MARCH 7TH** | Open Member online meeting
Be sure to watch your email for invitations!

CONNECT WITH SCAN ASSOCIATION



info@scanassociation.com



www.scanassociation.com



[Supplier Compliance Audit Network \(SCAN\)](#)



QUARTER 4 STATISTICS

The SCAN membership includes some of the top fortune 500 industry leaders. These organizations have added 15,689 factories to the SCAN Audit Repository, allowing members and factories to benefit from shared audits. We would like to welcome SCAN's newest member **Talbots**.

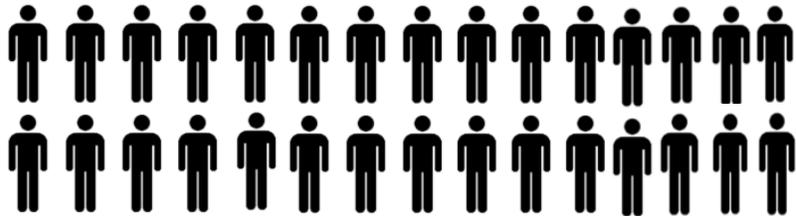
\$890 Billion

In combined annual revenue between the membership

30

SCAN Members

Representing Multiple Industries: Retail, Apparel, Food and Sporting Goods.



46% of the conducted audits are shared by more than one SCAN Member.

20% of factories in the SCAN Audit Repository are shared by more than one SCAN member.

In Q4, audits were conducted in 29 countries. The most audited countries during that quarter were China, Vietnam, Bangladesh, India, and Indonesia.

3,478

Shared Audits

15,625

Active Factories

7,562

Conducted Audits



China – 72%



Vietnam – 10%



Bangladesh – 7%



India – 6%



Indonesia – 5%

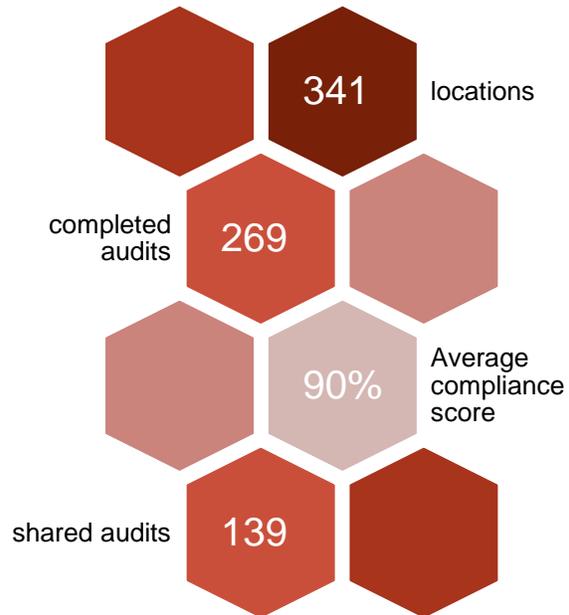
BSI ANALYSIS: BANGLADESH

UNMANIFESTED CARGO INTRODUCTION

Illegal Drug Introduction

Cargo in Bangladesh faces a **Guarded** threat of illegal drug introduction. While Bangladesh faces a growing domestic drug abuse problem, the country is not often used as an origin point for drug trafficking to countries abroad.

Bangladeshi law enforcement officials have noted that drug traffickers are increasingly using cargo vans to transport yaba, a form of methamphetamine common in South and Southeast Asia, within the country. Authorities allege that transport companies and drivers are involved in these yaba smuggling schemes, with traffickers generally targeting shipments of perishable food and beverage products for the introduction of the illicit drug.



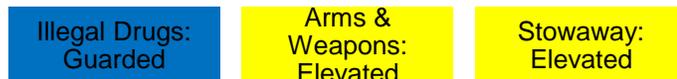
Arms & Weapons Introduction

The threat of illegal small arms introduction into cargo in Bangladesh is **Elevated**. Bangladesh's ports have previously been used as hubs for guns primarily bound for insurgent groups in Nepal and India. Corruption aids the flow of arms through the country, and Bangladeshi officials have been arrested for their involvement in arms trafficking schemes.

Stowaway Introduction

Bangladesh faces an **Elevated** threat of stowaway introduction into cargo. Bangladeshis lacking many opportunities frequently travel abroad in order to obtain employment. While many of these individuals travel abroad via traditional methods, there have been some instances in which Bangladeshi citizens exploited cargo modalities in order to illegally emigrate.

Unmanifested Cargo Introduction



TERRORISM

The threat of anti-Western terrorism in Bangladesh is **Severe**. Bangladeshi authorities have carried out extensive anti-terrorism operations since the major café attack in 2016, which has helped decrease the number of attacks in the country. Despite experiencing

a lower number of attacks, radical Islamist violence by emerging terrorist entities remains a distinct possibility in Bangladesh.

Most of Bangladesh's terrorism problems have historically stemmed from ongoing religious conflict between Hindus and Muslims and disputes between Bangladesh and India.

The U.K., U.S., and Australian embassies issued alerts limiting travel by their countries' nationals in the country. Additionally, major retailers sourcing from Bangladesh's massive garment sector, including prominent Western brands, restricted employee travel or cancelled plans to visit Bangladesh, further highlighting the impact that terrorism can have on supply chains in the country.

SUPPLY CHAIN TERRORISM (SCT)

The threat of supply chain terrorism in Bangladesh is **Severe**. Groups opposed to the ruling Bangladeshi government have shown a propensity to use attacks against a

range of infrastructural targets, including cargo vehicles and businesses, in an attempt to disrupt economic activity in the country or more generally intimidate or coerce the civilian population. Another significant concern beyond direct attacks on shipping or industry in Bangladesh is the exploitation of the supply chain by militant groups active in the country to smuggle weapons and munitions or otherwise support traditional forms of terrorism.

Terrorism

Anti-Western
Terrorism: Severe

Supply Chain
Terrorism: Severe

The most common form of supply chain terrorism in Bangladesh is the firebombing of cargo trucks by supporters of hartals, a particular form of expansive and often politically-motivated general strike common across South Asia. Violent competition between Bangladesh's two major political parties contributes to the occurrence of supply chain terrorism in the country, as partisans are known to attack cargo trucks or other business targets during hartals in an effort to forcibly halt economic activity and coerce political opponents or the government to accede to their demands.

The high number of anti-Western terrorist groups in Bangladesh also poses a general level of risk to business operations in the country, as these groups and their allies have a known intention to attack business and commercial targets, especially those considered to represent or be affiliated with Western values or interests.

Beyond direct attacks on business or infrastructural targets, the risk of supply chain terrorism in Bangladesh is also exacerbated by the potential for militant groups to exploit gaps in supply chain security in the country in order to smuggle contraband or otherwise support their operations.

BOD UPDATES: AUDIT COMMITTEE

KEN MCELROY | THE HOME DEPOT

Happy New Year to all! Where did 2018 go? It certainly is an exciting time to be involved in Supply Chain Security!

As you all know, CBP published a draft of the updated Minimum Security Criteria (MSC) in late July. When CBP asked for feedback on the MSC, the SCAN membership provided comments as an organization, and encouraged each member to provide feedback individually.

SCAN has become a valued partner with CBP to advance the mission of increased security while facilitating trade. Several SCAN members have participated in the drafting of the MSC through involvement in COAC.

Without a formal timeline for final publication, and given CBP's plan for graduated enforcement, SCAN decided to begin to draft a security update prior to the final publication. The SCAN organization decided at inception that minimum security measurements were a target. However, exceeding the minimum would be the goal.

The SCAN audit committee began the audit re-write journey in August by comparing the Importers MSC workbook to the existing SCAN audit. Our committee of fourteen participated in 280 hours of conference calls over a three-month period.

In addition to individual review time, the committee has approximately 500 hours invested in the development of the new MSC SCAN Audit. Our goal at the beginning of this journey was to be prepared to launch the updated SCAN Audit in early 2019.

The audit committee is happy to announce Mission Accomplished! The new audit is complete and ready to launch. The new SCAN audit consists of 114 scored questions and 19 unscored questions. The scored questions are categorized as "critical," "must," and "should". All original MSC guidelines have been elevated to "critical" "must" status with all new criteria listed as "should". The committee believes this categorization will allow SCAN to begin the auditing and education process without adversely affecting overall score outcomes.

The new MSC is planned for phased-in enforcement during 2019-2020. All categories will be revisited at the end of 2019 to align with what CBP publishes as the new MSC.



Testing of the new audit is underway. One of SCAN's original members is piloting the questionnaire in January and February as part of a hybrid self-assessment with an on-site in-house audit to follow. Our hope is to accomplish two things with this single partner trial: first, to get feedback on the new questionnaire to be used during the auditor training; and second, to test the value of extending the self-assessment process to the current on-site audit offering. What SCAN decides to do with the self-assessment is a work in process. More information to come.

Expect to hear from SCAN regarding either an in person meeting or a Web Ex to introduce the new audit. Special thanks to SCAN members Costco, Canadian Tire, Husky Injection Molding, JC Penney, Newell, Walmart, Target, The Home Depot, and BSI whom participated in the new audit draft.

BOD UPDATES: MEMBERSHIP COMMITTEE

RYAN KLATH | TARGET

Greetings! I am excited to take on the role of the Membership Committee Chair. In 2018 we continued our momentum with the member onboarding process. We welcomed the following new members this past year – Kohl's, The Children's Place, Talbot's and PriceSmart.

A key area of focus as we continue into 2019 will be to keep engagement going with the membership. We have a lot of exciting updates planned that we want to share with you! We're still finalizing our supplier membership and plan on establishing this before the end of the year.

Our member events are always a great opportunity to hear association updates as well as provide your feedback. Don't forget to check out our next online meeting which we are holding over two different days March 5th and 7th.

We're also always looking for help on one of our committees. These are great venues to have your voice heard and also shape how you would like to see the program evolve.

I'd love to hear from you directly on what's working or not working! Feel free to reach out to me at any time at Memberservices@scanassociation.com. I look forward to working with you in 2019!



SCAN BOARD OF DIRECTORS & COMMITTEE CHAIRS



Board Chair
Lisa Schulte | Target



Vice Chair
Jennifer Kissner | Newell Brands



Treasurer
Pat Cerisano | Husky Injection Molding



Secretary
Lesa Hubbard | JCPenney



Committee Chair: Audit
Ken McElroy | The Home Depot



Committee Chair: IT
Holly Roelofs | Meijer



Committee Chair: Marketing/PR
Open



Committee Chair: Membership
Ryan Klath | Target



Committee Chair: Service Providers
Yvette Estrada | Fossil



Member At Large
Donna Neil | Canadian Tire



Committee Chair: Foreign Origins
Negolas Xie | Newell Brands



Executive Director
Dave Blackorby

MEET THE TEAM: SCAN PROGRAM MANAGER MARIO DONOSO

I joined the BSI team in September 2018 as the SCAN Program Manager and it has been a busy and fantastic learning experience thus far.

In my previous life I spent 14 years supporting software around the world for clinical trials, including clinical trial supply chain. This is a great opportunity to bring my experience to BSI and SCAN while continuing to learn about other industries with sole focus on supply chain security

We saw some exciting membership growth in 2018 and I look forward to even more exciting changes in 2019 with new membership opportunities and the release of the CTPAT Minimum Security Criteria Update. I have had the pleasure to meet and closely work with a great group of people that provide of their time, experience, and skills as part of the Board of Directors; I look forward to the continued collaboration.

Remember that my team and I are here to help you. Our team has members in the United States and China to better serve your SCAN audit experience. We are here to support you from your audit request, through coordinating the on-site visit with our service providers, and then we can assist you to properly address any of the Corrective Actions and/or Proactive Actions (CAPAs) that result from the on-site visit; keep in mind that the SCAN security audit report is incomplete until the CAPAs are addressed.



BECOME A MEMBER!

Join various industry leaders, such as the members listed below, in becoming an official SCAN Member! Contact to learn more about the association, membership options, and the shared audit repository! Contact us at info@scanassociation.com.

• Associated Premium	• Michaels
• Barnes & Noble, Inc	• Newell Brands
• Cabela's	• Patagonia, Inc.
• Canadian Tire	• PriceSmart
• Carter's, Inc.	• Rawlings Sporting Goods Company
• Coleman Company, Inc	• Renfro Corporation
• Columbia Sportswear Company	• Revman International
• Costco	• RMS International
• Damco	• Rubbermaid
• Hallmark Cards, Incorporated	• Sealock
• Husky Injection Molding Systems	• Sharpie
• Jarden	• Talbots
• JCPenney	• Target
• Kohl's	• The Children's Place
• Kroger	• The Home Depot, Inc.
• Levi Strauss & Co	• Walmart
• Meijer, Inc.	• Wolverine Worldwide

Visit our website to learn more about the SCAN Association, www.scanassociation.com

SCAN Anti-Trust Statement

Our association understands the importance of anti-trust compliance. Our goal is to avoid the appearance of impropriety. We make every effort to avoid any discussion of prices, pricing policies, terms and conditions of doing business, or, of course, any sort of market allocation. We also avoid any discussion that might be perceived as suggesting that anyone should cease doing business with a particular factory or customer, or any other discussion that might be viewed as coercive or exclusionary toward another company.

We encourage our members, should they feel uncomfortable about any subject of discussion or have any questions, to please speak up and bring their concerns to the attention of any board member, who will stop the conversation until we can provide legal guidance.