

# Sustainable Raw Materials Sourcing: From Compliance to Impactful Engagement

CSR EUROPE'S MATERIALS LEADERSHIP HUB'S  
POSITION PAPER

# The Real Deal:

## Enhancing Livelihoods through Responsible Supply Chains

Supply chains pose great challenges for individuals, groups, and businesses due to the geographic and cultural distances, as well as the disconnects between operating companies and their suppliers. These challenges encompass a range of issues, including the looming risks of environmental damage, human rights violations, and the complexities associated with transparency and traceability. However, the most crucial aspect is that **supply chains significantly impact local ecosystems and hold the potential to either facilitate or hinder the improvement of people's living standards and environmental conditions.**

To develop resilient and responsible supply chains that align with the [UN Guiding Principles on Business and Human Rights \(UNGPs\)](#) and other global ethical standards, such as [the Sustainable Development Goals](#), [the OECD Guidelines for Multinational Enterprises](#), [the Principles for Responsible Investing](#), **it is imperative to engage all stakeholders**, including governments, communities, and civil society as well as businesses.

The regulatory framework coming from national and European policymakers aims to **create a level playing field among companies operating both within and outside the European Union.** The Proposed [Corporate Sustainability Due Diligence Directive \(CS3D\)](#) sets out a horizontal framework to encourage businesses operating within the EU single market to uphold human rights and environmental standards across their operations and value chains. Complementing the CS3D, the European Commission has proposed additional legislation to reinforce its regulatory efforts towards supply chain transparency and responsibility. These include the [Proposal for a Regulation on batteries](#), [the Proposal for a Regulation on deforestation-free products](#), [the Proposal for a Regulation to prohibit products made with forced labour on the Union market](#).

The real goal of engaging with supply chains is to **drive improvements in environmental and social conditions within and surrounding business operations.** There is a risk that this may be overshadowed by the strong emphasis on individual



responsibility and potential liability of CEOs and other persons in charge, as outlined in proposed legislations.

Instead of focusing on assuring customers or downstream businesses, **efforts should be made to improve the way goods, services, components, and raw materials are sourced and produced.** The ultimate challenge for a responsible supply chain lies in actively contributing to human security, quality development and initiatives such as a Just Transition, effectively mitigating risks to people and communities, and creating opportunities for improved livelihoods while safeguarding the environment and climate.

Moreover, **regulations that discourage companies from operating in fragile and high-risk areas or engaging with such suppliers may inadvertently lead to adverse impacts,** particularly affecting smallholder farmers and workers. These impacts could include the loss of livelihoods and increased vulnerability to illicit and ungoverned activities. At the same time, there has been a call from civil society groups for more attention for conflict-sensitivity in the new EU regulations, given the increased risk of businesses being complicit in gross human rights violations. It is recommended that the EU directive should specify that companies are obliged to conduct heightened, conflict-sensitive due diligence in all cases where they operate in a conflict-affected or high-risk area or are linked to it in their upstream and downstream value chains.<sup>1</sup>



# The Materials Leadership Hub

## From Due Diligence Requirements to Real Impact in Raw Materials Sourcing

The [CSR Europe's Materials Leadership Hub](#) aimed at facilitating companies' efforts to **move beyond compliance with due diligence requirements to real positive impact in the sourcing of raw materials.**

Within the Hub, leading member companies **ArcelorMittal, BASF, Coca-Cola in Europe, Enel, Solvay, and Toyota, the German CSR Network UPI and Knowledge Partner LSE** worked together with European policymakers from DG Grow, DG Trade, and DG Intpa, representatives of governments and civil society to strike an optimum balance between:

- 1. Due diligence practices** mandated by existing and forthcoming legislation;
- 2. Engagement** with local suppliers and a value chain investment strategy;
- 3. Going beyond mere compliance** to achieve positive social impacts.

Together, they also addressed specific additional challenges faced by European raw materials supply chains, that is **access to materials, securing the availability of sustainably sourced resources and agricultural products.**

The results of this intense engagement and the Materials Leadership Hub's policy recommendations have been collected in this position paper.

<sup>1</sup> [Joint Statement on Conflict & Due Diligence Legislation, August 2022](#)

# 1. Companies' Human Rights Due Diligence Experience: Mere Compliance, Risk Containment, or Strategic Intelligence?

The latest [Corporate Human Rights Benchmark](#) by the World Benchmarking Alliance demonstrates an **increase in human rights compliance among corporations**. According to the report, significant improvements have been observed, with 66% of food and agriculture companies, 65% of ICT companies, and 57% of automotive companies enhancing their scores on crucial human rights indicators compared to the previous year. This outcome is further supported by other studies, including **the 2020 European Commission Study on due diligence requirements through the supply chain**.<sup>2</sup> The study reveals that a third of respondent companies, spanning all sectors, acknowledged actively engaging in this area and considering all human rights and environmental impacts within their business operations. However, it still seems that **due diligence practices for human rights and climate change respectively have to a certain extent developed in “silos” within companies**. Additionally, as remarked by DG INTPA's and the International Trade Center's Guidance document designing effective and inclusive accompanying support to due diligence legislation, “lead companies rarely know all the moving parts in their global value chain, and seldom trace their product from raw material to recycling”.<sup>3</sup>

This highlights not only a **lack of traceability and transparency but also a failure to “connect the dots” between potential human rights abuses and negative externalities**. While these issues may seem insignificant when viewed in isolation,

they can accumulate and result in significant, and potentially criminal, harms in the future.

According to the World Benchmarking Alliance, companies have made notable progress in identifying and assessing risks, as well as taking action to address them. However, **there is considerable room for improvement** in terms of tracking the effectiveness of these actions and communicating them back to stakeholders. Very few companies really disclose how they are actively engaging stakeholders throughout the process and integrate this valuable intelligence into their risk management and decision-making processes.

However, **companies do set in place collaborative efforts with the aim of complying with national, European and international frameworks**. There are examples of companies engaging with different partners to strengthen their commitment to respect human rights. Thus, **there is scope for more active and effective due diligence practices**, which also take better account of the hazards of managing supply chains that extend to fragile and crisis-affected areas.

In such contexts, where good governance is lacking and local populations are highly vulnerable, there is a compelling case for **moving beyond a mere “tick the box” approach to a more active strategy that uses frameworks** such as the UNGPs and the new CS3D to actively identify and mitigate risks – both to the business and the local population – and

<sup>2</sup> European Commission, “Study on due diligence requirements through the supply chain”, (2020). Access here: [Study on due diligence requirements through the supply chain - Publications Office of the EU \(europa.eu\)](#)

<sup>3</sup> European Commission (DG INTPA), International Trade Center, “Making Mandatory Human Rights and Environmental Due Diligence Work for All Guidance on designing effective and inclusive accompanying support to due diligence legislation”, (2022). Access here: [https://international-partnerships.ec.europa.eu/system/files/2022-07/making-mandatory-human-rights-and-environmental-due-diligence-work-for-all\\_en.pdf](https://international-partnerships.ec.europa.eu/system/files/2022-07/making-mandatory-human-rights-and-environmental-due-diligence-work-for-all_en.pdf)

incorporate this action into their overall business strategy.

One of the main challenges for companies is **how to operationalise human rights due diligence in high-risk settings**. Enhanced Human Rights Due Diligence (HRDD) is needed in these settings but if regulation forces compliance practices that are too complicated, companies may consider withdrawing from specific territories to the detriment of local economies. To strike a balance, the guidance tools that exist for conflict-sensitive business are useful to

help companies assess HR risks, inform regulation, and move from compliance towards positive impact. However, companies' approaches to due diligence practices in their value chain, should not only be a reaction to the regulatory pressure, but an opportunity to **create value for the suppliers they engage with and the people they meet on the ground, at the local level**. Building on this, a regulator has an important facilitating role in shaping new behaviours and practices that work for both business and wider society.

## Policy recommendations

1. **Policy makers should not only focus on regulatory compliance and the creation of standards and implementation criteria. They should provide the opportunity and funding for sectors and stakeholders to collaborate** to address identified risks, stimulate a drive for best practice and engage with local stakeholders for further improvement. The Dutch experience with the **International Corporate Social Responsibility Agreements** is a good example of such an approach.<sup>4</sup> In the Netherlands, the International RBC Sector Agreements ('convenanten'), bringing all parties around the table in sectoral agreements on responsible business conduct, showed how the role of government (national and at the EU level) can be broader than "just" a regulatory one. However, an independent evaluation of the sector agreements showed that **progress on due diligence is too limited to identify concrete impacts**. Also, there is a lack of concrete and independent evidence of impact in the projects implemented through the sector agreements. Finally, **no reduction in negative impacts in global value chains has been observed** as a result of the RBC agreements.<sup>5</sup> An important lesson from the Dutch experience is that **one cannot rely on voluntary agreements alone and that they cannot be seen as a replacement for mandatory requirements, but as an additional and useful tool**.
2. Building on the above, the European Commission should **align and work structurally in coordination with existing voluntary business initiatives that are being organised in different sectors and/or supply chains** (e.g. Together For Sustainability in the chemical sector, JAC in telecommunication sector, Drive Sustainability in the automotive sector). **A specific funding system** to encourage those initiatives would promote a needed and proactive take towards this approach. **Cross-sectoral co-ordination** to help companies share and learn best practices across the board and create standardised templates for strategy development and reporting, could also be facilitated by the EC.
3. In the Trade Agreements the European Commission negotiates with third country partners, it is encouraged to **strengthen the inclusion of sustainable development provisions and link them proactively to supply chains of downstream companies**. For that purpose, the European External Action Service (EEAS) and the network of EU Delegations have a key role to play to provide the platform for such engagement.
4. The transposition of the CS3D directive by EU member states also needs to **focus on the way the accompanying measures (as shaped by Article 14 of the CS3D) will be implemented**.

<sup>4</sup> See also the [International Corporate Social Responsibility \(ICSR\) | Business.gov.nl](#).

<sup>5</sup> Bitzer, Verena, Rob Kuijpers, Katrine Danielsen, Anne Rappoldt, Irene Visser and Helena Posthumus. 2020. [Evaluation of the Dutch RBC Agreements 2014-2020: Are voluntary multi-stakeholder approaches to responsible business conduct effective?](#) KIT Royal Tropical Institute: Amsterdam.

## 2. Action within and with supply chains

### What kind of intervention, engagement, and innovation, and intelligence?

The new geo-economic situation, characterized by shifts in global trade relations and political instability, has had a profound influence on companies' efforts to achieve **sustainable sourcing**. The altered global system has **amplified the vulnerability to supply chain disruptions while simultaneously intensifying regulatory pressures on businesses**. In response to these challenges, companies regard **collaboration with their supply chain partners as a positive remedy**.

Global value chains, and in particular critical raw materials value chains, are impacted by detrimental effects of natural or man-made hazards. The risks in critical value chains have been made apparent by the COVID-19 crisis while the frequency and impact of those shocks are likely to increase in the future, constituting a driver for inflation and leading to a subsequent increase of **macroeconomic volatility** as well as **market and trade uncertainty**.

#### 2.1 SUPPLIERS' ENGAGEMENT

A company response to this challenge is the development of specific **supplier engagement programmes**. When sustainability is an integral part of such a programme it allows companies to create a supply chain that is **greener, more flexible, and more resilient and assures shared sustainability for all**.

Examples of this include **Solvay's** Supplier Engagement Program and **Enel's** Supplier Development Program, both of which aim at improving the company's collaboration with suppliers.



#### CASE STUDY #1

##### Solvay Suppliers Engagement

Solvay's Supplier Engagement program, initiated in April 2021, seeks to collaborate with suppliers in developing innovative solutions for **reducing the CO2 footprint of raw materials** while ensuring a holistic approach that considers environmental and social impacts. It goes beyond sharing carbon footprint data and focuses on **establishing trust and transparent communication with suppliers** to address the climate emergency effectively.

This program commenced with three key events - Inspiration days, thematic workshops, and supplier engagement days & award ceremony in March 2022 - and has the objective to translate sustainability discussions into **concrete projects**, resulting in numerous collaborative opportunities. Several of the latter have been already underway in 2022, marking a successful journey towards sustainable innovation.



## CASE STUDY #2

### Enel Supplier Development Program

Enel recognizes the crucial role of suppliers in the journey towards decarbonization and has implemented various strategies to support them. The company's actions focus on enhancing **supplier resilience and reducing pressure on critical materials and components through technology innovation and recycling**. Enel is also committed to promoting business reconversion and diversification among its suppliers, fostering awareness, and facilitating a constructive dialogue for a just transition.

One notable initiative is the **Supplier Development Program**, initially launched in Italy and now extending to other countries where Enel operates. This program prioritizes small and medium-sized enterprises (SMEs) in strategic sectors. Enel offers direct support to these suppliers, including financial instruments, managerial and technical training, sustainability consulting, access to transport and machinery catalogues, and certification services.

The company's goals include **raising awareness about sustainability and digitalization, reducing supplier dependence, strengthening their financial positions, and internationalizing their businesses**. Enel aims to empower its suppliers for growth, expansion into renewable energy and energy-efficient services, and international markets, contributing to a more sustainable and diversified supply chain.

## 2.2 COLLABORATIVE INITIATIVES

Furthermore, several collaborative projects provide companies with opportunities to enhance their practices and mitigate the adverse environmental, wildlife, and community impacts associated with their business operations across the value chain. [The Roundtable on Sustainable Palm Oil](#), [the Global Platform for Sustainable Natural Rubber](#), [Drive Sustainability](#), [the Responsible Jewellery Council](#) are just some examples of sector/materials supply chain initiatives that have emerged within Europe or with significant participation from European companies and stakeholders. However, companies are also facing challenges to set up collaborative frameworks that aim at achieving **practical and beyond-compliance results**. The time needed to create a functional collaborative structure needs to be considered when addressing the matter. Considering the importance of collaboration and the significant number of companies that may require reinforcement of their supply chain engagement, it is advisable for companies to contemplate **coordinating engagement efforts through their sectoral associations or relevant cross-sector multistakeholder initiatives**.



## 2.3 LOCAL UPSTREAM ENGAGEMENT

The development of resilient and responsible supply chains is a **joint learning process**, not only for companies but also for civil society, governments, communities, and stakeholders. A key aspect of this process is engaging with “expert” actors from civil society and other value chain participants, in particular upstream supplier, and producer countries. This collaboration, as emphasized by the European Commission’s DG International Partnership (INTPA), plays a crucial role in enhancing corporate engagement and fostering the development of best practices and shared learning to improve social and environmental performance. Local communities are in the best position to assess and define the nature and severity of threats and risks, and therefore assisting companies in understanding and addressing gaps in supply chain resilience and effectiveness. Generally, engaging with stakeholders such as communities, including vulnerable and marginalised groups, human rights defenders, trade unions and grassroots organisations should inform a company’s due diligence approach. **Meaningful and long-term stakeholder engagement is essential for companies** to ensure that actions to address negative impacts are tailored to stakeholders’ needs and experiences, as well as to reveal opportunities for positive interventions which improve the local ecosystem – jobs, living conditions and people’s rights – which can bring benefits both to business and the supplier community. Moreover, to engage more actors along their value chain and expand their collaborative efforts, companies could work with tier 1 suppliers and cascade this engagement down to lower levels. Tier 1 suppliers can be trained and formed by the company to behave in a constructive way with the other levels of the supply chain, cascading this approach.

**What does meaningful stakeholder engagement mean and how do companies ensure that their presence leads to positive social change for the people and communities?** The value added of the Human Security approach is that it helps – through a continuing partnership structure – to define what



good and meaningful looks like, and to align the diverse interests at community level.

The Human Security Business Partnership Framework (HSBP), developed by LSE IDEAS, introduces a strategy for establishing long-term positive relationships between business and communities. Despite their distinct interests, these groups can collectively identify and broaden areas of shared interests and capabilities through mutual dialogue and commitment. Partnerships have both a risk mitigation value as well as an opportunity potential, helping companies to understand, identify and ultimately track and measure their social impacts.

These types of collaborations can be initiated at key points of the supply chain to serve as the framework for businesses to cooperate with supplier communities to understand social and economic concerns and potential risks, get precise and current information from the field, and act to jointly manage risks and capitalize on opportunities. Partnerships should include a range of stakeholders at the local level, from suppliers to local civil society and government representatives. They are a way





to engage effectively and continuously, monitor and mitigate supply chain risks and build long-term trust and resilience between the company and the communities it depends on, and who depends on it. They are about acting at local level to mirror the commitments on sustainability and responsibility which companies increasingly make in response to legislation and public pressure.

The HSBP Framework helps companies to establish a process to prevent and mitigate risks that have an impact on both communities and businesses. Weak links in the supply and value chain are one place where downstream companies can intervene to engage directly with local communities; pre-existing relationships with key suppliers may be another entry point for attempting pro-active relationship building.

For example, instead of simply consulting stakeholders, companies should:

1. **Map groups and individuals** who are affected by their operations in a particular location, whether directly as suppliers or as indirect stakeholders. This could include marginalised groups in the community who are not traditionally decision-

makers. The aim is to find who might be relevant participants in an ongoing dialogue around risk assessment and mitigation.

2. **Organise conversations** to identify alongside these partner/participants key issues in the locality, as well as what capacities exist to tackle these issues. An independent or neutral facilitator is often key to initiating and managing these conversations.
3. **Identify where interests overlap and make reciprocal commitments** – such as to capacity building or delivering quality improvements or better local facilities, to enlarge the common ground between business and community stakeholders.

These steps shift corporate action **from reactive and defensive compliance practices to active management of relationships** at key points in the supply chain to collaborate with local stakeholders in defining ideas such as resilience and responsible behaviour.

## Policy recommendations

1. The European Commission shall set up **supportive mechanisms** to engage companies in a deeper understanding of upstream challenges and potential partners.
2. **Develop a practical business approach** to include Human Security Business Partnerships (HSBPs) and promote implementation of the HSBP Framework.

# 3. The role of governments & civil society

## Regulation and control or collective action and engagement?

Expanding on the points made, governments play a crucial role not only in establishing higher standards of due diligence but also in actively participating in collaborative capacity-building initiatives that involve companies, their supply chains, and the various stakeholders they engage with.

Since February 2022, the European Commission has produced an important number of proposals to improve the sustainability of the supply chains of companies. The CS3D, as well as the Deforestation Regulation, the Forced Labour Regulation, the Batteries Regulation, and others, are crucial tools to enhance the role of business in reaching the goals set by the European Green Deal. However, legislation alone will not be enough in generating positive impacts on the ground.

Regulators should also incentivise companies to engage with suppliers and stakeholders to tackle complex issues in their supply chains and to establish countermeasures. Companies, especially SMEs, should be seen as part of the solution: the development of inclusive business models and pre-competitive multistakeholder initiatives.

A partnership approach is fundamental to ensure meaningful and inclusive outcomes. Due diligence requirements are important to spread that awareness throughout supply chains, while not necessarily solving the issue that is the main problem, which sometimes requires quite some investment, engagement, market access against specific terms and a lot of external assistance. Legislation is one of the tools that can be used to do that, but you need all these different tools to be in place to address the issues.

As clearly proved by the European Commission's Study on due diligence requirements through the supply chain, mandatory due diligence legislation would need to be part of a broader package of measures which should be implemented by the EU and its Member States. Indeed, although reporting



requirements are relatively simple to enforce, it is still unclear whether they will change business behaviour and have an impact on global value chains.

To be credible in their efforts to enhance the livelihoods of farmers, miners and workers, policymakers must strive for an integrated, inclusive, and progressive European approach on due diligence, that includes ambitious accompanying measures to support the involvement of producers at all levels, the engagement with governments in the global south and interaction with all markets' actors, while supporting existing and new European sector alliances on due diligence.

Furthermore, financial structures and funds need to be aligned to provide an investment framework that focuses on improvements to the sustainability of supply chains in different sectors. This is currently missing as the different funding systems and investment strategies by banks and other financial actors operate in silos.

The rise of impact investing means a new constituency of funds and asset managers who either expect companies to demonstrate responsible behaviour in terms of ESG indicators or are willing to work closely with the companies they invest in to deliver good ESG performance alongside financial returns.

However, the lack of standardized frameworks and benchmarks in this evolving financial market poses a challenge for both companies and investors. The proliferation of competing guidelines creates a need for regulators and reporting standards bodies to establish a consensus on defining “good” social impact. This definition should go beyond the concept of “Do No Harm” and encompass aspects such as transparency and accountability to local populations, thereby promoting the creation of positive externalities. Aligning operational and financial practices through such guidelines would be beneficial.

## Policy recommendations

1. A policy and practice dialogue that triangulates the views and experiences of operating companies, financial investors, civil society, and standards bodies would be timely.
2. Foreign and trade policy approach of regulators holds significant importance. Engagement between States and producing countries should encompass ESG development considerations in all agreements, not only to raise awareness of expectations but also to support approaches that empower local actors in addressing human rights and environmental issues effectively.
3. The Global Gateway approach and the Strategic Partnerships should be developed and implemented with a practical and business-oriented sustainability approach. Fragmentation needs to be avoided.
4. Go beyond the concept of “Do no harm” when it comes to social impact and related investments.





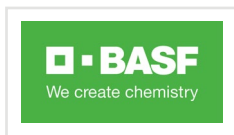
# Responsible Business, Better Future.

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