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THE CURSE OF RESOURCES IN ACTION: THE LOSS OF A SOCIAL LICENSE TO OPERATE

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A few years ago I travelled to a remote part of the Balkans to deliver risk management support to a client from the extractive industry.

The client's corporate security officer told me that commercial operations were being hindered by sabotage and theft, reputational attacks in the social media as a consequence of those acts of sabotage and theft.

The client believed that the best way to mitigate its risk was through the delivery of security solutions based around CCTV, armed guards and drones.

I travelled to the remote, mountainous area where the acts of theft and sabotage were occurring.

It immediately became clear that the root cause of the trouble lay in the symptoms of Dutch Disease/the Curse of resources, which had led to a complete collapse of the client's Social License to Operate.

The SLO exists at different levels. These can be categorized as follows:

LEVEL OF SLO	SYMPTOMS/INDICATORS
CO OWNERSHIP	<ul style="list-style-type: none"> Political Support United front against critics Advocacy Co-management of projects
APPROVAL/SUPPORT	<ul style="list-style-type: none"> Company seen as a good neighbour Pride in collaborative achievements
ACCEPTANCE/TOLERANCE	<ul style="list-style-type: none"> Lingering/recurring issues and threats Watchful monitoring Presence of NGOs
REJECTION/WITHDRAWAL	<ul style="list-style-type: none"> Shutdowns Blockages Legal challenges Violence/protests Sabotage Boycotts

In the case of the client I was supporting it was clear to me that their SLO was at the lowest level, rejection/withdrawal, and they were facing the consequences of that in the form of violence, protests, legal challenges, blockages and sabotage.

It was obvious that the most effective way to mitigate the risk to the client's commercial operations would be to apply the principles of good CSR in order to mitigate the effects of

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Dutch Disease, and increase its Social License to Operate to a point where the level of security risk it was facing subsided.

We could have put a security guard on every oil well, but theft would have continued if the community from which those guards came, and the many former employees who lived in the neighbourhood, had remained antagonistic in their feelings towards the client.

Furthermore, modern social media methods meant that anyone with a grievance about the client had a global audience. It was clear to me that the client needed to engage in a process of self-analysis. As Woody Allen once said: "I've seen the enemy. It's us."

Symptoms of the loss of the SLO

The most immediate risk posed to the client was severe reputational damage. Acts of theft and sabotage, in the form of the bunkering of gas pipes, had resulted in a series of explosions in the area of a local playground, through which many of the pipes ran. A large banner had been erected across the front of a house which overlooked the playground, photographs of which had appeared on social media sites across the world. The banner described the client as "being the essence of explosion."

Significant financial loss was being incurred by the client; locals were stealing copper wire from electrical equipment, which had resulted in a loss of production and the expenditure necessary to repair the consequent damage. Furthermore, the damage to equipment exposed the client to reputational damage caused by equipment malfunction.

Locals were bunkering oil and gas pipelines, incurring financial penalties for the client caused by loss of production, as well as possible reputational damage caused by the strong likelihood of damaged pipelines exploding – as referred to above.

The client's physical infrastructure was also being systematically looted, as locals stole equipment, and pipes to sell for scrap on the black market.

As I looked further into the situation it seemed to me that the root causes of the client's loss of a SLO lay in issues related to the Curse of Resources.

Environmental concerns

First, there were environmental concerns. Locals felt that the oil and gas company had prioritized profit over concern for the environment. For example, the pipes in use were over thirty years old, and in many places had not even been buried, let alone secured. Thus those pipes were very vulnerable to being bunkered.

Lack of partnership

Second there was no real cooperation, or partnership with the local population. Much of the problem for the oil and gas company was that they had not worked out a plan for effective identification of suitable local stakeholders. The decision makers they had established

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relationships with had little moral authority in their community, and often their interests were national, rather than local.

Non local profit making

Record profit levels had been announced at the same time as mass redundancies; almost all of whom had come from local employees and contractor. Furthermore, and concurrent to the redundancy programme, an extravagant new headquarters had been established in the capital city with a big recruitment drive among urban based young professionals. These factors all combined to make locals feels that the client's interests were those of an urban based elite, rather than traditional, local stakeholders.

Capitalism versus communism

This issue, the sense that locals were not benefitting from the exploitation of their resources, fuelled a backlash. In the days of communism there had been a big emphasis on the importance of “mucking in,” the sense that everyone in the country should benefit –in a limited way – from resources exploited from within the respective regions.

The replacement of communism with free market capitalism meant that a much smaller percentage of the population – the shareholders, many of whom were foreigners, was benefitting from these profits, and to a much greater extent. This meant that the locals were now much more proprietorial about what was now perceived to be “their” wealth, rather than the country's as a whole.

During my tour of local villages I met an old lady who was filling up her bucket with oil from one of the client's oil wells in her village. When I asked her why she was doing this she pointed at the water well, and said that when she wanted water she went there, and when she wanted oil she went to the oil well.

Land rights

Similarly, locals had spent a lot of time and money researching land rights issues which had been forgotten during the communist era. Now that huge profits were being made there was serious incentive for people to stake claims to tiny pieces of land, in which there might be an oil well. There were a number of on-going disputes between the client and locals, who had staked a claim to a local piece of land, and set up home around the oil well on that land, refusing to allow the client access to that well.

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Introduction to Prospect Energy, Prospect Law and Mark Jenkins

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Prospect Law and Prospect Energy provide a unique combination of legal and technical advisory services for clients involved in energy, infrastructure and natural resource projects in the UK and internationally.

Mark Jenkins advises clients on how to achieve commercial resilience in high-risk/non permissive environments. Among Mark's specialist areas of expertise are the management and motivation of traditional communities such as Bedouin tribesmen in the Sinai Desert, Somali Muslims in NE Kenya and Eastern Orthodox Christians in remote parts of Eastern Europe. He has a particular interest in Islamic culture and has worked on the staff of HRH Prince Ghazi bin Muhammed bin Talal, Special Advisor and Personal Envoy to HM the Hashemite King of Jordan. Other interests of Mark's include renewable energy, especially solar power, and economic solutions which are based on the principle of sufficiency, rather than consumption.