

October 18, 2022

Mr. Euisun Chung
Chairman
Board of Directors
Hyundai Motor Company Headquarters
12, Heolleung-ro, Seocho-gu
Seoul, Korea

Dear Chairman Chung,

Investors are concerned about the lack of human and labor rights oversight at Hyundai in the wake of a recent Reuters report of child labor at a Hyundai subsidiary's facility and a United States Department of Labor (DOL) investigation that confirmed children worked at a Hyundai supplier in the United States (U.S.).¹ We call on you to overhaul how the Board of Directors oversees human and labor rights risks at Hyundai given the history of health and safety weaknesses in the company's operations and supply chain, where factory workers have been killed, and exposed to crush and amputation hazards. The use of child labor, and poor health and safety conditions, not only violate multiple International Labor Organization (ILO) conventions ratified by South Korea--international labor standards that Hyundai's Human Rights Charter commits to--they are also at odds with your Supplier Code of Conduct. The fact that child labor was discovered after the company's completion of a human rights risk assessment suggests that either the assessment fell short or that Hyundai did not follow through with appropriate risk mitigation measures. Either way, the human rights monitoring system currently in place has critical weaknesses that must be addressed.

Child labor and poor workplace health and safety have regulatory and legal repercussions for Hyundai in the U.S. and can cause reputational damage across the globe. The U.S. is an important market for Hyundai, as it is responsible for nearly 20 percent of Hyundai Motor Company's global vehicle sales.² Given the importance of the U.S. market and the worldwide media attention these incidents have received, Hyundai's Board of Directors must oversee the company's response.

Accordingly, we urge the Hyundai Board to take the following actions:

- strengthen the human and labor rights language in the Hyundai Supplier Code of Conduct;

¹ Rosenberg, Mica, et al. "Hyundai Supplier Accused of Child Labor Violations by U.S. Authorities." *Reuters*, 23 Aug. 2022, www.reuters.com/legal/hyundai-supplier-accused-child-labor-violations-by-us-authorities-2022-08-23.

"Federal Court Orders Hyundai, Kia Auto Parts Manufacturer to Stop Employing Minors Illegally, End 'Oppressive' Child Labor Law Violations." *U.S. Department of Labor*, www.dol.gov/newsroom/releases/WHD/WHD20221011. Accessed 13 Oct. 2022.

² Hyundai Motor America. "Hyundai Motor America Reports December, Q4 and 2021 Sales." *Hyundai Media Center*, 4 Jan. 2022, <https://www.hyundainews.com/enus/releases/3475#:~:text=FOUNTAIN%20VALLEY%2C%20Calif.%2C%20Jan,Retail%20sales%20declined%2011%25>.

Hyundai Motor Company. "Hyundai Motor Reports 2021 Global Sales and 2022 Goals." *Hyundai Motors*, 3 Jan. 2022, www.hyundai.com/worldwide/en/company/newsroom/hyundai-motor-reports-2021-global-sales-and-2022-goals-0000016776. For 2021 Hyundai reported 738,081 in U.S. vehicle sales and global vehicle sales of 3.89 million. $738,081/3,890,000 = 18.97$ percent.

- assign oversight of the Human Rights Charter and Supplier Code of Conduct to a committee of the Board of Directors; and
- conduct an independent third-party human and labor rights risk assessment of Hyundai and its supply chain with the results released publicly, and with ongoing monitoring and annual updates.

The SOC Investment Group works with pension funds sponsored by unions affiliated with the Strategic Organizing Center, a coalition of unions, to enhance long-term shareholder value through active ownership. These funds have over \$250 billion in assets under management, including global companies like Hyundai Motor.

Hyundai's use of child labor adds to longstanding concerns about the lack of human and labor rights risk management.

In late July, reports revealed that a factory operated by Hyundai subsidiary SMART Alabama LLC (SMART) in Luverne, Alabama had employed children to carry out hazardous work in a metal-stamping plant. According to the Reuters report, the factory employed as many as 50 children, with the youngest only 12 years old, in violation of U.S. federal law prohibiting anyone under the age of 18 from working in a stamping plant.³ In August, an investigation by the DOL found child labor at another factory, this time, SL Alabama, a Hyundai supplier in Alexander City, Alabama. In response, the DOL filed a complaint in U.S. District court accusing the supplier of repeatedly violating labor regulations by “employing oppressive child labor” in hiring minors aged 13-15 to carry out hazardous work.⁴ The federal court recently entered an order to stop SL Alabama from illegally hiring children and to prevent SL Alabama from shipping or delivering any goods produced in violation of federal child labor laws. The judgement also requires SL Alabama to improve manager training on child labor. The DOL also assessed a \$30,076 penalty.⁵ We are concerned that these disturbing reports portend a larger problem in Hyundai's human and labor rights risk management.

Hyundai facilities have a history of citations for health and safety violations, including a worker death and exposing workers to crush and amputation hazards. Since 2013, the U.S. Occupational Health and Safety Administration (OSHA) fined SMART at least \$48,515 due to safety problems at its plant, with the most recent penalty issued this year.⁶ The SMART factory is not the only Hyundai factory cited for its workplace health and safety deficits. In 2016, a worker was killed at another of Hyundai's metal stamping suppliers also located in Alabama. An OSHA news release cited Hyundai and another auto manufacturer for unrealistic production demands as a motivating factor for the supplier to cut corners on worker safety.⁷ The fatal incident is particularly concerning since, a year prior to the worker's death,

³ Rosenberg, Mica, et al. “Hyundai Supplier Accused of Child Labor Violations by U.S. Authorities.” *Reuters*, 23 Aug. 2022, www.reuters.com/legal/hyundai-supplier-accused-child-labor-violations-by-us-authorities-2022-08-23.

⁴ Kalmowitz, Andy. “Second Hyundai Parts Supplier Accused of Using Child Labor in Alabama.” *Jalopnik*, 23 Aug. 2022, jalopnik.com/second-hyundai-parts-supplier-accused-of-using-child-la-1849445111.

⁵ “Federal Court Orders Hyundai, Kia Auto Parts Manufacturer to Stop Employing Minors Illegally, End ‘Oppressive’ Child Labor Law Violations.” *U.S. Department of Labor*, www.dol.gov/newsroom/releases/WHD/WHD20221011. Accessed 13 Oct. 2022.

⁶ Rosenberg, Mica, et al. “Hyundai Supplier Accused of Child Labor Violations by U.S. Authorities.” *Reuters*, 23 Aug. 2022, www.reuters.com/legal/hyundai-supplier-accused-child-labor-violations-by-us-authorities-2022-08-23.

⁷ “Alabama Auto Parts Supplier to Kia and Hyundai, Staffing Agencies Face \$2.5M in Fines After Robot Fatally Crushes Young Bride-to-be.” *U.S. Department of Labor*, www.dol.gov/newsroom/releases/osha/osha20161214-0. Accessed 13 Oct. 2022.

the DOL's assistant secretary of labor for occupational safety and health at the time had informed Hyundai executives in person that Hyundai's production demands were endangering American workers.⁸ Health and safety problems at Hyundai suppliers is not limited to the U.S. Since 2007, more than 30 employees of Hyundai Steel, a major steel supplier of which Hyundai Motor also owns a significant stake, have died at the Tangjin Steel Plant in South Korea. Between 2011 and 2021, there were nineteen major accidents and 22 deaths at the same factory.⁹

Hyundai's failure to adhere to human and labor rights standards creates legal and reputational risk.

Violations of U.S. labor law have legal repercussions. For example, earlier this year, SMART was named in a pending class action lawsuit that accuses SMART of misleading Mexican engineers about job opportunities at what appears to be the same factory in Luverne, Alabama as is reported to have used child labor. The workers allege that they were enticed to move to America with the promise of engineering jobs, but upon arrival, they were made to work long hours on the production line at hourly wages that were a fraction of what was paid to the U.S. citizens on the same line.¹⁰ Similar allegations have been reported in pending litigation at a factory that supplies Kia in Georgia.¹¹

These allegations point to a disturbing trend in Hyundai's U.S. operations involving vulnerable groups of workers, such as children and immigrants. Many of the child workers in the SMART plant were migrants from South and Central America who were working without authorization.¹² Being associated with the use of child labor, the exploitation of vulnerable groups of workers, and violations of human and labor rights risks Hyundai's reputation around the world, especially in the U.S., where these incidents occurred. Widely-followed media outlets, like Reuters and Al Jazeera, have reported on the aforementioned child labor usage by the SMART factory and SL Alabama.¹³ Evincing the global reputational repercussions, Hyundai Australia took steps to distance itself from its U.S. counterparts following the reports of child labor.¹⁴ The U.S. is an increasingly important market for Hyundai, with the company planning to invest \$7.4 billion to produce future EVs, enhance production facilities, and further its investments in smart mobility solutions by 2025.¹⁵ Additionally, further damage to Hyundai's

⁸ Waldman, Peter. "Inside Alabama's Auto Jobs Boom: Cheap Wages, Little Training, Crushed Limbs." *Bloomberg.com*, 23 Mar. 2017, www.bloomberg.com/news/features/2017-03-23/inside-alabama-s-auto-jobs-boom-cheap-wages-little-training-crushed-limbs.

⁹ 지나영 기자. "악화일로 걷는 현대제철..중대재해처벌 1호 될까." *IDJ News Korea*, 12 Mar. 2022, www.idjnews.kr/news/articleView.html?idxno=133691.

¹⁰ Northern District of Georgia. *Acosta vs. SMART Alabama, LLC and AGWM United, LLC*. 22-cv-01209-TWT., 03/27/22. Case Filing Alert, <http://casefilingsalert.com/wp-content/uploads/2022/07/Recruiter-of-Mexican-Labor.pdf>. PDF.

¹¹ Kia is listed as an affiliate of Hyundai's.

Grinspan, Lautoro. "'A Total Lie': Mexican Engineers Say They Were Misled Into Manual Labor in Ga. Factories." *The Atlanta Journal Conversation*, 5 Aug. 2022, www.ajc.com/news/georgia-news/a-total-lie-mexican-engineers-say-they-were-misled-into-manual-labor-in-ga-factories/CB44GCXWARFL7FLICASGYRAS24.

¹² NPR. "Behind the Investigative Report on Child Labor Allegations at Hyundai Alabama Plant." *NPR.org*, 24 July 2022, www.npr.org/2022/07/24/1113281637/behind-the-investigative-report-on-child-labor-allegations-at-hyundai-alabama-pl.

¹³ Al Jazeera. "Hyundai Supplier Accused of Child Labour Violations in US." *Business and Economy | Al Jazeera*, 23 Aug. 2022, www.aljazeera.com/economy/2022/8/23/hyundai-supplier-accused-of-child-labour-violations-in-us.

¹⁴ "Australia's Hyundai Motor Company Distances Itself From Allegations of Child Labour in US Subsidiary." *Business & Human Rights Resource Centre*, www.business-humanrights.org/en/latest-news/australias-hyundai-motor-company-distances-itself-from-allegations-of-child-labour-in-us-subsidiary. Accessed 13 Oct. 2022.

¹⁵ "Hyundai Motor Group to Invest \$7.4 Billion in the U.S. by 2025." *Hyundai Media Center*, 13 May 2021, www.hyundai.com/en-us/releases/3318.

reputation could slow the company's positive momentum from a 17 percent increase in sales between 2020 and 2021, as well as increases to the company's U.S. market share for the last 4 years.¹⁶

The fallout from labor rights abuses at Boohoo, a British fast-fashion chain, provides a cautionary tale to Hyundai. In 2020, Labor Behind the Label, a non-profit which focuses on workers' rights in the fashion industry, found the company to have committed several labor rights violations such as wage theft and poor working conditions. In response, Boohoo launched an independent review into its supply chain working conditions. However, many investors felt the actions Boohoo took in response to the review were insufficient and some divested from the company.¹⁷ Share prices plummeted in response and Boohoo's market value fell by more than £1bn to £3.7bn in the week that followed.¹⁸ We would like Hyundai to avoid a similar fate and urge the Board of Directors to ensure that Hyundai fully implements its Human Rights Charter to address human and labor rights risks in its operations and supply chain.

Hyundai does not follow its own commitments to international human and labor rights standards and needs to strengthen its Supplier Code of Conduct.

Hyundai's Human Rights Charter states that the company "is committed to complying with a wide range of recognized human rights/labor-related international standards and guidelines, such as the Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights and International Labor Organization, key agreements, and OECD Due Diligence Guidance for responsible Business Conduct, among others." The violations of human and labor rights outlined above are in violation of these international standards. The use of child labor in Hyundai factories is a violation of Article 6 of the Hyundai Human Rights Charter, which states that "child labor is prohibited in principle and the company takes measures so that minors' opportunity for education will not be restricted due to their work." Not only were children employed at the SMART factory, they worked in the factory during times when they should have been in school. The use of child labor in U.S. factories also violates the ILO's "Minimum Age Convention" and "Worst Forms of Child Labour Convention," both ratified by South Korea and, therefore, committed to by Hyundai in its Human Rights Charter.

OSHA's repeated concerns over health and safety at Hyundai's U.S. plants point to poor compliance by Hyundai with the ILO's "Occupational Safety and Health Convention," which South Korea has ratified, and of Article 7 of the company's Human Rights Charter, which states that "employees to work in a safe work environment and prepares the support plan for post management and appropriate measures for the purpose of preventing physical and mental hazards."

According to the 2022 Hyundai Sustainability Report, the company had identified working conditions at suppliers as a potential risk for issues including "hours, pay, and child and forced labor, etc." Despite identifying the potential risk posed by suppliers in the automotive industry, Hyundai failed to take action to prevent human rights violations. It is important for Hyundai to address the labor and human rights

¹⁶ <https://www.goodcarbadcar.net/author/timothy-cain/#author>. "Hyundai Sales Figures - US Market." *GCBC*, 30 Oct. 2012, www.goodcarbadcar.net/hyundai-us-sales-figures.

¹⁷ Butler, Sarah. "Boohoo Accused of Failing to Improve Working Conditions in Its Supply Chain." *The Guardian*, 19 June 2021, www.theguardian.com/business/2021/jun/18/boohoo-accused-of-failing-to-improve-working-conditions-in-its-supply-chain. Butler, Sarah. "Boohoo Shareholder Sells off Shares in Firm Worth Nearly £80m." *The Guardian*, 11 July 2020, www.theguardian.com/business/2020/jul/10/boohoo-shareholder-sells-off-shares-aberdeen-standard-investments.

¹⁸ Davies, Rob, and Annie Kelly. "More Than £1bn Wiped off Boohoo Value as It Investigates Leicester Factory." *The Guardian*, 6 July 2020, www.theguardian.com/business/2020/jul/06/boohoo-leicester-factory-conditions-covid-19.

risks in the company's supply chain, especially as the company expands into the EV sector, which is notorious for its supply chain human and labor rights risks.¹⁹

Hyundai must strengthen the language used in its Supplier Code of Conduct in line with the stronger provisions of Industry peers. For example, Ford mandates that its suppliers "Do not use child labor in any form"²⁰ and GM "has a zero-tolerance policy regarding the use of child labor."²¹ In contrast, Hyundai's Supplier Code of Conduct only states that "suppliers should ban any and all forms of child labor in principle".

The Board must strengthen its capacity to oversee human and labor rights risk mitigation.

The Hyundai Board of Directors must ensure that the company has the appropriate controls in place to adhere to Hyundai's human and labor rights commitments. To strengthen oversight of these issues, the Board must designate oversight responsibilities and commission an independent third-party assessor to conduct a gap analysis.

Hyundai's Board appears to lack a committee that deals directly with issues related to human rights. Under Hyundai's current governance structure, human rights issues are addressed by the "ESG Council's" working level division on social issues. The "ESG Council" falls under the "ESG Committee," which is comprised of management in each of the company's business areas. This "ESG Committee" then reports to the Board of Directors' "Sustainability Management Committee." Under the current structure, the Board of Directors is insulated from critical information due to overreliance on reporting from management committees who may be incentivized to underreport human and labor rights issues to their superiors or the Board. This structure fails to give the Board direct oversight of labor and human rights policies at the company. We call on the Board to assign oversight of the Human Rights Charter and Supplier Code of Conduct to a committee of the Board of Directors and provide that committee with the necessary resources to conduct its own reviews. The Hyundai Board should be leading the oversight of the company's commitments to human rights given the company's history of violations, rather than relying on management committees.

According to Hyundai's 2022 Sustainability Report, the company itself appears to have conducted human rights risk assessments at overseas and Korea-based business sites. These assessments revealed potential risks, but the reports of child labor at a Hyundai factory and supplier in the U.S. raise serious questions about the effectiveness of the company's response to the findings. Hyundai has pledged to make continuous efforts to advance risk management processes. To better implement Hyundai's commitment, we call on the Board to engage an independent third-party to conduct a human rights risk assessment of Hyundai's operations and its supply chain to identify weaknesses in its current policies and recommend remedies. The third-party should be tasked with monitoring the progress towards

¹⁹ Wormington, Jim. "If Electric Cars Are the Future, Let's Make Them Responsibly." *Human Rights Watch*, 11 Aug. 2022, www.hrw.org/news/2022/08/10/if-electric-cars-are-future-lets-make-them-responsibly?gclid=CjwKCAjw7p6aBhBiEiwA83fGuupaTUjAeOdfc8CnXEXbqPffLWEdgm2lq_3dbb_5j9spSeGDcM594BoCR6AQAvD_BwE.

²⁰ Ford Motor Company. "SUPPLIER CODE OF CONDUCT." *Ford Motor Company*, corporate.ford.com/content/dam/corporate/us/en-us/documents/operations/governance-and-policies/supplier-code-of-conduct/Ford%20Supplier%20code_Final_EN.pdf.

²¹ General Motors. "SUPPLIER CODE OF CONDUCT." *GM Sustainability*, www.gmsustainability.com/_pdf/policies/GM_Supplier_Code_of_Conduct.pdf.

rectifying the weaknesses in Hyundai's policies and releasing periodic updates on the progress that the company has made. We note that the Alabama Coalition for Community Benefits has also called for third-party monitoring of Hyundai and the company's suppliers in response to the reports of child labor.²²

To maintain investor trust throughout this process, the Hyundai Board must maintain transparency by publicly releasing all findings. Further, we expect that this human rights risk assessment and the implementation of the resultant recommendations will require more than one year to execute and request that investors be updated at least annually on Hyundai's progress.

Conclusion

While we appreciate that Hyundai released a Human Rights Charter and conducted a risk assessment in 2021, recent reports of child labor highlight that there are still considerable weaknesses in how the company manages its human and labor rights risks. Given the significant risks that human and labor rights scandals pose to the company, the Hyundai Board must act. We urge the Hyundai Board to consider our recommendations and look forward to hearing back from you regarding our concerns by December 1, 2022. Please contact my colleague Mikail Husain at mhusain@socinvestmentgroup.com with any questions concerning this letter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dieter Waizenegger".

Dieter Waizenegger
Executive Director
SOC Investment Group

²² Thornton, William. "Group Calls for Putting an End to Alleged Use of Child Labor at Hyundai Suppliers." *AI*, 23 Sept. 2022, www.al.com/business/2022/09/group-calls-for-putting-an-end-to-alleged-use-of-child-labor-at-hyundai-suppliers.html.