

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

February 20th, 2024

I. Setting the scene

As governments and corporates around the world take measures to transition towards a green economy built on renewable energy, companies will need to increase their supply of critical minerals such as nickel, cobalt, lithium, and graphite. At the same time, reports on the negative environmental and social impacts of mining activities are mounting. To ensure a just and responsible global transition to renewable energy, the extraction of raw materials and minerals must avoid creating damages to Indigenous Peoples, 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 the wider South-East Asian region are spreading. These include deforestation², water and air pollution³, conflicts with Indigenous Peoples and local communities⁴, biodiversity loss⁵, and high greenhouse gas (GHG) emissions due to use of non-renewable energy during refining processes⁶. Stakeholders 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, 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

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)

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.

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. With nickel expected to have large impacts on tropical deforestation while facing higher demand from the EV industry, it is targeted as the most urgent for responsible supply chain policies. The environmental and social challenges in nickel supply chains of the automotive sector need to be carefully managed by companies as well as financial institutions.

Moreover, given the increased regulatory focus on responsible nickel supply chains in the automotive sector¹⁰, timely action from companies is crucial. To ensure such timely and effective action towards responsible nickel supply chains, there is a need for a nickel-specific investor engagement initiative.

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, thereby minimising the risk of companies being impacted by future reputational damage and/or financial liabilities.

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.

¹⁰ Nickel is one of the four minerals requiring mandatory due diligence in the EU Battery Regulation

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).

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 consent¹².

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, including people who are physically or economically displaced, and an effective grievance redress mechanism that can offer fair and equitable remediation.

Fifth, a time bound commitment for net-zero smelting and refining processes, prioritising the phase out of fossil fuel energies.

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.

We expect companies to conduct enhanced due diligence for biodiversity, pollution, climate change and Indigenous Peoples and local communities' 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.

In accordance with international guidelines, when mining operations occur in biodiverse areas, such as forests, wetlands or littoral zones, heightened environmental due diligence must be undertaken¹³. When sourcing from operations in such natural or critical habitats, 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, including nickel smelters and refiners.

Further, given that more than half of nickel reserves overlap or are nearby indigenous territories¹⁴, and that FPIC is often not guaranteed in countries of origin, enhanced due diligence for the protection of Indigenous Peoples and local communities' 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.

¹² FPIC as a right for Indigenous Peoples and as best practice for local communities | [Areas Where the Free, Prior & Informed Consent of Indigenous Peoples and Local Communities Have Not Been Obtained | Cultural Survival](#)

¹³ [Handbook on Environmental Due Diligence in Mineral Supply Chains | OECD iLibrary \(oecd-ilibrary.org\)](#)

¹⁴ [54% of projects extracting clean energy minerals overlap with Indigenous lands, research reveals \(theconversation.com\)](#) and [Energy transition minerals and their intersection with land-connected peoples | Nature Sustainability](#)

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 Asia¹⁵. 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 2025¹⁶. We therefore expect companies to introduce measures to eliminate deforestation from their nickel supply chains, with 2025 as the latest cut-off date¹⁷. We refer to the Accountability Framework Initiative (AFI) for detailed guidance on how to define and implement deforestation-free commitments.

¹⁵ [WWF 2023. Extracted Forests](#)

¹⁶ [High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities.](#)

¹⁷ 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/>

We invite other institutional investors to contact us to support this statement and collaborate on efforts to engage with companies including those listed in Appendix I to this statement, as well as to work with stakeholders to encourage the adoption of ambitious targets needed to accelerate progress.

List of Signatories

Note: the following 31 signatories with over US\$2.7 trillion in assets are listed in alphabetical order by organisation name.

Achmea	ONVZ
Achmea Investment Management	OWM Zorgverzekeraar Zorg en Zekerheid
Alquity	Pbf Bakkers
Cardano	Pensioenfonds Metaal en Techniek
Coöperatie Klaverblad Verzekeringen U.A.	Pensioenfonds Schoonmaak
Coöperatie Menzis	Pensioenfonds Vervoer
Coöperatie Univé U.A.	PGGM
Coöperatie VGZ	PME pensioenfonds
CZ	Stad Holland Zorgverzekeraar
DNB Asset Management	Stichting Bedrijfspensioenfonds voor de Koopvaardij
DSW Ziektekostenverzekeringen NV	Stichting Bedrijfstakpensioenfonds voor de Mode-, Interieur-, Tapijt- en Textielindustrie
DSW Zorgverzekeraar	Storebrand Asset Management
Future Group	The Church Commissioners for England
Green Century Capital Management	Triodos Investment Management
Legal & General Investment Management	Van Lanschot Kempen Investment Management
MN	

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

BMW (Bayerischen Motoren Werke AG)

Dongfeng Motor Company

Mercedes-Benz Group

Ford Motor Co

General Motors Co

Great Wall Motor Company Limited

Honda

Hyundai Motor Co

Kia Corp

Nio Inc.

Nissan Motor Corporation

Renault SA

SAIC Motor Corporation Limited

Stellantis NV

Tesla

Toyota

Volkswagen AG

Volvo Cars AB

Zhejiang Geely Holding Group Co., Ltd.

EV Battery Producers

BYD Co. Ltd

CALB Group Co. Ltd

CATL (Contemporary Amperex Technology Co. Ltd)

Farasis Energy

Gotion High-tech CO Ltd.

LG Energy Solutions

Panasonic Corporation

Samsung SDI

SK Innovation

Sunwoda Electronic Co., Ltd

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 RMIs 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 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](#)