

Your Request: AL OTH 165/2021 - Joint Communication from special procedures
Answers Volkswagen Group
May 10th, 2021

1.

Based on the information described in your letter, we assume that the allegations raised against Volkswagen in this context relate to the “Uyghurs for Sale” report published by the Australian Strategic Policy Institute (ASPI) in 2020. Volkswagen is named here alongside other international companies as a possible beneficiary of Uyghur forced labour in the supply chain.

According to research by the ASPI, Uyghur workers are deployed throughout China under conditions that suggest the nature of forced labour as part of state placement programs. The ASPI assumes that this also affects global supply chains and thus international companies.

The allegations of ASPI against international companies in this context are based on published supplier lists, media reports, and the factories’ claimed suppliers. In our case, the allegation levelled by the ASPI is based on information from Highbroad. “According to Highbroad’s website their customers include Japan Display Inc. and LG Display. Highbroad’s hiring ads and a Chinese LCD industry directory also claim that Highbroad’s end customers include other well-known companies including Dell, Lenovo, Samsung and Sony, and automobile manufacturers such as BMW, Jaguar, Land Rover, Mercedes-Benz and Volkswagen.” (ASPI Report p. 25)

We take the allegations made against us by the ASPI very seriously. As soon as we became aware of them, we had a thorough investigation in accordance with our guidelines. The result was as follows:

None of the supplier companies named in the report is currently a direct supplier of Volkswagen. No parts from any of the suppliers named in the report are used in our vehicles.

With regard to the allegations of ASPI we have found no further indications that forced labour of Uyghurs is part of the supply chain of the Volkswagen Group China, SAIC Volkswagen and FAW Volkswagen.

Only suppliers that accept our sustainability requirements and that commit to fulfilling them may enter into a business relationship with the Volkswagen Group. Suppliers that enter into a business relationship with the Volkswagen Group shall then pass on these sustainability requirements to their business partners throughout the supply chain. Together with our direct suppliers we oppose any kind of forced labour and discrimination at the Volkswagen Group.

The Volkswagen Group takes its responsibility as a company in the field of human rights very seriously worldwide - also in China. Our work with our factories, sales companies and suppliers is based on our principles, such as respect for minorities, employee representation, social and labour standards. We expect the same of our Business Partners worldwide.

In our controlled entities around the world, we are able to work according to our principles. In our non-controlled shareholdings (NCS), we also work on the basis of our global principles, in close cooperation with the respective business partners. Volkswagen is exercising its influence to the legally possible extent to obtain complete transparency with regard to the NCS business activities and to ensure that the NCS does not commit or support any human rights violations.

The plant in Urumqi is operated with our Chinese partner SAIC as a Joint Venture. Thus it belongs to SAIC Volkswagen. This Joint Venture is non controlled. SAIC Volkswagen provides equal employment opportunities to every qualified candidate regardless of age, gender, ethnicity, or religion. This principle has been applied in the Urumqi plant since the very beginning. All employees at the SAIC Volkswagen factory in Urumqi receive basic training,

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which covers assembly, painting, welding, quality assurance and logistics, and other forms of in-depth technical training depending on the position.

2.

Our Business and Human Rights (BHR) activities are based on compliance with international frameworks and efficient structures and management processes. Thus, we have oriented ourselves in particular towards:

- the United Nations' Universal Declaration of Human Rights, which is codified in the International Covenant on Civil and Political Rights and in the International Covenant on Economic, Social and Cultural Rights,
- the Core Labour Standards of the International Labour Organization (ILO),
- the UN Guiding Principles on Business and Human Rights,
- the OECD Guidelines for Multinational Enterprises and
- the principles of the UN Global Compact.

The aim of the Volkswagen Group's agreements with the Group European Works Council and Global Group Works Council is to shape cooperative labour relations characterized by social harmony. They are intended to offer our employees certainty in regards to their employee and human rights. These particularly include the prohibition of discrimination at work, child labour and forced labour.

We implement our management approach throughout the Group: our controlled companies are included using the standardized internal compliance risk management processes. The Volkswagen Group has integrated the topic of Business and Human Rights into the Group's established compliance management system. This is intended to achieve integration of the topic along the UN Elements of Human Rights Due Diligence.

- 1) Strategy: definition of our work priorities, "salient Business and Human Rights issues."
- 2) Policies: integration of the topic into strategic documents and Group policies, for example in the Code of Conduct and the Social Charter.
https://www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/201209-sozialcharta_en.pdf
- 3) Processes and structures: risk-based approach in the context of systematic analysis and uniform Group-wide measures. BHR risk assessment and implementation of risk-specific measures.
- 4) Communication: reporting in the sustainability report, raising awareness of the topic through internal and external communication measures.
[Nonfinancial Report 2020 e.pdf \(volkswagenag.com\)](#)
- 5) Training: basic training for all employees and extended training for employees from business units with increased risk exposure in the Volkswagen Group's controlled companies.
- 6) Measuring impact & auditing: monitoring and continuous improvement.
- 7) Reporting: reporting and organizational feedback in the context of rankings.
- 8) We are currently further implementing BHR in the Volkswagen Group's relevant Guidelines and Processes.

Our Code of Conduct and additional topic-related Group policies apply to all the Volkswagen Group's employees around the world. Employees of the Volkswagen Group's controlled companies are trained to this end as part of the mandatory Code of Conduct training. In addition, there is in-depth training for business units with increased risk exposure. The international rollout of the Code of Conduct training continued within the Volkswagen Group.

We also enter into dialog with our stakeholders: at Volkswagen Group Sustainability's stakeholder dialog in February 2020, we presented our measures in the area of BHR to critical stakeholder groups, such as NGOs and human rights representatives, and critically

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discussed our measures with these groups. On this basis, we can further develop our commitment in order to live up to our corporate responsibility for human rights even better.

100% of our 744 controlled companies in a total of 83 countries were audited as a result. The human rights risk assessment is largely based on a correlation of country and business-area risks. The country risks are based on the Maplecroft index, a meta-index that draws on, among other things, more than 30 individual indices of international organizations – for example, the UN or the Business & Human Rights Resource Centre. The business-area risks include human-rights risks as assessed internally within the Group and specific publicly available information, for example from the Corporate Human Rights Benchmark (CHRB). The completion of this analysis means that we have assessed our business units' gross human-rights risks and can allocate these to the low, medium and high categories. This means we are also aware of those with a high gross risk. We have discussed the results with the companies and had the companies confirm them. All companies were then sent risk-specific measures that they need to implement by the end of 2021. The Volkswagen Group plans to monitor the high gross risk companies for their net risks in on-site visits from 2022 onwards.

We continuously monitor the human rights situation in the markets in which we are active and refer in particular to the United Nations' publicly available reports.

The Volkswagen Group's supply base is large and globally distributed, and correspondingly very complex, with more than 65,000 direct supplier locations in over 100 countries. Estimates of the sub-supply chains are difficult, but could contain millions of sub-suppliers. The foundation for our sustainability management approach (which includes our human rights due diligence activities) is our Code of Conduct for business partners. The major process at our disposal for determining and monitoring conformance with our Code of Conduct for business partners and identifying sustainability risks (including human rights risks) is the sustainability rating (S-Rating). The S-Rating combines various risk analysis tools that enable due diligence, detailed below. Beyond the S-Rating we have created a human rights due diligence management system (HRDDMS) for the supply chain, comprising of a broader scope human rights risk management focus and a raw material specific due diligence management system (RMDDMS) that focus on our 16 highest-risk raw materials. The RDDMS global rollout is in the process of being prepared and piloted. HRDD activities will focus on suppliers in countries with increased human rights risks.

For assistance on strategic topics of sustainability and societal responsibility, the Volkswagen Group appointed an international Sustainability Council in September 2016. The renowned experts from business, politics, science and society advise the company on the topics of sustainable mobility and environmental protection, social responsibility and integrity including BHR as well as the future of work and digitization. They act independently, are not bound by instructions and have extensive rights of information, consultation and initiative. The Council meets regularly with the Group Management Board as well as the employee representatives. The Council advises the company and makes recommendations as to what steps it considers necessary to become a world-leading provider of sustainable mobility. In 2020, the Volkswagen Group extended the mandate of the Sustainability Council until 2022.

The core element of our supplier sustainability management is the "Volkswagen requirements for sustainability in relations with business partners" – the Code of Conduct for Business Partners. It embeds our expectations of our business partners' conduct with respect to key environmental, social and compliance standards in our contractual agreements. The requirements are based, among others, on the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the relevant International Labour Organization (ILO) conventions. The Code of Conduct is, however, not just based on international standards, but also objectives, rules and policies of the Volkswagen Group. Suppliers agree to these requirements when they enter into a business relationship with the Volkswagen Group, and agree to pass on these expectations to their

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own suppliers. The Code of Conduct covers all major areas of human rights, and hence we demand and monitor compliance with the following requirements from all suppliers:

- No slavery and no human trafficking
- No child labour
- No discrimination and no harassment
- Compensation and benefits
- Working hours
- Occupational health and safety
- Working and living conditions
- Duty of care to promote responsible raw material supply chains
- Freedom of association

Sustainability Rating in Sourcing / Awarding for Contracts:

Our aim is to be aware of and effectively address the material sustainability risks – including human rights risks - in our supply chain. The Volkswagen Group “S-Rating” was introduced as a key measure in mid-2019 and has since been implemented across the Group, including tenders to the Group from the region China - majority shareholding companies only. It is used to evaluate the sustainability performance of suppliers and manage opportunities for continuous improvement. It assesses the environmental performance of suppliers and their social sustainability and integrity, and thereby suppliers’ capacities, systems and processes for managing and ensuring respect for human rights. The S-Rating is directly relevant to awarding contracts: if a supplier does not meet our requirements for compliance with sustainability standards, it is fundamentally not eligible for the award of contracts. There is thus a direct incentive for suppliers to improve their sustainability performance. The check for the S-Rating takes place via a multistage process. In an initial step, the risk exposure is identified based on a combination of country risk and the supplier’s corporate processes and policies. A specialist service provider is used for the identification of the country risk. The Maplecroft human rights’ risk indicators play a significant role, meaning for suppliers globally that they need to demonstrate good sustainability performance. Sustainability performance is then initially analysed by means of a standardized questionnaire for self-assessment. We developed the “SAQ” questionnaire in a joint project with other automotive corporations involved in the DRIVE Sustainability Initiative facilitated by CSR Europe. Furthermore, the Volkswagen (China) Investment Company is a founding member of the DRIVE Sustainability sub-group, DRIVE Sustainability China. The information and documents in the SAQ are validated by a third party professional service provider: if a supplier states that it has appropriate processes and policies, it must provide documented evidence.

Following an initial analysis of the supplier data, on-site checks are carried out, based on risk. If the results of these on-site checks reveal serious shortcomings in the implementation of our sustainability requirements, the supplier in question is given a negative rating. Despite the logistical restrictions in 2020 due to the global Covid-19 pandemic, 41 supplier sustainability audits were carried out in China. The three major findings areas resulting from such audits were: working hours and overtime, occupational health and safety, and fire safety. We have not detected any cases of forced labour or abuse of human right’s publicly stipulated in allegations.

For our non-controlled joint venture partners, it is planned to implement the S-Rating in a multi-step approach, starting with commonly sourced parts for the Chinese market. We strongly encourage and support the rollouts in China following our existing processes.

Supplier Human Rights Due Diligence Management System (HRDDMS)

In 2020 a HRDDMS was conceived in alignment with the OECD 5 Steps and the UNGP. Currently in 2021 we are in the process of rolling out the approach, and preparing our global

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purchasing organisations to implement the system, which will entail systematic and widespread sensitisation of our suppliers for human rights due diligence. The HRDDMS globally aims to prevent human rights violations from occurring, detecting such human rights risks and violations and reacting in a systematic and structured manner.

Preventing grave human rights violations from occurring in our global supply chains is done by systematically and intensively training our procurement staff on human rights, empowering them through a train-the-trainer approach and then beginning with highest-risk suppliers, training our suppliers on Human Rights due diligence. Furthermore, we continuously assess our existing policies, guidelines and requirements, in order to determine whether these are adequate for preventing human rights violations.

Building on the aforementioned Human Rights sensitisation and capacity building, we will apply existing tools - S-Rating, SAQ, Onsite Checks - to identify poor social sustainability / Human Rights performance within all controlled entity VW Organisations, with Chinese suppliers. The S-Rating rollout for new and existing controlled entities will be prioritised. Furthermore, together with a specialist third-party, we are in the process of developing more in-depth, human rights tailored risk assessments of high-risk business partners' operations.

We will work on corrective actions in case we detect that any business partners do not fulfil our human rights requirements. As part of the supplier training approach we want to encourage continuous performance improvement and will work with suppliers to ensure gaps are addressed and corrective action plans are implemented.

3.

For the supply chain please see responses to question 2, under the headings S-Rating and HRDDMS.

4.

Expectations of our employees and our Group-wide understanding of the observance of universal human rights are also set out in the Volkswagen Group's Code of Conduct. The issue of human rights is covered in the chapter on "Our responsibilities as a member of society." Our Code of Conduct and additional topic-related Group policies apply to all the Volkswagen Group's employees around the world. Employees of the Volkswagen Group's controlled companies are trained to this end as part of the mandatory Code of Conduct training. In addition, there is in-depth training for business units with increased risk exposure.

The Volkswagen Group has been conducting trainings for suppliers on sustainability topics, including human rights for many years. Together with Drive Sustainability we invite our suppliers around the world to intensive automotive industry specific, topical trainings that include aspects of human rights sensitisation. As mentioned in response to question 2, the introduction and rollout of the HR DDMS will entail in-depth human rights training of representatives of our Chinese purchasing organisations, followed by a train-the-trainer approach, so that these colleagues are able to train Chinese suppliers on the topic of human rights due diligence. These trainings will be piloted in 2021, and will be particularly prioritised for the region China.

5.

We have explained our BHR approach within the Volkswagen Group above. We are in discussion with international enterprises and cross-functional working groups on the topic, such as GBI or ICC, sharing best practices and continuously improving our BHR performance.

6.

We have found no evidence for the existence of any Human Rights abuses alleged in this letter. Accordingly we have not reported to any authorities.

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7.

As an independent legal entity, SAIC Volkswagen has its own Code of Conduct and maintains its own whistleblower system. Employees can use different channels to report misconduct to their supervisors, the Trade Union, or compliance department. Beyond this, employees can also contact anonymously an internal investigation office or external ombudsmen. By today, there has not yet been a remediation case at Volkswagen Group or in the Chinese Joint Ventures so far.

8.

Locally established grievance mechanisms exist in the Volkswagen Group as well as in the Chinese Joint Ventures. They are accessible to all employees. In general we are in exchange with international non-governmental organisations to continuously improve our BHR compliance management system in all aspects.