

Investor expectations for enhanced social and environmental due diligence in nickel supply chains of the electric vehicle (EV) industry

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I. Setting the scene

To ensure a just and responsible global transition to renewable energy, the extraction of raw materials and minerals needs to avoid creating damages to local communities and the environment. Amongst the critical minerals needed for our energy transition, nickel is receiving increased public attention due to both its expected steep rise in demand within the next decade, as well as the significant environmental and social risks associated to its extraction¹.

Reports on the negative environmental and social impacts of nickel mining activities in Indonesia and the wider South-East Asian region are mounting. These include deforestation², water and air pollution³, conflicts with Indigenous Peoples and Local Communities (IPLCs)⁴, biodiversity loss⁵, and high greenhouse gas (GHG) emissions due to use of non-renewable energy during refining processes⁶. IPLCs have raised concerns over the lack of Free, Prior, and Informed Consent (FPIC), and the loss of food security, water contamination, and destruction of the surrounding rainforests⁷.

The single-largest growth in the demand of nickel in the next two decades is expected to come from the electric vehicle (EV) industry⁸. However, environmental impacts are often overlooked in the downstream⁹ mineral supply chain policies of EV battery producers and EV manufacturers. In addition, the requirement to respect the rights of Indigenous Peoples and Local Communities, as recognized in the UN Declaration on the Rights of Indigenous Peoples, including the requirement for FPIC is often neglected in supply chains.

We, investors and their representatives, believe that EV battery manufacturers and automakers should leverage their position to raise the environmental and social standards of nickel extraction and refinement. Nickel supply must be met with responsible mining practices that avoid and mitigate negative environmental and human rights impacts. Downstream companies have the responsibility to ensure that environmental and social risks are mitigated throughout their nickel supply chains. This statement is directed at downstream companies in the EV industry, including (but not limited to) those listed in the Appendix of this document.

¹[Xu et al., 2020](#) and [Material Change Report, 2018](#)

² [Sourcing Responsible Nickel for EVs - Mighty Earth](#)

³ New York Times, August 2023 <https://www.nytimes.com/2023/08/18/business/indonesia-nickel-sulawesi-china.html>

⁴ [Hongana Manyawa case, by Survival International \(survivalinternational.org\)](#)

⁵ [Steven Brown 2023, "Impact of nickel laterites: A status report on our understanding and knowledge gaps", Australia, CC BY-NC-SA 4.0](#)

⁶ ["Paving the way to cleaner nickel"](#) by Transport & Environment, 2023.

⁷ [2023_EV_supply_chains.pdf \(business-humanrights.org\)](#)

⁸ [International Energy Agency's \(IEA\) Critical Minerals Market Review 2023](#)

⁹ We distinguish between upstream entities (miners, smelters, refiners and recyclers) and downstream entities (component manufacturers, product manufacturers, original equipment manufacturers)

II. Environmental and social impacts resulting in financial risks to companies and investors

The extraction and processing of nickel creates significant biodiversity, climate change, pollution, and human rights risks. These social and environmental risks can translate to financial, operational, and reputational risks to companies and investors¹⁰. New regulatory frameworks such as the EU Battery Regulation, or the Corporate Sustainability Due Diligence Directive (CSDDD) magnify and raise the profile of these risks.

As responsible investors, we are concerned that companies that do not proactively address the social and environmental risks with the appropriate actions put long-term value creation and investment returns at risk. We therefore present three sets of expectations for corporate action.

III. Three expectations for corporate action

1. Incorporate responsible mining practices into mineral supply chain policies

We expect companies to introduce responsible sourcing requirements in their nickel supply chains, as well as to exercise their leverage and work with suppliers so that responsible mining practices are adopted by upstream companies. In this way, adverse environmental and social impacts will be prevented, mitigated, and remediated along nickel supply chains.

We acknowledge the progress and efforts made by automakers and downstream companies in this regard¹¹. We expect downstream companies to take further steps and actively work and engage with suppliers to reduce the social and environmental risks of nickel supply chains. We highlight six requirements to upstream suppliers that will help mitigate these risks.

First, a commitment to implement and respect the Free, Prior, and Informed Consent (FPIC) of Indigenous Peoples and Local Communities, including the right to withhold consent.

Second, the inclusion of third-party, independent auditing using transparent standards *as well as* multi-stakeholder consultations during social and environmental impact and risk assessments of mining and refining sites.

Third, adherence to the mitigation hierarchy of avoiding, minimising, restoring, and offsetting any negative impacts on natural ecosystems with no net loss as a core guideline.

Fourth, fair compensation to affected rightsholders and an effective grievance redress mechanism that can offer fair and equitable remediation.

Fifth, a time-bound commitment to phase out of fossil-fuel energies during nickel smelting and refining.

Sixth, a commitment to publicly report and disclose on the implementation of the above policies.

One key initiative in this area is the Initiative for Responsible Mining Assurance (IRMA), which downstream companies can support by joining directly but also by prioritising sourcing from mines audited by IRMA and requiring their own suppliers to be audited by IRMA.

2. Enhanced social and environmental due diligence, with increased disclosure and transparency.

¹⁰ [The Business Case for Indigenous Rights | Amazon Watch](#)

¹¹ By introducing specific supply chain policies for tin, tungsten, tantalum, gold, and cobalt or joining industry and stakeholder initiatives such as Drive Sustainability or the Initiative for Responsible Mining Assurance (IRMA).

We expect companies to conduct enhanced due diligence for biodiversity, pollution, climate change and IPLC rights risks in nickel supply chains. We also expect companies to have increased disclosure on the environmental and social impacts embedded in their nickel supply chains.

When mining operations occur in biodiverse areas, such as forests, wetlands or littoral zones, heightened environmental due diligence must be undertaken¹². Downstream companies should therefore undertake enhanced due diligence for biodiversity, pollution, *and* climate change risks in their nickel supply chains, *as well as* assess the quality of the environmental due diligence conducted by their upstream suppliers, which include nickel smelters and refiners.

Further, given that more than half of nickel reserves overlap or are nearby indigenous territories¹³, and that the right to FPIC is often not guaranteed in countries of origin, enhanced due diligence for the protection of IPLCs' rights is warranted. In the appendix we provide a list of tools and instruments that can be used to conduct appropriate risk-based due diligence and adhere to social and environmental best practices.

3. Adopt a time bound commitment to have deforestation-free nickel supply chains.

We expect companies to make time-bound commitments for deforestation-free nickel supply chains, by avoiding and minimising the extraction of nickel that leads to deforestation and loss of tropical forests, as well as by adopting circular economy measures and technologies that maximise extracted nickel's performance.

Tropical forests constitute the biome with the highest biodiversity and carbon values, and mining in such critical habitat is particularly worrying if we are to achieve the global commitments towards biodiversity conservation and climate change mitigation embedded in the Paris Agreement and the Global Biodiversity Framework. Between 2001 and 2019, the extraction of nickel caused the destruction of at least 273 km² of forests, mostly in Southeast Asia¹⁴. Deforestation will continue to rise if no significant action is undertaken.

There is no credible pathway to net-zero without halting deforestation by commercial actors by 2025¹⁵. We therefore expect companies to introduce measures to eliminate deforestation from their nickel supply chains, with 2025 as the latest cut-off date¹⁶. We refer to the Accountability Framework Initiative (AFi) for detailed guidance on how to define and implement deforestation-free commitments.

¹² [Handbook on Environmental Due Diligence in Mineral Supply Chains | OECD iLibrary \(oecd-ilibrary.org\)](https://oecd-ilibrary.org/handbook-on-environmental-due-diligence-in-mineral-supply-chains)

¹³ [54% of projects extracting clean energy minerals overlap with Indigenous lands, research reveals \(theconversation.com\)](https://theconversation.com/54-of-projects-extracting-clean-energy-minerals-overlap-with-indigenous-lands-research-reveals) and [Energy transition minerals and their intersection with land-connected peoples | Nature Sustainability](https://www.nature.com/articles/d41586-023-00000-0)

¹⁴ [WWF 2023. Extracted Forests](https://www.pwcc.com/~/media/WWF/2023/Extracted-Forests)

¹⁵ [High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities.](https://www.pwcc.com/~/media/High-Level-Expert-Group-on-the-Net-Zero-Emissions-Commitments-of-Non-State-Entities)

¹⁶ This implies that companies should set their deforestation-free targets, commitments, or other obligations by 2025 at the latest. See AFi's guidance on cut-off dates: <https://accountability-framework.org/use-the-accountability-framework/operational-guidance/>

Appendix I. Companies to which the expectations are directed

This statement is directed at companies (and their brands) in the downstream electric vehicle sector, including (but not limited to) those listed below.

EV Manufacturers	EV Battery Producers
BMW (Bayerischen Motoren Werke AG)	BYD Co. Ltd
Dongfeng Motor Company	CATL (Contemporary Amperex Technology Co. Ltd)
Mercedes-Benz Group	China Aviation Lithium Battery Co., Ltd (CALB)
Ford Motor Co	Farasis Energy
General Motors Co	Guoxuan High-tech Power Energy Co., Ltd
Great Wall Motor Company Limited	LG Energy Solutions
Honda	Panasonic Corporation
Hyundai Motor Co	Samsung SDI
Kia Corp	SK Innovation
Nio Inc.	Sunwoda Electronic Co., Ltd
Nissan Motor Corporation	
Renault SA	
SAIC Motor Corporation Limited	
Scania	
Stellantis NV	
Tesla	
Toyota	
Volkswagen AG	
Volvo Cars AB	

Appendix II. List of tools to implement expectations

This is a *selected list* of relevant tools, based on ESG considerations. It is non-exhaustive and can be updated if similar guidelines or standards are identified or developed.

General due diligence instruments and standards

[the UN Guiding Principles on Business and Human Rights;](#)

[the UN Declaration on the Rights of Indigenous Peoples](#)

[the OECD Guidelines for Multinational Enterprises;](#)

[the OECD Due Diligence Guidance for Responsible Business Conduct;](#)

[the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#)

[the Chinese Due Diligence Guidelines for Mineral Supply Chains](#)

[the International Finance Corporation \(IFC\) Performance standards](#)

[the Initiative for Responsible Mining Assurance \(IRMA\)](#)

[the RMI's Environmental, Social and Governance Standard for Mineral Supply Chains](#)

Stakeholder engagement and FPIC

[IFC's Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets](#)

[OECD's Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector](#)

[FPIC Due Diligence Questionnaire, by First People's Worldwide](#)

Biodiversity and other environmental risks

[Science Based Targets Network \(SBTN\)'s Natural Lands map](#)

[World Wide Fund for Nature's \(WWF\) Biodiversity Risk identification tool](#)

[Integrated Biodiversity Assessment Tool \(IBAT\)](#)

[High Conservation Value \(HCV\) and High Carbon Stock \(HCS\) Approach](#)

[OECD's Handbook on environmental due diligence in mineral supply chains](#)

[CSBI's Cross-Sector Guide for Implementing the Mitigation Hierarchy](#)

Disclosure and performance

[Global Reporting Initiative's Mining sector standard](#)

[Accountability Framework](#)

[CDP Disclosure](#)