

LIO HO PLANT ASSESSMENT

December 13, 2004

Background

In May 2003 at the Centennial Shareholders meeting, Ford Motor Company announced the development of Ford's Code of Basic Working Conditions as part of its commitment to corporate citizenship and making the world a better place. The plan is to make Ford a leader in human rights practices and to differentiate the company on social issues for potential business benefits (see attachment for a copy of the Code).

The Code was written and developed by a cross-functional team including Corporate Governance, Office of General Counsel, Human Resources, Labor Relations, Manufacturing, Purchasing and Sales and Marketing as well as with assistance from Business for Social Responsibility (BSR), a non-profit organization that has been a partner to Ford in the development and implementation of their Business Principles overall. The Code is based on the fundamental elements of internationally recognized labor standards, including the UN Declaration of Human Rights, the International Labor Organization Covenants, the UN Global Compact Principles, the Global Sullivan Principles, the Fair Labor Association and the International Metalworkers Federation. Moreover, it was reviewed by leading Human Rights experts including the Interfaith Center for Corporate Responsibility, the Lawyers Committee for Human Rights, the Prince of Wales International Business Leaders Forum, Amnesty International, Human Rights Watch, and faculty from Columbia and George Washington Universities.

Assessment of Ford Motor Company owned and operated facilities began in 2004. The sites were selected by the Corporate Governance Manager, International Labor Relations, and the Business Strategy Offices of North America, Europe, Canada-Mexico-South America and Asia-Pacific. Selection criteria included regional "hot spots", specific emerging issues (and plant impacts), plant employee representation and the views of thought-leaders, non-government organizations and human rights activists.

The Lio Ho plant was among the initial plants selected for the assessment. Located in the city of Chung Li, Taiwan, Lio Ho produces the Focus, Activa, Tierra, MAV, Escape, Mondeo, Econovan, Pronto, Mazda badge Mazda 3, Tribute, Isamu, Premacy and Bongo. As of 2004, the plant employs 1,719 people (1,168 as hourly employees and 551 as salaried employees).

The 349,289 square meter facility is able to produce about 137,844 units per year on two shifts. Production in 2004 was 70,652 units on one shift.

The plant is fully unionized with members belonging to FLH Industrial Union. A review of recent press and media regarding human rights issues at the plant did not reveal any issues of concern.

The Assessment Process

Step 1: Prior to the Assessment:

David Berdish, Corporate Governance Manager sent a copy of the Human Rights Code of Working Conditions and a communication letter to the Human Resources Director, Lawrence Yeh, explaining:

- Background, descriptions, commitments and the expectations of the assessment (explicitly stating desire not to replicate but to ensure consistency across all operations)
- A streamlined pre-assessment checklist, focused on gathering information regarding management systems and past compliance issues at the facility. This information already exists in the management system and includes:
 - A PeopleSoft report showing the ages of our personnel and written contracts of every employee on file to comply with employment status to check age (for child labor) and employment status (for forced labor)
 - Salaried Structure to check non-union employee compensation and benefits.
 - Hourly Wage Structure to check union compensation and benefits

- Meeting minutes between the Union and management representatives and the agreement stated in the company bulletin to check employees' right to associate freely and bargain collectively; recognized representatives to promote the interests of our employees; and opportunities for employee concerns to be heard.
- Case documents in employee folders to check misconducts, policy violations, harassment and discrimination on the basis of sex, race, color, creed, religion, age, ethnic or national origin, marital/parental status, disability, sexual orientation, or veteran status.
- Employee hot-line to also check misconducts, policy violations, harassment and discrimination on the basis of sex, race, color, creed, religion, age, ethnic or national origin, marital/parental status, disability, sexual orientation, or veteran status.
- SHARP scorecards to check health and safety
- FLH work rules and time-keeping data in ACTLS system to check union and non-union employees' hours of work.

On September 10, 2004, David Berdish of the Corporate Governance office interviewed Lawrence Yeh and Mark Chi at Lio Ho Assembly. Interview questions centered around 1) whether the documents were the best for verifying the Code and if they were easily accessible; 2) whether plant management saw value in conducting the human rights assessment given that Ford already audits many practices covered by the Code through existing means; and 3) how the Corporate Governance Office could best conduct the assessment without burdening facilities with additional work.

The interviews confirmed that the documentation is the appropriate documentation for verifying compliance with the Code. However, the interviews also revealed that there are several processes currently implemented by different departments within Ford to audit compliance with various aspects of the Code.

A summary of the interview questions and answers are as follows:

1. In your opinion, what is the greatest value-add of conducting human rights assessments at Ford's owned and operated facilities?

The assessment consistent with the company strategy for leadership on corporate citizenship, the assessment could help ensure Ford's owned and operated facilities compliance with the Code.

We are comfortable that our facility complies with the Code.

2. When you look at the code, and imagine using it to assess current practice at Ford facilities, what are the greatest areas of non-compliance that you might predict?

Grievances are not filed. We try to establish trust at the earliest stage. We are already unionized and we establish various communication channels to provide opportunities for employee concerns to be heard, communication channel including focus group, townhall meeting, opinion survey, employee hotline, suggestion box and regular monthly communication meeting between the Union leaders and management team.

If any issue need to be addressed that would be overtime work hours. Based on Taiwan Labor Standard Law, the O/T hours combined with the regular working hours shall not exceed twelve hours a day and the total number of overtime shall not exceed forty-six hours a month. While in FLH, some of employees' total number of O/T hours exceed 46 hours a month, even though the O/T arrangement had the consent from the union.

3. How do you think management, workers, and employee representatives at Ford facilities will view these assessments?

See #1 above.

4. To help us understand any unique conditions at your facility, please describe how you meet each of the seven facets of the Code of Basic Working Conditions. Please speak to the policy/law that you follow and the process you use to ensure that the policy is being correctly implemented.

- Child Labor: We don't use child labor. Strictly adheres to Taiwan Labor Standard Law. Adheres to FLH Work Rules (Hiring, Working hours, Leaves, Holiday, Wage, Benefit, Safety & Health, Performance Appraisal, Merit/Demerit, Retirement).
- Compensation: Wage payment/benefits described during interview and orientation. Adheres to Taiwan Labor Standard Law. Salary and Hourly wage structure are determined by annual salary/hourly wage survey by benchmark with auto industry and multinational companies. Hourly compensation is driven by the annual wage negotiation with the Union. The info is fed into payroll system. For salaried employees, it's driven by the salaried wage structure, which is available at HR On-line. Salaried employees go through an annual compensation and merit planning process.
- Forced Labor: We don't use forced labor, adheres to Taiwan Labor Standard Law. Corporate policy prohibits forced labor.
- Freedom of Association and Collective Bargaining: Hourly employees required to join the Union. Regularly meeting between Manufacturing management and Union representatives, and meeting between HR management and Union representatives are conducted on a monthly basis. Sincerity communication meeting between OCM and Union leaders were also conducted on a bi-annually basis.
- Harassment and Discrimination: Conduct diversity education to employees during orientation. Conducted sexual harassment training to all employees. Employee may present his or her case through established process or call the hot-line to report any harassment or discrimination claims.
- Health and Safety: The Ford Production System includes SHARP. The FPS team goes to manufacturing facilities and assesses them (logs and track injuries, meet regularly to address health and safety issues, etc). It's an annual assessment. Conduct safety and health training to all employees during orientation. Follow SHARP system, we have reached Level 7 in this year's (2004) review.
- Work Hours: Adheres to Taiwan Labor Standard Law. Adheres to FLH Work Rules (Hiring, Working hours, Leaves, Holiday, Wage, Benefit, Safety & Health, Performance Appraisal, Merit/Demerit, Retirement). While a small deviation of total number of overtime hours in one month need to be controlled and improved.

5. Where documents are housed?

- PeopleSoft and Employee Contracts in Lio Ho offices
- Salaried Wage Structure to verify non-union employee compensation and benefits. (On-line)
- Hourly Wage Structure (On-line)
- Negotiation agreements (Bulletin files)
- Grievance Procedure (HR Office)
- Focus Group/Townhall meeting/Opinion survey question and issues. (HR and P&GA office)
- SHARP scorecards (HS&S Office)
- Casual overtime agreements. (Labor Relations keep the agreement and Payroll maintains timekeeping)

6. What would you suggest is most important for corporate governance to keep in mind in order to make this effort successful (both in terms of gathering information and creating a sense of partnership and shared purpose with the facilities)?

Suggest to develop a self-assessment form for affiliates to fill in, the corporate can just conduct random audit on some affiliates. The priority should focus more on the emergent market or developing countries.

7. Any other words of wisdom/advice?

No.

Step 2: Site Visit

On September 15, 2004, Sister Mary Ellen Gondeck and Kathryn Savoie represented the Interfaith Center on Corporate Responsibility to a trip to the Michigan Truck plant. It was there that it became evident that Ford owned and operated facilities could comply with its own Code and that robust processes were in place to monitor compliance and provide remediation methods at all facilities. So, the question then became—how can Ford plants can provide leadership in human rights issues like diversity, health, discrimination and a more systemic evaluation around countries and issues.

Step 3: Leadership

- Ford Lio Ho Motor Company operates its business ethically, profitably and legally. We commit to building healthy relationships with, and enriching the lives of our employees, their families and the communities ~ making the world (work environment) a better place through our Corporate Citizenship programs. FLH will continue to provide quality products that are environmentally friendly and sensitive to and respectful of the communities in which we operate.
- All employees, their families and communities (regardless of gender, age or culture) are entitled to living a “zestful”, quality life in a quality environment, and each of us has a social responsibility to contribute towards making the world (work environment) a better place.
- Corporate Citizenship programs build relationships. The programs provide a friendly environment for employees, their families, communities, media, government bodies, non-governmental organizations, dealers and suppliers to meet, interact and have a hands on experience in living “Zestful Life”. Corporate Citizenship programs build trust and show the community/employees we care and have an interest in their lives. It also positions us as an “Employer of Choice” both internally by our employees and externally (by present and potential employees & customers), as a company that leverages and values their employees and the communities.
- At Ford Lio Ho Motor Company we are strongly committed to and value Diversity. We believe that everyone should be respected and appreciated as a unique individual regardless of their gender, age, culture, ethnicity, religion and beliefs.
- Ford Lio Ho Motor Company is dedicated to supporting a range of innovative programs and educational institutions that promote learning and diversity for all people. Because of who we are and what we do, we have a special interest in enriching educational opportunities in the fields of math, science, manufacturing, technology, business and engineering – all of which we believe will be important careers throughout the 21st century.
- At Ford Lio Ho, we put a lot of efforts to build a harmonious and collaborative relationship with the Union. Mutual issues affecting the business (work environment, work schedules, facility changes, etc.) are addressed through open communications and on the basis of mutual trust and respect.
- At Ford Lio Ho Motor Company, we dedicate ourselves to environmental sustainability. We have aligned our strategies with this mission by supporting organizations that develop innovative solutions to the environmental challenges posed by industry. We are building synergistic partnerships with organizations that educate, conduct research and perform related work in a variety of environmental fields. Working hand in hand with these organizations, we promote sustainability and strive to lead our industry in environmental stewardship to create a cleaner and better world.
- Awards received in recent years that recognize the company efforts:
 - Nation-wide Best Labor Education Unit (1999-2001)
 - Excellent Labor-Union Organization (2001)
 - Best Employer Award in Taiwan (2001)
 - Nation-wide Diversity Award for Valuing Female Employee (2002)
 - Nation-wide Best Internal Publication Award for HR (2002)
 - Preferred Work Place by Woman (2003-2004)
 - National Quality Award (2003)
 - Industrial Waste Minimization Award (2000-2002)
 - Water Conservation Outstanding Performance Award (2004)
 - National Enterprise Award on Environmental Protection (2002-2004)
 - Industrial Sustainable Excellence Award (2004)

- Taiwan Sustainable Development Award (2004)
- Ford President Safety Award (2001, 2003-2004)