



Who
made
my
clothes?

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-Katja KRIEGE, Daniel WEISS

Image Source: Wikimedia Commons. April 22, 2015. A protestor holds a poster to promote the #WhoMadeMyClothes movement and shows off a clothing tag that displays where the scarf was manufactured. Photo Credit: marissaorton.
https://commons.wikimedia.org/wiki/File:Who_Made_My_Clothes_Poster.jpg



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How do regulations for due diligence and circularity match up?

Over the course of the last decade, we have witnessed a regulatory push in the Global North, requiring companies to enforce supply chain due diligence.

The 2010 Dodd-Frank Act was a landmark with regard to conflict minerals. We have also seen the adoption of the Modern Slavery Act in the United Kingdom in 2015, the Duty of Vigilance Law in France in 2017, and, in 2021 the German Supply Chain Due Diligence Act, to name a few. And this trend continues with more regulations currently being de-

veloped, in particular the EU Due Diligence Directive; the draft law was published in March 2022.

Conducting due diligence is about identifying, preventing, mitigating and accounting for how actual and potential adverse impacts are addressed in a system - within its own operations, its supply chain and through other business relationships.

Practice shows that companies feel particularly motivated to implement thorough due diligence processes when they are subject to regulation. Even though various observers and experts regard the legislation in place as not effective enough, there has been more due diligence practice enforced in the private sector.

Due diligence processes can address both human rights and environmental impacts. A key objective is to cease, prevent or mitigate adverse impacts. Severe adverse impacts can often be found at the beginning of supply chains when primary raw materials are extracted or processed.

There is a variety of possible actions a company can take to address negative impacts. In general, only the combination of several measures over a longer period of time has a major effect. This is why policy makers and companies alike need to explore (further) promising options.

Circularity solutions for sustainable supply chains

Circularity offers to substitute primary raw materials with recycled, secondary raw materials. Thus, it offers the potential to reduce or cease negative impacts related to primary raw materials.

Does this mean we achieve a perfect match? Several potential implications and questions come into mind.

Let's take the example of lithium-ion batteries which are used for electric vehicles. Various minerals, including copper, cobalt and lithium, are used in these batteries. Their extraction is associated with severe negative human rights and environmental risks.

Several of the minerals are also scarce, such as lithium and cobalt. Today, around 32 million electric vehicles exist, of which 8 million are BEV (battery-powered electric vehicles). It is predicted that these numbers will increase by 25% per year until 2030. It goes without saying that this in turn increases the pressure on raw material availability.

The increased demand for these raw materials may also incentivize recycling. Experts suggest that direct recycling is more attractive than a second life of the battery, e.g., for energy storage. An apparent market potential and preparations for a thriving battery recycling market can be observed in the Global North and South alike. For example,

Redwood, a 4-year-old start-up in the US, scored US\$ 700 million risk capital in 2021, the 5th highest amount that was granted that year. Alternatively, take Gravita India, the biggest battery recycler in India which announced its venture into li-ion battery recycling. The company also plans to recycle in different African states, providing a change in the previous process of importing scrap to India for recycling.

Given that implementing human rights and environmental due diligence upstream of value chains can be challenging, it makes more sense to look at circular solutions. Due diligence risk assessments need to be carried out for specific supply chains since the severity and likelihood of negative impacts depend on several factors. This includes, for instance, the geological situation, whether open-pit or underground mining is needed, whether only large-scale or artisanal mining is (also) taking place, whether state-of-the-art technology is in place, (e.g., filters to prevent pollution or best practice safety measures) or whether the mine is located directly in or in the proximity of an area that is highly populated or has a high biodiversity value. The cost of implementing due diligence across the value chain could increase the cost factor of primary raw materials. In turn, this could increase the attractiveness of secondary/recycled raw materials.

To conclude, the case of more circularity for EV li-ion batteries illustrates that several scenarios and dynamics between due diligence and circularity can be sketched out.

The rising demand for batteries will continue to require primary raw materials and thus respective due diligence processes. Like any other processes, battery recycling will also need to be part of due diligence processes to prevent impacts such as labor exploitation or environmental pollution. In the case of li-ion batteries, recycling is currently regulated differently across countries, and the lack of standardization of the battery models makes disassembling and reassembling of batteries a largely manual process.

Thus, a comprehensive set of factors should be considered when setting the frameworks for these recycling markets, and the consequences this may have for the primary raw material markets. Since the li-ion battery recycling market is a new one, it provides us with the opportunity to get things right from the start.

Selected links:

https://www.europarl.europa.eu/doceo/document/TA-9-2021-0073_EN.html

<https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm>

<https://electricvehicles.in/gravita-india-largest-battery-recycling-firm-enters-into-ev-recycling-business/>

<https://www.forbes.com/sites/alanohnsman/2021/07/28/redwood-materials-raises-700-million-in-race-to-revolutionize-battery-recycling-for-electric-cars/>

<https://www.bcg.com/publications/2020/case-for-circular-economy-in-electric-vehicle-batteries>