



**SHAREHOLDERS
for CHANGE**

RARE METALS SUPPLY CHAINS

**CHALLENGES
FOR A SUSTAINABLE
ENERGY TRANSITION**



FINAL ENGAGEMENT RESULTS

January 2024



SHAREHOLDERS *for* CHANGE

Created in 2017, Shareholders for Change is a European network for shareholder engagement, composed of institutional investors representing over €35 billion in assets under management.

Its members are highly involved in shareholder engagement at the local level, participating jointly in general meetings, co-signing letters to businesses and meeting with companies to discuss their respective commitments. The network describes itself primarily as a “facilitator platform”.

Its 17 members are based in seven different countries:

Germany (Bank für Kirche und Caritas eG and GLS Investments), Austria (Fair-finance Vorsorgekasse), Spain (Fundación Finanzas Éticas), France (Meeschaert AM, Ecofi, Sanso IS and Phitrust), Italy (Etica Sgr and Fondazione Finanza Etica), Switzerland (ABS - Alternative Bank Schweiz, Ethos Foundation, Forma Futura, Ethius Invest and Inyova), UK (Friends Provident Foundation and Wheb AM).

RARE METALS SUPPLY CHAINS

Challenges for a sustainable energy transition

FINAL ENGAGEMENT RESULTS

January 2024

Rare Metals	4
The end of a (partially) successful engagement	
Results of the second phase of the engagement	5
• Wind power sector	5
• Automotive sector	6
• Chemical sector	7

RARE METALS

THE END OF A (PARTIALLY) SUCCESSFUL ENGAGEMENT

In July 2019, **Shareholders for Change** published the report “Rare metal supply chains”, (<https://www.shareholdersforchange.eu/rare-metals-12-companies-targeted-by-sfc/>) developed by our French member Meeschaert Asset Management. The report focussed on ESG risks in the supply chain of ‘rare earths’, such as praseodymium or neodymium, on ‘rare metals’, such as cobalt and lithium. Both these groups of chemical elements are fundamental components of the energy transition. They are found in wind turbines, electric car batteries, photovoltaic panels and energy-saving light bulbs.

However, as SfC research has shown, they have at least two main problems: they are extracted and marketed mainly by China, which operates in a quasi-monopoly situation, or from countries at risk for human rights, such as the Democratic Republic of Congo (cobalt). And they are exposed to a number of risks, both for the environment (groundwater pollution, soil erosion, toxic wastewater discharge) and for workers (lack of protection).

SfC’s research identified twelve companies potentially exposed to risks related to the extraction and use of rare metals

and rare earths: Vestas, Siemens-Gameasa, Orsted, Iberdrola and Nordex in the wind power sector; PSA (today Stellantis), Renault, Daimler and BMW in the automotive sector; Johnson Matthey, Umicore and Solvay in the chemical sector (associated with electric cars).

SfC members engaged each of these companies, asking questions via letters and mails, in meetings with the management or even at annual general meetings. They asked for more disclosure on supply chains and on the monitoring of ESG risks.

The first phase of the engagement ended in August 2021 with the publication of the first ‘engagement results’ (<https://www.shareholdersforchange.eu/rare-metals-first-positive-results-from-sfc-engagement-with-12-companies/>). Companies generally cooperated with SfC, the dialogue was mostly successful: In 80% of the cases, the answers given were ‘good’ or ‘very good’.

However, the engagement identified some problems that seemed to be structural and common to almost all companies in the three sectors considered. First of all, audits almost exclusively

concerned direct, or “Tier 1” suppliers, who are just intermediaries. Those potentially involved in environmental or social violations at the end of the chain are usually not monitored.

The second problem concerned metal recycling, which is still at a very early stage: only 1% of the materials used are actually recycled.

Both issues were addressed in the second phase of the engagement, where companies were asked not only to disclose information (as in the first phase) but also to commit to specific suppliers auditing also beyond Tier 1 suppliers and recycling targets.

The issues to be addressed are complex and often not easy to solve by individual companies. They require the commitment of entire sectors, new regulations and possibly subsidies from countries. For this reason, in the second phase of its engagement, SfC consulted international experts, such as Professor Julie Klinger, assistant professor in the Department of Geography and Spatial Sciences at the University of Delaware and author of the book “Rare Earth Frontiers” to better formulate the engagement demands for the companies.

RESULTS OF THE SECOND PHASE OF THE ENGAGEMENT

WIND POWER SECTOR

In the wind power sector, the second phase of the engagement delivered positive results for Siemens-Gamesa and Orsted, as specified in the table below. While there is still room for improvement for both Vestas and Iberdrola, which aren't committed to extending their supply chain monitoring beyond Tier-1 or improving sourcing of recycled metals.

Wind Energy

Companies	Engagement leader	Rating	Room for improvement
Vestas	Etica Sgr	C	No commitment to extend auditing to Tier-2 suppliers. No commitment to recycling targets.
Siemens-Gamesa	Ethos	A	Progress was made on auditing suppliers beyond Tier-1 and on rare earth and metals recycling efforts. The company could improve the transparency regarding the results of supplier and grievance mechanism audits.
Orsted	Etica Sgr	A	The company's response was satisfactory. Tier-2 suppliers are already monitored. The company committed to extend the monitoring beyond Tier-2. The company is engaging key suppliers of turbines on recycling.
Iberdrola	Fundacion Finanzas Eticas	C	No specific commitment on rare earth and rare metals.
Nordex	Alternative Bank Schweiz	N/A	The use of rare earth materials in wind turbines is very limited because Nordex is a pure onshore manufacturer. The topic is not relevant for Nordex.

AUTOMOTIVE SECTOR

In the automotive power sector, the second phase of the engagement yielded generally positive results for all the engaged companies, although there is still room for improvement, as specified in the table below.

Companies	Engagement leader	Rating	Room for improvement
PSA - Stellantis	Meeschaert AM	B	The company has committed to an extensive monitoring of suppliers and to recycling some crucial rare metals (cobalt, nickel and lithium). There is room for improvement in reporting on the rare earths' supply chain, although it just represents 1% of the company's spendings.
Renault	Ecofi	B	Renault has put in place a preventive approach for 'rare earth free' vehicles. Renault committed to recycling 33% of battery materials by 2030. The supply chain monitoring is still limited to Tier 1 but Renault imposes its standards on direct suppliers, who must apply them to their subcontractors. From 2023 onwards, the company's raw materials program has become more 'interventionist'.
Daimler	Ecofi	B	The company has committed to defining appropriate measures to deal with 100% of raw materials that present an increased risk of human rights violations by 2028. Daimler has set itself the target of increasing the proportion of secondary raw materials in its vehicle fleet to an average of 40% by 2030.
BMW	Bank für Kirche und Caritas	B	The company's due diligence team is well equipped and while Tier-1 suppliers (usually outside China) are well monitored and supervised, this is only partly possible in the case of Tier-2 suppliers. BMW is member of several sector initiatives to improve social and environmental risks in the supply chains. However, a clear commitment and a timeline to extend due diligence to Tier-2 was not provided yet. BMW claims to be fully on track to meet all regulatory recycling requirements. However, there is no specific quote or timeframe of a recycling target disclosed. ¹

¹ The allegations published in the press in November 2023 against BMW for environmental pollution at one of its suppliers in Morocco were not yet known at the time of the engagement and were therefore not the subject of this engagement.

CHEMICAL SECTOR

In the chemical sector, the second phase of the engagement yielded particularly positive results for Johnson Matthey and Solvay, as specified in the table below. While there is still room for improvement for Umicore, which was vague about the effective commitment of suppliers to monitoring their own supply chains and hasn't set specific targets for recycling yet.

Companies	Engagement leader	Rating	Room for improvement
Johnson Matthey	Etica Sgr	A	The supply chain monitoring does not extend to suppliers beyond Tier-1, because they are not willing to disclose adequate information about their own suppliers. The company is engaging its Tier-1 suppliers to close this gap. Johnson Matthey is the largest recycler of rare metals in the platinum group (pgm) family. Over 70% of pgms come from end-of-life sources. The company has recently set a public target to further increase this percentage.
Umicore	Forma Futura	B	The company's Sustainable Procurement Charter includes a commitment of suppliers to undertake sustainable procurement in their own supply chains. No specific targets have been set for recycling.
Solvay	Fondazione Finanza Etica/ Meeschaert AM	A	The company is committed to increasing the sourcing of rare metals outside China. This reached 66% in 2022, up by 9 percentage points compared to 2021. 86% of Solvay's supply comes from integrated companies which own their own mines. For the remaining, the company is currently implementing a platform, called Risk Methods, to screen ESG risk in the supply chain. When completed, this should help have visibility on Tier-2 suppliers going forward. Solvay is investing in a Rare Earths hub in France that will play a proactive role in the recycling of Magnets. It is expected to be at full capacity by 2030.

KEY OF RATING

- A** The company did or committed to do what was requested (with a precise timeline)
- B** The company partly did or committed to do what was requested (with a precise timeline)
- C** The company vaguely did or committed to do what was requested (without a precise timeline)
- D** The company was cooperative and fully disclosed requested information
- E** The company did not want to enter a dialogue or only partly disclosed requested information
- N/A** The company was cooperative but the topic was not relevant

Published in January 2024 by Sfc - Shareholders for Change
www.shareholdersforchange.eu

