BRIEFING - MAY 2025

Battery due diligence rules: are carmakers ready?

Assessing carmakers' implementation of the EU Batteries Regulation due diligence obligations

Summary

As the world continues to shift to renewable energy systems and electric vehicles, which are key to achieving climate neutrality by 2050, ensuring sustainable and responsible battery supply chains is vital.

The EU Batteries Regulation due diligence rules, if implemented correctly, will be a turning point for green and ethical batteries. Under these rules, companies will need to identify, mitigate and account for human rights, environmental and climate change impacts in lithium, nickel, cobalt and graphite supply chains of batteries found on the EU market. With the rules due to enter into force in August, and at a time of increased pushback against sustainability requirements, now is the time to keep ambition high, and not lower the bar.

This briefing takes a look at carmakers' implementation of the EU Batteries Regulation due diligence rules to date, showcasing best practice examples and areas for improvement. The analysis, whilst not exhaustive, relies on publicly available data and builds on T&E's Pedal to the Metal study and Lead the Charge's Leaderboard results. It finds that:

- Overall, progress is being made. OEMs have started rolling out supply chain policies and transparency measures, preparing to meet the due diligence requirements. For example, whilst not all automakers are assessing all the necessary risks, the majority have some form of risk assessment in place. The key now will be to ensure that all risks are being assessed throughout entire supply chains in order for a comprehensive risk mitigation to take place.
- When looking at how individual environmental risks are mitigated, there has also been some progress across different actions. There has been significant progress in disclosing greenhouse gas emissions, with the majority of carmakers disclosing total scope 3 GHG emissions.
- Headway has also been made in implementing traceability systems. Whilst not all carmakers are tracing their battery minerals all the way back to the mine, a majority have some form of system in place.
- Nevertheless, gaps remain. Whilst carmakers have general policies on deforestation in their supply chains, only one has a concrete, time-bound commitment. In addition, whilst carmakers generally disclose their own water usage, they don't disclose water usage by suppliers. Progress in these areas would support risk mitigation.
- Finally, European automakers are much more advanced in their preparedness compared to Chinese OEMs, with European companies such as BMW and Mercedes, leading across numerous due diligence requirements, such as risk identification and assessment and supply chain traceability.

Carmakers' implementation of EU Battery Regulation Due Diligence rules

✔ Yes ✘ No

	Are risks properly identified and assessed?	Are raw materials traced all the way back to the mine?	How are environmental risks managed?		Are they a member of IRMA?
			Disclosure of GHG emissions	Commitment to no-deforestation	
Mercedes	✔	✔	Scope 3	Not time-bound	✔
Geely	Some	Limited information	Scope 1 and 2	Not time-bound	✘
Volkswagen	✔	✔	Scope 3	Not time-bound	✔
BYD	Some	Some	Scope 1 and 2	Not time-bound	✘
Stellantis	Some	✔	Scope 3	Not time-bound	✘
SAIC	✘	✘	Scope 1 and 2	✘	✘
Volvo	Some	✔	Scope 3	Not time-bound	No but some mine audits against IRMA
BMW	✔	✔	Scope 3	✔	✔
Tesla	✔	✔	Scope 3	✘	✔

Source: Lead the Charge Leaderboard and T&E analysis of public documents

T&E

It is therefore more important than ever for the European Commission to get implementation right. T&E calls on the European Commission to:

- **Keep the primary text of the battery regulation due diligence provisions** and refrain from any weakening of the obligations, focusing on pure reporting simplification.
- **Finalise the guidelines for implementation** of the due diligence requirements, according to best practice and in line with existing international standards, before entry into force of the rules, whilst ensuring notified bodies across all Member States are in place to verify compliance.
- If delaying the rules is unavoidable, it should be **a delay of no more than 1 year.**
- Establish **robust and targeted criteria for recognising due diligence schemes**, as foreseen under the Regulation. The criteria must ensure schemes can only be recognised if they demonstrate full alignment with the regulation.

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1. Implementing the EU Battery Regulation due diligence provisions

With the EU Batteries Regulation rules due to apply as of this summer, carmakers' are already preparing for their entry into force and have made significant progress in improving their supply chain practices. Nevertheless, there is still room for improvement with some companies leading the way across different areas and others lagging behind.

When it comes to having a **battery due diligence policy** in place, a number of carmakers already publish standalone public documents, setting out their due diligence policy and risk assessments for key battery minerals. For example, the Mercedes-Benz group publishes its annual Raw Materials Report, which analyses 24 critical raw materials across human rights and environmental risks and sets out the measures taken to reduce these risks. The Volkswagen Group Responsible Raw Materials Report similarly sets out their Responsible Supply Chain System, which identifies, assesses and addresses supply chain risks across 18 priority raw materials. In terms of the raw materials covered, these two companies clearly go above and beyond the minimum requirements of the legislation. However, as ever, the devil is in the detail and it is important to look across all the requirements and specific risk categories.

When looking at the details, one key requirement of the EU Battery Regulation is that the company incorporates its battery due diligence policy into **contracts and agreements with suppliers**. It is clear that more and more companies are including formal due diligence requirements in agreements with their suppliers. For example, Tesla, in their responsible sourcing policy, requires its suppliers to establish policies, due diligence frameworks, and management systems consistent with both the OECD Due Diligence Guidance for Responsible Business Conduct and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Nevertheless, this is not the case for all carmakers. Many require suppliers to only conduct due diligence for conflict-affected minerals. This is the case for Renault, who require suppliers to "proceed with due diligence for conflict-affected and high risks mineral, such as Tungsten, Tantalum, Tin, and Gold", as set out in their Procurement of Cobalt and Minerals from Conflict-affected and High-risk Areas policy. Whilst this is a good first step, in order to comply with the EU Batteries Regulation due diligence provisions, this must be extended to the key battery mineral supply chains.

1.1 Identifying and assessing risks along the battery supply chain

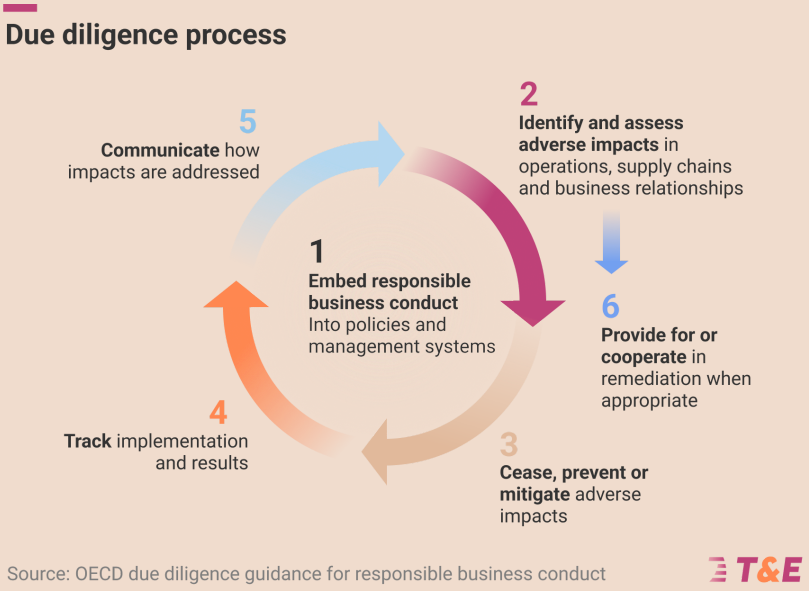
A key element of conducting due diligence is the identification, assessment and mitigation of risks along a supply chain. The EU Batteries Regulation due diligence requirements specifically cover three key risk categories: environment, climate and human health; human rights, labour rights and industrial relations; and community life, including that of indigenous peoples.

What do the EU Batteries Regulation due diligence rules entail?

A foundational requirement of the Regulation is for companies to establish an effective battery chain due diligence management system that addresses key social and environmental risk categories for four key battery minerals (cobalt, natural graphite, lithium and nickel).

Companies subject to the Regulation must:

- Adopt and communicate a company battery due diligence policy aligned with international standards;
- Develop strong company management systems in support of the policy;
- Implement a system of transparency and controls, such as a chain of custody or traceability system all the way to the mine;
- Establish grievance and remedy mechanisms;
- Identify and assess risks along the battery supply chain;
- Design and implement a strategy to respond to identified risks working with suppliers; and
- Have their battery materials due diligence systems verified by an independent third party.



When it comes to **environment, climate and human health risks**, the Mercedes Raw Materials report 2024 lists a number of environmental risks as salient risk areas for all their critical raw materials. With the exception of noise and energy use, all of the Batteries Regulation environmental risk categories are included as salient risks. The critical raw materials are assessed against these salient risk areas, and the report identifies in which raw material supply chain the risk is salient and where in the supply chain it occurs. For example, water scarcity was identified as an environmental risk of medium-high risk in its lithium supply chain.

Nevertheless, whilst companies may provide more detail on their human rights risk assessments, there is often less information included on environmental risk assessments. For example, Chinese automaker Geely details its human rights assessment method to identify salient human rights issues in its ESG report, however, it does not mention environmental risks.

There is slightly more developed information surrounding **human rights, labour rights and industrial relations risks**. For example, Volkswagen, in its Responsible Raw Materials Report, explains the process for identifying and mitigating risks across the key human and labour rights risk areas. It has identified human rights risks in its nickel supply chain, including working conditions, health and safety, and forced labor. Risk mitigation measures include contractual requirements and progressively applying the IRMA standard.

In contrast, BYD refers to a sustainability work plan in its CSR report, which includes the identification, evaluation and management of topics related to corporate governance, society and the environment. Although this includes risks to employees' rights, it does not appear to include or seek to identify and address human rights risks more broadly, therefore falling short of meeting the Battery Regulation requirements.

Finally, for risks to **community life, including that of indigenous peoples**, the Mercedes Raw Materials report 2024 lists "Community and indigenous peoples' rights" as a salient risk area. In contrast, other carmakers, such as Stellantis, do not disclose information on risks related to indigenous peoples. In parallel, some carmakers set out a public commitment to Free, Prior, and Informed Consent. Tesla commits to FPIC whilst Renault's Human Rights Policy also includes an explicit commitment to FPIC. Nevertheless, many other automakers, from Geely to Mercedes, do not include a commitment to FPIC.

2. Environmental Due Diligence

The EU Batteries Regulation outlines for the first time both social and environmental risk categories. Whilst for human rights risks there are existing international instruments and standards available, as outlined by the OECD responsible business conduct guidance, environmental due diligence on the other hand is more of a novelty. As part of conducting environmental due diligence, a company would need to identify and address environmental risks in their supply chain, such as water pollution, biodiversity loss or land degradation. As a result, it is important to shine a spotlight on carmakers' progress when it comes to implementation of environmental due diligence processes, and identify any gaps.

2.1 GHG Emissions

When it comes to addressing risks associated with greenhouse gas emissions, companies have been making progress, particularly when it comes to disclosing their scope 3 GHG emissions, which is an area where the most progress has been made and can support risk mitigation efforts. For example, Tesla discloses its scope 3 GHG emissions by category, including due to purchased goods and services, as set out in its Impact Report. However, SAIC only disclosed scope 1 and 2 GHG emissions in its 2023 Sustainability Report.

When looking at GHG risks in their supply chain, Tesla's case study of its Nickel supply chain in Indonesia demonstrates an example of best practice. In order to reduce its environmental impacts, they have requested and received four facility and production specific LCAs and GHG footprints, covering mines and smelters, with more expected. In addition, they have asked suppliers to set decarbonization targets and move away from captive coal, and to pursue lower-carbon processing options like High-Pressure Acid Leaching (HPAL) (as opposed to higher-emitting pyrometallurgical processes).

2.2 Water

Addressing risks to water pollution, water use, water quantities and access to water throughout supply chains is vital, and a key environmental risk category. Carmakers have taken steps to identify and mitigate these risks. For example, Geely includes a focus on resource use and conservation in its ESG report, including a focus on water management. Geely also discloses its water consumption for production, however it does not go as far as to disclose the water usage by key suppliers in its supply chain. Geely states that it requires suppliers to "formulate plans and annual targets for reducing water consumption".

Mercedes-Benz similarly provides disclosure of water consumption and withdrawal for its operations in its Sustainability Report. In its Responsible Sourcing Standards policy, Mercedes states that the partner is to protect the freshwater resource by using it efficiently, reducing freshwater consumption, and treating any process water that arises before it is discharged. On request, the partner is to report data on its water extraction, water consumption and wastewater to the MB group.

2.3 Biodiversity and deforestation

Extraction can have huge impacts on biodiversity and can lead to increased levels of deforestation. It is therefore critical that carmakers address biodiversity and deforestation risks in their supply chain to the point of extraction and there are a number of carmakers taking important steps in that regard.

For example, Volvo Cars, in its position on nature and biodiversity, sets out its lifecycle impact assessment method to calculate its biodiversity footprint. They also outline their commitment to collaborate with suppliers, retailers and partners in their value chain to identify sites in key biodiversity areas, establish awareness on biodiversity impacts, and access localised data. Tesla focusses on preserving natural environments around its gigafactors giving examples in its Impact Report including of its Gigafactory Nevada which partnered with a team of ecologists at the University of Nevada, Las Vegas to conduct habitat surveys to better understand and manage biodiversity on site. However, they provide less information on action taken to preserve natural environments throughout the supply chain.

BMW has signed the Deforestation-Free Call to Action (DFCTA) and committed to sourcing cowhides and related parts from supply chains free from deforestation and land conversion impacts by 2030, as set out in its Anti-Deforestation Policy. In contrast, Mercedes has a general

commitment to “Deforestation-Free Supply Chains” and has a related policy for its suppliers in its Responsible Sourcing Policy, however, there is no time-bound target, showing certain limitations.

2.4 Waste

Extraction of battery minerals create huge volumes of waste which, if not managed properly, can cause significant harm to the environment and people. Therefore, it is important to identify actions taken by carmakers to address these risks.

Tesla’s case study of its Nickel supply chain in Indonesia demonstrates how they have engaged with NGOs, government and suppliers to promote safer mine waste practices such as dry stacked tailings in order to address such risks. Mercedes, in its Responsible Sourcing Policy, requires its partners to set up appropriate waste management systems and procedures to properly classify, collect, store, treat and dispose of any waste generated on site. Nevertheless, Mercedes could include more detailed information in its Raw Materials Report on its activities to mitigate waste risks.

3. Driving greater transparency

3.1 Traceability

Under the Regulation, economic operators are required to implement a system of transparency and controls, such as a chain of custody or traceability system which identifies upstream actors in the supply chain and maps materials to the point of extraction. Such systems can be a good solution to offer transparency along battery supply chains. Nonetheless, these systems are only as good as the information that is put into them.

Volvo Cars’ program to map battery supply chains to the point of extraction is an example of a best in class traceability system. The company uses blockchain technology to increase the traceability of battery raw materials, assessing all tiers of its supply chain, from mining to manufacturing facilities. This has helped to drive greater transparency with regards to its supply chain.

In contrast, SAIC does not disclose any information on a supply chain traceability system and BYD states in its CSR report that they carry out “a mineral supply chain survey on suppliers of tantalum, tin, tungsten, gold and cobalt materials”. However, this does not cover all battery materials and it does not clarify whether this goes all the way to the point of extraction.

3.2 Grievance Mechanisms

The EU Batteries Regulation also foresees the establishment of grievance mechanisms, aligned with the UN Guiding Principles on Business and Human Rights. Carmakers have established a range of mechanisms, with varying degrees of independence.

BMW has put in place the BMW Group Compliance Contact, the BMW Group SpeakUP Line, and the Human Rights Contact Supply Chain. The company has also appointed an ombudsperson, serving as a neutral external person in the case of grievances. This demonstrates the clear existence of an independent, formal mechanism to report a grievance to an impartial entity.

In contrast, BYD does not appear to have formal mechanisms to submit grievances regarding human rights issues in the supply chain. The company has put in place reporting channels for corruption and other integrity complaints but does not go beyond this.

3.3 Voluntary Schemes

Recognition of Industry Schemes

The Batteries Regulation allows for companies to use voluntary industry schemes to support them in meeting the requirements of the legislation. The proponents of such schemes will have to apply to the European Commission to be recognised. Prior to this, the European Commission is due to set out criteria for the recognition of any such scheme.

Industry schemes cannot replace an economic operator's due diligence obligations, however they can serve as an important tool, particularly when it comes to gathering information on suppliers. Nevertheless, schemes are not always equipped to meet all the legislative requirements, and therefore any company must retain responsibility for conducting due diligence throughout the entire supply chain, relying on a variety of sources, rather than on one scheme.

It is clear that automakers are using a range of schemes to support their due diligence processes. The Initiative for Responsible Sourcing Assurance (IRMA) is one of the strongest standards available today that is able to provide information transparently.

Several carmakers are members of IRMA. Mercedes uses the standard as a precondition in all battery-related contracts and requires suppliers to exclusively use cobalt, lithium, nickel, natural graphite, manganese and copper from IRMA-audited mines in newly commissioned supplies.

4. Recommendations

Overall, it is clear that a lot of OEMs have started rolling out supply chain policies and transparency measures. The analysis, whilst not exhaustive, relies on publicly available data and builds on the Lead the Charge Leaderboard results, exploring examples from different automakers. It finds that:

- Overall, progress is being made. OEMs have started rolling out supply chain policies and transparency measures, preparing to meet the due diligence requirements. For example, whilst not all automakers are assessing all the necessary risks, the majority have some form of risk assessment in place. The key now will be to ensure that all risks are being assessed throughout entire supply chains in order for a comprehensive risk mitigation to take place.
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The progress seen is in a large part a testament to the important role of regulation in driving better performance by businesses. Therefore, weakening the battery due diligence rules now would penalise first movers. With carmakers broadly making good progress, now is the time to prioritise implementation and provide support in areas where progress is still needed.

Moreover, it is clear that European companies, who have a strong history of corporate social responsibility practices when compared with competitors from outside the EU, are already leading on numerous due diligence requirements. Therefore, these rules will give an important competitive advantage to a strategic European industry.

4.1 Recommendations for policymakers

It is therefore more important than ever for the European Commission to get the implementation right. T&E calls on the European Commission to:

- **Keep the primary text of the battery regulation due diligence provisions** and refrain from any weakening of the obligations, focusing on pure reporting simplification
- **Finalise the guidelines for implementation** of the due diligence requirements, according to best practice and in line with existing international standards, before entry into force of the rules, whilst ensuring notified bodies across all Member States are in place to verify compliance
- If delaying the rules is unavoidable, it should be **a delay of no more than 1 year**
- Establish **robust and targeted criteria for recognising due diligence schemes**, as foreseen under the regulation. The criteria must ensure schemes can only be recognised if they demonstrate full alignment with the regulation whilst allowing for the uptake of schemes to support both companies and notified bodies.

4.2 Recommendations for carmakers

- Despite regulatory uncertainty, carmakers should keep up their focus on risk based due diligence, with alignment with international frameworks such as the OECD guidelines more important than ever.
- Carmakers should conduct supply chain due diligence, in line with international standards, in order to avoid potential reputational risks, secure their supply chain resilience and provide a competitive advantage.

Further information

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