Resource Localism

How Globalisation is Driving Resource Companies to Deliver Sustainable Benefits and Manage Risks Locally

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ERM

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Resource development was once a straightforward process. A geologist would explore for a deposit, prove out the resource, and seek funding for its development. They would then spend time, money, sweat and tears, to get a geological model, engineering design and license to develop the resource. The resource industry got very good at developing resource projects in this way. Initially at home, and increasingly abroad, this approach worked. Where projects failed, it was for technical or economic reasons.

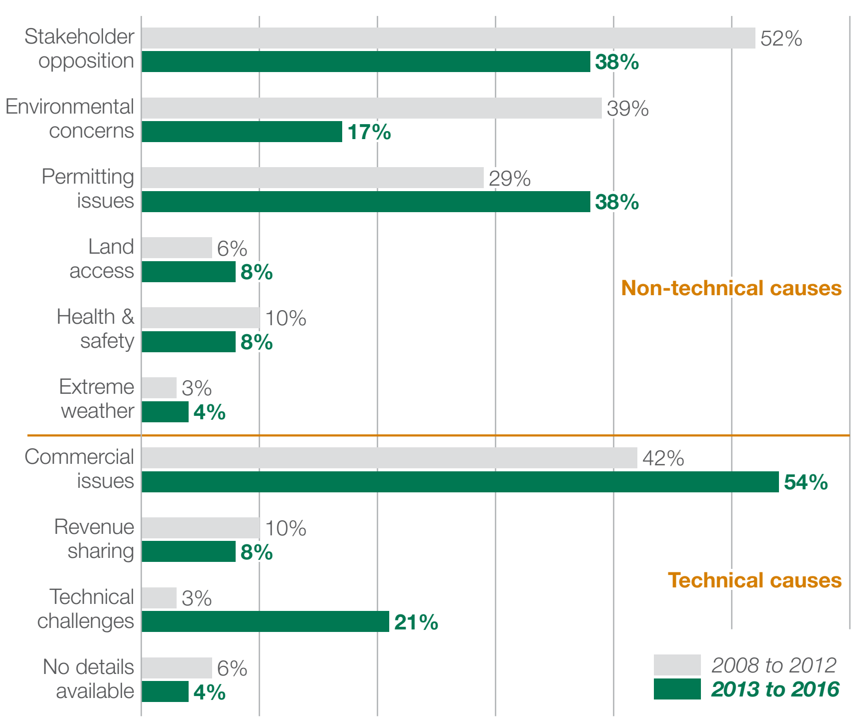
Then along came environmental issues. Then it wasn't enough to have a viable deposit and a good technical and economic model to match. Permits were required, which meant conducting baseline studies and spending more time, money, sweat and tears during the development phase to get the necessary approvals. But the industry adapted, projects got built, and money got made. Environmental issues may have adjusted the economics of resource development, and in some cases even led to technical design changes, but the industry did not slow down.

In the past ten years, coincident with the resource super-cycle, the game changed. Suddenly social issues went from the being 'soft issues' on the periphery of projects to the leading cause of project delays. For the engineers and geoscientists working in the industry for many years, "social" went from something that got organized every Saturday night at the construction camp, to a determinant of project success or failure. Borrowing from the environmental experience, talk shifted to a 'social license to operate', taking a permitting approach to addressing "above ground" issues. But in stark contrast to the way the industry adapted to meeting environmental requirements, suddenly unmanaged social issues were causing projects to be delayed or even cancelled. Research now shows that social issues were a leading cause of value destruction for projects during the commodity super cycle.

Delays: The New Reality of Resource Development

Mining and oil & gas projects are delayed more often than they are delivered on time. For sectors and companies that are used to delivering projects on time, often overcoming seemingly insurmountable technical obstacles along the way, this is a challenging new reality. To better understand this new reality, ERM conducted research into the key drivers of project delays between 2008-2012, and did an update to the research to study changes during the commodity downturn between 2012-2016, with a particular focus on the mining industry. During both periods, the research looked at mega-projects valued at over US $1billion, and their performance in developing on time and on budget.

Figure 1. Causes of Delays



Social issues present real risks to project success. Delays, especially long delays, are clearly something that the resource sector wants to manage. Only in understanding the root causes will we be able to manage and mitigate these costly social risks.

The research showed that over 50% of resource development projects are delayed, regardless of the economic cycle. This is an astonishing figure and represents billions of dollars' worth of net present value erosion for shareholders and investors. But why are these projects being delayed? The research, summarized in Figure 1, shows that:

- 53% of resource projects were delayed in the upswing, and 57% of mining projects are now delayed now in the downturn
- While 3% of these delays could be attributed to technical challenges in the good times, this has risen to 21% during the downturn for mining projects
- Commercial issues delayed projects 42% of the time between 2008-2012, and this is even higher today in the mining sector at 54%
- Stakeholder opposition was seen as contributing to 52% of delays during the upswing, and has fallen only slightly to 38% in the downturn for mining projects
- The contribution of environmental concerns, defined in the study as "stakeholder concerns over potential environmental impacts" decreased from 39% to 17%, reflecting the growing importance of commercial considerations
- Health and safety, a constant focus in the resource industry, leads to 8% to 10% of delays, regardless of the period in the commodity cycle

All Resource Development is Local

To address these expensive social issues, mining and oil & gas companies attempted to tackle them as specific and isolated challenges. When Indigenous rights were mentioned, ILO 169 (an International Labour Organization Convention) was studied and corporate guidance promulgated to sites. When human rights issues came up, lawyers and human rights experts eagerly consulted the Ruggie Framework (a UN guiding principle on business and human rights) and setup policies and training to "protect, respect and remedy." Taking a leaf from the environmental issues, EIAs became ESIAs, and then expanded further to ESHIAs as public health impacts came to the fore. Today the list of frameworks, guidance, and tools created to address specific social issues is endlessly long, yet projects continue to be delayed.

So, where did we go wrong? By focusing on specific issues and applying tailored frameworks after the fact, we missed the common driver that is at the heart of every social issue: the expectation of project-affected communities that they will benefit equitably from resource development. Globalization has empowered project-affected communities and the civil society organizations that support them. International networks and alliances ensure communities are aware of their rights and able to advocate for the benefits that they are due. While globalization may have enabled extractive sector companies to seek new opportunities abroad, the phenomenon also enabled communities to mobilize against projects when they feel they are not benefiting adequately. This new chapter in globalization is what we're calling resource localism, which highlights that not only is resource nationalism through governments a threat to projects, but that local communities also hold significant power relative to project success. Resource localism remains the most important element of any extractive sector companies' social management plan today.

It seems simple in retrospect. Yet, we all missed it. In our focus on specific technical issues: public health, human rights, community housing, gendered workforce studies, etc., we missed the forest for the trees. Resources are local – they are situated in a specific place. People are local too – they reside in a place and that place is invested with meaning, value, history and views of the future. The longer that people have been in that place, say, as with indigenous peoples, the stronger the sense of place is.

Globalization – and in particular the increased access to information through the internet, democratization, and demographic change it has caused – is the key driver of resource localism. Indeed, resource localism can be seen as the "opposite face of the same coin" of the resource super-cycle. The global trends that created the resource and commodity boom are the same underlying social and economic changes that shifted the focus on the local benefits of resource development. Taking into account this perspective, it is perhaps easier to understand why expectations have changed so drastically over the past ten years, for instance the emergence of Free, Prior, Informed Consent (FPIC) for indigenous communities.

Resource localism means communities are now demanding a voice (indeed, often a choice) in how and whether a project goes forward. Project-affected communities expect to see benefits from resource development, and they now have impactful strategies to demand their involvement in the decisions that will affect their lives. The social issues the industry continues to struggle with are therefore the direct result of companies' failure to manage and meet communities' expectations. The resulting project delays and cancellations are a foreseeable outcome that can, and must, be proactively managed.

Resource localism thus encapsulates a wide variety of issues that are already managed through social impact assessment and management plans (human rights, public health, community investment, etc.), but it goes beyond these standalone initiatives.

Resource localism is different because it:

- Distils many discrete issues down to their root cause, and,
- Shifts the analysis from the developer's perspective to the perspective of the local people.

Understanding resource localism is central to companies delivering the expected benefits to project-affected communities and resolving conflict. A failure to do so will mean projects continue to be delayed, which is costing resource sector companies money – lots of it. Simultaneously, potential win-win solutions, good outcomes for local people as well as global companies, are being squandered through social studies and initiatives that don't address the underlying issues delaying resource development. During the unwinding of the commodity super-cycle, these costs and risks can no longer be borne.

Local Risk Management

Social and environmental impact assessments remain outward-facing activities conducted to meet a mix of regulatory requirements and in some cases, corporate guidelines or standards. In many projects the major design and mitigation decisions are made behind closed doors before an impact assessment begins, removing (or making more costly) the opportunity to modify the project design to reduce impacts and optimize benefits. This is often where social issues begin, and where the forces of resource localism begin to be exerted. More often than not, failure to engage affected communities at the earliest stages of project planning will have economic costs for the company. Engaging communities early is critical to identifying and managing impacts to the surrounding human and ecological environment, but also developing the relationships that will prevent costly project delays. Companies must be proactive in setting realistic expectations of the project with affected communities early on, and ensuring they fulfil their commitments throughout the project cycle.

Done right, risks can be managed and local support for resource development can be secured early on. Managed poorly, delays due to social opposition will continue to cost companies time and money. The key to success is adopting a local view of resource development, and being prepared to invest the time and effort up-front, arguably before the engineering and technical work starts.

The focus of projects needs to shift to resource localism, ensuring that resource development will create sustainable benefits to local people and communities.

Resource Localism: The New Reality?

With the focus now on cost cutting and doing "less with less"[1] it is tempting to put off or delay engagement with local communities, particularly in cases where projects are being shelved or delayed due to overriding commercial considerations. This is tempting, but it is a mistake. When the commodity markets improve and projects seek to ramp up, quickly, the commercial delays will by definition disappear and the delays most acute will be social delays. As commodity prices recover, it will be those firms that "managed for the rebound" that thrive. Firms that failed to manage risks – especially social risks – will struggle to survive. Addressing resource localism thus requires a new way of approaching risk management for the resource sector. It ties together many tools and approaches already in place, but makes the step change from a resource centric approach to a local one. With the broad pressures of globalization continuing to shape and change our markets and sectors, so too must our industry adapt to a resource localism view of the world.

1. *LESS with LESS – HSE Resource Strategies in a Cost Constrained World.* Don Lloyd, ERM. March 2016

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About ERM

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For over 40 years we have been working with clients around the world and in diverse industry sectors to help them understand and manage their environmental, health, safety, risk, and social impacts. The key sectors we serve include oil and gas, mining, power, manufacturing, chemical, and pharmaceutical. All face critical sustainability challenges and our clients in these and many other areas rely on our ability to assist them to operate more sustainably which has a positive impact on our planet.

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