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SUPPLY CHAIN RISK MANAGEMENT:

# How AI Supports Compliance

**everstream**  
ANALYTICS



SUPPLYCHAIN**DIVE**

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# Introduction

Trade restrictions and stricter regulations have increased across the globe in the past several years, and they continue to create challenges for supply chain organizations. And it's not just your own compliance you have to concern yourself with: There's an increasing push for companies to be responsible for their suppliers' compliance, no matter how deeply those suppliers are buried in the supply network.

At the same time, consumers continue to shift their preferences toward businesses with more environmentally conscious practices. Many companies have taken it upon themselves to create their own environmental, social and governance (ESG) strategies — but the rate of new regulations can force even the most sustainability-minded businesses to speed up their environmental initiatives. To maintain a good compliance and sustainability record, you must stay up to date on existing and new regulations that may affect your operations, such as UFLPA and CS3D. You also need to get full visibility throughout your network, including:

- Your suppliers' short-term risk for environmental, labor and regulatory issues.
- Your suppliers' long-term risk for those same issues.
- Potential risk factors with new suppliers.
- In some cases, your downstream risk factors with distribution and customers.

In this playbook, we'll explore the potential risks of not having enough visibility and how AI can help ensure end-to-end compliance and sustainability across your supply chain network.

# Growing Regulations Across the Globe

Two of the newest supply chain regulations are Canada's Fighting Against Forced Labor and Child Labor in Supply Chains Act, which went into effect in January 2024, and the EU's Corporate Sustainability Due Diligence Directive (CS3D) approved in May 2024. Those two sets of rules join a growing list of regulations that companies have to stay aware of.

**Here's a quick rundown of some of the biggest ones:**

## CANADA:

[Fighting Against Forced Labor and Child Labor in Supply Chains Act.](#)

This act bans all products made with forced labor and fines companies up to \$250,000 for violations.

## EU:

[EU Directive on Corporate Sustainability Due Diligence.](#)

The EU's new law requires companies to perform due diligence to identify all actual and potential human rights and environmental issues throughout their supply chains. Each EU member state must assign supervisory authorities to ensure compliance and impose fines for violations of the directive.

## EU:

[Regulation on Deforestation Free Products.](#)

Applied to all products placed on the EU market or exported from the EU starting in December 2024, this act requires companies to perform due diligence to ensure their products are free from deforestation. Affected products include palm oil, cattle, coffee, cocoa and timber as well as products derived from them, such as furniture or chocolate.

## GERMANY:

[Act on Corporate Due Diligence Obligations in Supply Chains.](#)

Germany's law went into effect in January 2023 and requires Germany-based companies with at least 1,000 employees to establish a risk management system to identify and minimize or eliminate risks of human rights violations and environmental impacts throughout their entire supply chains.

## UNITED STATES:

[Uyghur Forced Labor Prevention Act.](#)

The UFLPA prohibits imports of goods originating in the Xinjiang Uyghur Autonomous Region of China because of human rights violations in the region.

Many other countries have imposed their own regulations, and many require compliance not just from the companies based within their borders but also from all contractors and vendors across their supply chains.

# Compliance Requires Full Visibility Into Your Network

Of course, it's impossible to know if you're fully in compliance with all these regulations if you can't see a complete picture of your supply chain — including third-tier suppliers and beyond. If you don't know all your suppliers' practices and operations, you can't spot potential violations before they affect your business.

According to testing and compliance firm Qima, [only 16% of businesses have full knowledge of suppliers across all tiers](#), and almost a third know less than 50% of their supply chain. This lack of clarity leaves businesses open to major risks, including fines and damage to their reputations among consumers.

Those potential fines aren't insignificant, either. Each violation of the UK Modern Slavery Act can cost up to half a billion dollars. Germany's maximum penalty for violating its Corporate Due Diligence Obligations in Supply Chains act is 2% of the company's annual recurring revenue. And U.S. Customs and Border Protection officials seized or held almost \$1 billion worth of goods and materials believed to be in violation of UFLPA rules.





## Network Mapping Is the Key to Supply Chain Visibility

To get a handle on all your potential risks, you need a comprehensive understanding of your entire network. The problem is, the vast majority of businesses really know only their Tier 1 suppliers and have a vague or even nonexistent view of their Tier 2 and beyond partners. Since those lower tiers are where the highest risk of regulatory violation lies, that lack of visibility leaves you open to potentially catastrophic problems.

The solution is to create a map of your entire network that includes suppliers across all tiers. To spot potential risk, you have to know who all your suppliers are, who all their suppliers are and on through every business that feeds into your supply chain.

One illustration that highlights the importance of knowing all these subtier suppliers is the UFLPA. While the law targets Chinese imports into the United States, many of the goods seized by customs and border agents were routed through other countries. While you may think your suppliers are based in “safe” areas, their network may include suppliers in a prohibited region — and those suppliers can mean trouble for your business.



The bigger your supply chain network is, the more potential for trouble you may be exposed to without realizing it. That's why network mapping is so critical — but it can also be overwhelming, especially if you have a lot of suppliers whose networks you also need to map.

The good news is, AI technology can help you gain the complete visibility you need to ensure compliance throughout your global supply chain.

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# AI: Your Sustainability and Compliance Partner

Artificial intelligence isn't exactly new to the supply chain industry — but as it has evolved and become more advanced, its power as a risk management tool has become clearer.

Mapping your network, collecting mountains of data on all your lower-tier suppliers, and keeping track of existing and emerging regulations: All this is all but impossible without powerful technology supporting your efforts. AI's ability to collect, organize and present data to you in manageable forms gives you the best chance of spotting problems before they result in penalties.



## Using an AI tool, you can:

- Aggregate all your transactions and records — even across thousands of datasets and sources.
- More important, organize all that data (structured and unstructured) into different entities by product and location relationships.
- Analyze the flow of materials through all those entities, whether they're internal or external to your company.
- Highlight suppliers that may cause higher financial, sustainability or regulatory risk.
- Turn all the above information into relevant, actionable insights on risks across your entire network.

AI can also monitor sources such as news headlines to give you alerts about organizations in your network so you can act before those suppliers can damage your business.





Another major benefit to using AI for this critical work: It's cost-effective. Gathering and analyzing all this data — especially if you have a complex supply chain network — is impossible without AI, unless you hire an army of analysts to dig into your supply chain for you. It also processes information much faster than humans can, allowing you to get an almost real-time view of your suppliers' labor practices, sustainability record and more.

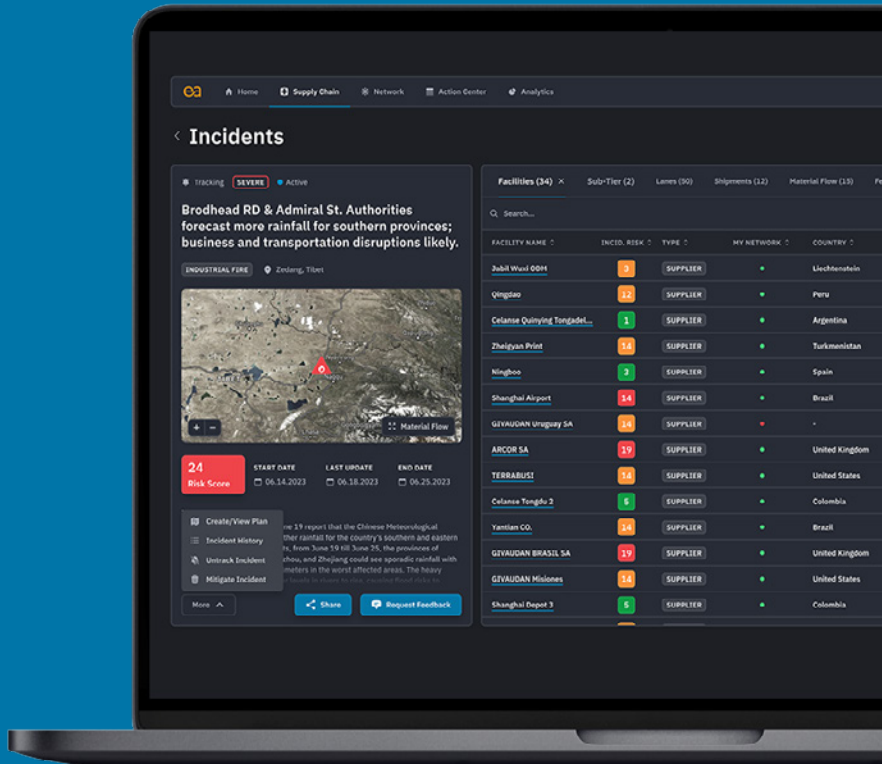
By employing AI to gather and analyze information, then present it to your team in human-readable terms, you can avoid not only financial risks but also reputational risks.

One company that learned the importance of compliance the hard way is fashion brand Shein, which received widespread criticism in 2023 for

[alleged falsification of reports on forced or underpaid labor](#) in its Chinese supplier factories. Those allegations caused the company's U.S. [IPO effort to fizzle](#).

The bottom line is, even if you're doing everything right in your own organization to minimize your environmental footprint and prevent forced labor, you can't be sure every supplier along your supply chain is doing the same. At least, not without a complete map of your entire network and full visibility into your subtier suppliers' practices. And for that, you need the power of AI to help you stay ahead of potential risks before they can hurt your business.

[Learn more about AI](#) and how it can help you map and monitor your entire network.



## About Everstream Analytics

The world's best supply chains run on Everstream Analytics. By harnessing the power of AI and an extensive proprietary dataset, Everstream delivers predictive insights and risk analytics that provide businesses with crucial information exactly when they need it, affecting any part of their supply chain. Our proven solution integrates seamlessly with procurement, logistics and business continuity platforms, offering complete information, sharper analysis and accurate predictions required to transform the supply chain into a resilient, sustainable and competitive business asset. At Everstream, our global team of analysts work around the clock to analyze incoming risk data that could disrupt supply chains. Combining cutting-edge AI technology with human expertise, AI collects millions of data points, filters out the irrelevant ones and passes on significant risks to our analysts. These experts then assess severity and relevance, ensuring they pertain to the right company and location before alerting our customers. This method prevents our clients from being overwhelmed by irrelevant information, enabling them to focus on critical compliance and due diligence tasks while building trust in our data. By using multiple sources to verify events such as ESG violations, we ensure the credibility of our alerts, helping businesses make informed decisions.

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