DECEMBER 2023

Issue Brief

CLIMATE & ENERGY

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LAND USE

CORRUPTION RISKS IN THE EV BATTERY SUPPLY CHAIN

What Advocates, Automakers and Fleet Purchasers Can Do

ETHAN ELKIND,
Climate Program Director, CLEE

SUSANNAH FITZGERALD,
Governance Officer, NRGI

OVERVIEW

The critical transition to electrified transportation – including electric buses, cars, trucks, and trains – has focused attention on the sustainability of the battery supply chain. While this transition is imperative to meet global climate goals, affected communities and mining justice advocates have sought to ensure that this new boom in clean technology minerals does not exacerbate longstanding negative impacts from the global mining industry. One of the keys to overall supply chain sustainability--including both mitigation of harmful impacts and securing long-term supplies--is reducing corruption.

I. WHY DOES ADDRESSING CORRUPTION MATTER?

Electrification advocates, automakers, and fleet purchasers should be concerned about mining sector corruption due to its potential impact on production timelines and the harm it can cause to the governance institutions and communities that are central to the electric vehicle supply chain. Furthermore, mining booms (like what is occurring to supply the electric vehicle sector now) have historically heightened the risk of corruption overall, as well as a range of related negative impacts.

A. Undermining production timelines

Corruption can derail needed supply-chain deployment. These delays can be significant: for example, the world's largest iron ore reserve in Simandou in the Republic of Guinea remains undeveloped 27 years after the first licenses were

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granted, largely due to years of legal wrangling and allegations of corruption. Repeating these delays in transition mineral supply chains could have severe consequences for the industry's ability to scale up the necessary infrastructure. Failure to address corruption in mineral supply chains can also slow and disrupt supply by deterring investment, nurturing arbitrary and unpredictable regulatory environments, and potentially exposing companies to long-term liability and sanctions.

B. Harms of corruption

Corruption is not a victimless crime. It can significantly undermine mining's contribution to public revenues and trust in governments and companies. For example, in the Democratic of Congo, copper and cobalt deals struck between 2010 and 2012 with the involvement of an agent now sanctioned for corruption under the U.S. Global Magnitsky Act, have led to a loss of at least USD 1.36 billion to the public purse. Without addressing governance risks, environmental and social safeguards can also be all too easily undermined. In an another example in Chile, a former economics minister allegedly took illegal payments from a lithium mining company to modify water regulations. Failing to address these negative impacts will contribute to backlash against mining developments, leading in turn to greater delays to supply.

C. Heightened risk

Corruption tends to increase during commodity booms and, given the expected demand for new minerals, the risk is substantial. At present, the transition to electrified transportation relies heavily on minerals sourced from countries where corruption presents a severe challenge. A 2021 study in the Journal of Cleaner Production estimated that 30 to 40% of the forecasted mineral production needed for decarbonization of the electricity and transport sectors will occur in countries with "weak, poor and failing resource governance." As much as 94% of rare earth reserves and 70% of cobalt reserves are found in countries that rank poorly in Transparency International's Corruption Perceptions Index.

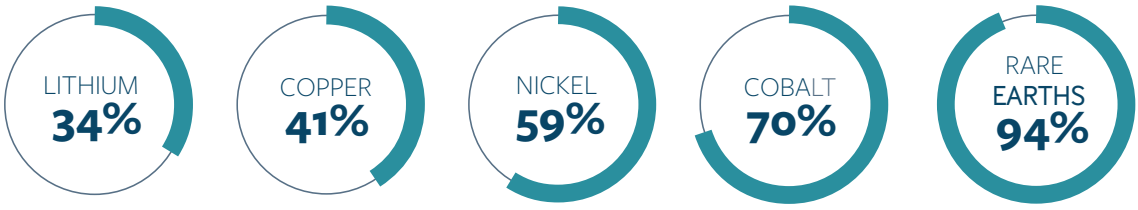

Figure 1. Percentage of energy transition minerals located in countries with high levels of corruption.
Source: NRGI, Preventing Corruption in Energy Transition Mineral Supply Chains

II. WHAT STEPS COULD DOWNSTREAM ACTORS TAKE TO HELP ADDRESS CORRUPTION IN THE SUPPLY CHAIN?

To address this challenge and present actionable solutions to address corruption risks, a leading group of experts working with NRGI issued the report Preventing Corruption in Energy Transition Mineral Supply Chains. Building on this work, this policy brief focuses on solutions tailored specifically towards automakers and fleet purchasers in "downstream" markets like the United States and European Union, which are major consumers of electric vehicles but not necessarily engaged in direct advocacy related to corruption within mineral-producing countries. By integrating these policy asks into existing advocacy, electrification and sustainable mining advocates can also help to ensure fairer and more efficient supply chains.

Battery manufacturers, automakers, and fleet purchasers could:

A. Integrate checks on corruption risks into responsible sourcing and due diligence systems.

To identify, prevent, and mitigate the risks of corruption, these companies could conduct due diligence on the mining companies and traders which provide the minerals used in their products. The Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals and accompanying FAQ on How to Address Bribery and Corruption Risks in Mineral Supply Chains provided detailed government-backed recommendations for these processes in mineral supply chains. Risks from supply chain relationships may directly affect company operations, and companies can leverage their influence to promote better practices and policies. However, when necessary, they should be willing to disengage or suspend engagement with suppliers.

Individual company efforts could in turn be supplemented by collective multi-stakeholder action. Industry responsible sourcing assurance programs and certification schemes could also more effectively integrate anticorruption due diligence checks into audits of member company's due diligence systems.

B. Encourage project-level contract, payment, commodity trading, and beneficial ownership transparency and robust ethics and compliance policies from suppliers.

Suppliers with strong disclosure and accountability mechanisms in place will be less susceptible to corruption, and companies further down the supply chain can seek to do business with such suppliers or encourage the adoption of stronger policies in existing supplier relationships (as part of its due diligence procedures). Companies could look for comprehensive project or sale-level disclosure of contracts and licenses, payments to governments, and verified beneficial ownership information, internal oversight and independence of ethics and compliance procedures, robust disciplinary and remediation procedures, and strong rules managing the "revolving door" dynamic (with government officials and industry leaders changing places), lobbying, and political donation. Companies could also consider the previous track record of suppliers, including corruption allegations or cases and subsequent remediation efforts.

Electrification and sustainable mining advocates in North America and Europe could:

C. Emphasize the importance of governance and anti-corruption measures in their advocacy.

Although measures to address corruption are foundational to ensuring real benefits for citizens in mineral-rich countries and avoiding environmental and social harms, policy makers and advocates too often overlook them. For example, experts have noted that the draft EU Corporate Sustainability Due Diligence Directive fails to include adverse governance impacts in its definitions, while the UN Special Rapporteur on the Situation of Human Rights Defenders highlighted the need for civil society groups to wholly embrace anticorruption defenders as human rights defenders.

To address this gap, advocates can better incorporate anticorruption into benchmarks or reports that assess companies' sustainability provisions and/or responsible sourcing. When engaging with automakers and fleet purchasers, advocates can encourage these stakeholders to consider corruption allegations and cases in their supplier decisions and highlight tools to identify specific companies in their supply chain, such as Resource Matters' Cobalt Supply Chain Map.

Advocates could also push for governments to incorporate strong anticorruption provisions into sustainability criteria for mining projects, in policies and legislation addressing responsible sourcing or due diligence, and in partnerships or trade deals with mineral-producing countries. They could also call for governments to hold mining and commodity trading companies registered in their jurisdictions to account for corruption committed abroad, using legislation like the Foreign Corrupt Practices Act, and ensure compensation for the victims of corruption.

III. THE IMPORTANCE OF DOWNSTREAM PRESSURE AND ACTION

With these actions, advocates and downstream companies have tools to ensure that corruption does not imperil the critical electric vehicle battery supply chain or exacerbate existing challenges in mineral-producing countries. While many reforms are still required inside mineral-producing countries, external actors, downstream companies, and purchasers have significant leverage to empower reformers on the ground. With these steps, they can help the electric vehicle boom avoid repeating the injustices, mistakes and corruption that have too often been endemic in countries that supply the raw materials that power the modern global economy.

Berkeley Law | Center for Law, Energy, & the Environment

Center for Law, Energy & the Environment
UC Berkeley School of Law
1995 University Avenue, Suite 460
Berkeley, CA 94704

clee.berkeley.edu
TWITTER: @BerkeleyLawCLEE
FACEBOOK: @BerkeleyLawCLEE
LINKEDIN: Center for Law, Energy & the Environment

Natural Resource Governance Institute

Natural Resource Governance Institute (NRGI)
88 Pine Street (Wall Street Plaza), Suite 540
New York, NY 10005

resourcegovernance.org