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Social License to Operate for mining companies in the Russian Arctic as a tool for development of host territories

L A Riabova

Luzin Institute for Economic Studies – Subdivision of the Federal Research Centre «Kola Science Centre of the Russian Academy of Sciences», Apatity, Russia

larissar@iep.kolasc.net.ru

Abstract. In many countries, resource extraction companies increasingly admit the need to deserve the trust of local communities that host their activities. This paper discusses the concept of the Social License to Operate (SLO) that contributes to understanding trustful (or mistrustful) relationships between companies and communities. Based on case studies from the Russian Arctic, the paper aims to discuss the SLO concept from the viewpoint of its usefulness for promoting development of Arctic territories hosting extraction activities, specifically mining. The paper provides knowledge on the SLO concept and its analytical framework, and compares two cases in the Murmansk region with the aim to understand dynamics of a social license in a particular local context, as well as a relationship between the level of SLO and a mining company's input in community development. The paper concludes that the better companies perform as promoters of local development, the higher levels of the SLO they get from the communities. The case studies also demonstrate that in a given local context most important factors for the level of SLO are working places provided by the companies within the communities and presence of emotional attachment of the companies' top managers to the towns and treating them as home places.

1. Introduction

This paper aims to discuss how the use of the concept of Social License to Operate in relationships between mining companies and local communities can contribute to social and economic development of Russia's Arctic territories that host extraction industries.

The paper draws on the case-studies from the Murmansk region which is a part of the Russian Arctic zone. The cases are two companies Kirovsk branch of Apatit (hereinafter Apatit company) and North-Western Phosphorous Company JSC based in the towns of Apatity and Kirovsk. The main study was conducted in 2014-2015, and follow-up research has been carried out in 2016-2018. Data have been received from the companies' web-sites, media sources, statistics and semi-structured interviews with company managers, local officials and inhabitants of both towns (altogether more than 30 interviews).

The first section of the paper describes the concept of Social License to Operate (SLO) and presents its analytical framework. The second section discusses the SLO as a practical tool to promote development in host Arctic communities with focus on the findings from the case studies in the Murmansk region. In concluding part results and suggestions on the use of the SLO-based approach to the relationships between an extraction company and a community for promoting host territories' development in the Russian Arctic are summarized.

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2. Increased role of social acceptance of extractive industries in development of host territories and the concept of Social License to Operate

Since the late 1990s, attention to the local dimension of development processes greatly increased world-wide. Besides growing interest to such aspects as well-being or life quality, it involved issues of community relationships with extraction industries and public acceptance of these industries [1, 2]. Also, there has been a growing discussion concerning the risk-benefits dilemma for local communities hosting extractive industries, as well as responsibilities of extraction companies towards communities [3].

For the last decade, these themes became particularly important in the Arctic, due to an increase in industrial activities including oil and gas extraction, as well as mining throughout the region [4]. Such a focus on host communities and their relationships with extraction industries is particularly vital in this region because, on one hand, in many cases these industries provide conditions for mineral exploration and exploitation and, on the other hand, many communities in the Arctic have strong concerns and anxiety in regard to outcomes of these activities for local population.

These issues are especially relevant for the Russian Arctic. In this vast area, resource extraction industries still are key economic drivers for many regions and towns, and the rush for mineral resources will likely continue in the foreseeable future.

Mining industry is one of the largest drivers of development in the Arctic countries. Canada, the USA, Norway and Russia have substantial mining activities in the Arctic region [2, 5], over the recent decade there has been a large growth in mining sector in Finland and Sweden [2, 6], and in Greenland where mining activities are limited at present, a large-scale mine is often suggested as a path toward economic growth [7].

Lately, there has been an increased focus on how issues of social acceptance of extracting and, in particular, mining industries can be evaluated and governed in the real life [2, 3, 4, 6, 7]. The concept of Social License to Operate (SLO) was one of the responses to these needs. It originated from Anglo-American mining industry. This concept was first proposed in the late 1990s as a precondition for survival and viability of the mining industry under conditions of increased fluctuations in global markets, as well as more strict demands from international organizations and local communities.

Immediate reasons for emergence of the concept have been growing public worries about results of mining activities and increased numbers of disagreements and conflicts between mining companies and communities caused by ignoring local interests and needs [8]. One of well-known examples of such conflicts was farmers' protests against Newmont Mining's Minas Conga project, Peru, in 2011 when several local people were killed during demonstrations.

In 1997, James Cooney, a Canadian mining executive, coined the expression "social license" in a meeting with World Bank officials to explain the quality of relationships between a company and a host community. The SLO refers to the level of informal acceptance or approval of both company and its project by local community and other stakeholders [8].

In the literature the Social License to Operate is usually viewed as a process that runs through the lifecycle of a project. It is important to understand that the SLO is the ongoing process which is dynamic in nature. The SLO can be granted at one point in time but can be withdrawn at another point in time [4]. The social license is about dialogic relationships between a company and a community, and the social license should be nurtured and maintained again and again over time.

Analytical framework, suggested by Thomson and Boutilier, describes the SLO as a pyramid having 4 levels that represents how a community treats a company [9]. The lowest withdrawal level of the SLO pyramid means rejection of the social license to a company. Acceptance level implies that a community recognizes that a company follows laws and locally established "rules of game" and regards a company as the legitimate one. Approval level means that a community views a company's activity as positive. The highest level is psychological identification with a company ("co-ownership"), and it means that a community has the full trust to a company [9, 8].

The need for the SLO implies that companies require it to avoid conflicts with local communities and business risks that can turn into substantial financial losses. The credibility of companies is based

on mutual respect, honesty, dialogue, transparency, well-timed responses to community needs and concerns, disclosure of information, reliability and predictability in the companies' ethical behavior [9, 8, 6]. For companies, major ways to gain the SLO from local communities are to follow the "hard law" and "soft laws". Following "hard law" means to act in accordance with official legislation norms towards a community. Following "soft laws" implies acting in accordance with sustainability and corporate social responsibility (CSR) principles, joining global initiatives such as the GRI (Global Reporting Initiative – an international organization that assists businesses, governments and other organizations in identifying and communicating the impact of business on such important issues as climate change, human rights and other) and the EITI (Extractive Industries Transparency Initiative that supports public awareness about how countries manage their oil, gas and mineral resources). Other ways for companies to obtain the SLO are to create jobs for locals; create new business opportunities; pursue transparent information policy; conclude local agreements; take educative efforts; practice corporate philanthropy, etc. [6].

The SLO concept has the greatest use in extractive industries, particularly, in mining industry. It is increasingly applied in tourism, forestry, agriculture, pulp and paper manufacturing. Its relevance differs from country to country. In mining industry, this concept is most widely used in Australia, Canada and Finland. In academic discourse, it was intensively discussed world-wide for the last decade, and it is still on the rise, with dozens of new articles published each year. In Russia, the SLO concept is poorly known both in scientific and practical discourse, with a very few studies carried out and their results published, and it is recognized that Russia is an under-analyzed country in social license literature [10, 11].

The challenging aspect of the Social License to Operate is the difficulty of evaluating whether it has been granted or not, and measuring its levels. The lack of a Social License to Operate (the lowest withdrawal level) can be relatively easy measured based on presence of open protests and opposing voices in the public domain [8], while other levels can be measured only based on surveys or qualitative methods of research. In our study, we employed an approach using semi-structured interviews with local people to understand their opinions and attitudes towards the companies.

3. The SLO as a tool for development of host communities: findings from cases in the Russian Arctic

Since the SLO concept has been introduced, it was increasingly debated as a development management tool for both companies and local communities. In Arctic communities which host resource extraction industries, socio-economic development is tightly related to extraction companies' activities, especially in one-company towns (monotowns, as they are termed in Russia). In many towns, urban development is led by public interests whereas companies are generally led by private interests [12], but in one-company towns two major groups of stakeholders – a company and the community – are particularly contrast, and in these towns one can find clear cut examples of how private interests interact with public ones in a contrast or conflicting way. The greatest advantage of the SLO-based approach to relationships between a company and a local community is that it allows understanding and promoting local development from two perspectives – the company and the community – and benefits both parts.

This section presents findings from Russian cases – two prosperous mining companies – "old" Apatit company and "new" North-Western Phosphorous Company JSC (NWPC) hosted by towns Kirovsk and Apatity in the Murmansk region. Apatit company was established in 1929, it extracts and processes apatite-nepheline ores. It is a private company, and a part of PhosAgro group, a big fertilizer producer, since 2001. Young North-Western Phosphorous Company JSC (NWPC) was established in 2005 and it operates since 2012. It is a private company extracting and processing apatite ores, and a part of JSC "Acron" (see Table 1).

For more than 90 years, Kirovsk has been a host town for the Apatit company. The town is on the federal government's list of Russia's monotowns and it is on the category 1 – the "red group", which

includes towns where socio-economic situation is the most troublesome. Apatity is a neighbor town, formally not a monotown, but historically it was a base for the company in terms of labour force.

Within the study, the research has been carried out to investigate whether the concept of Social License to Operate is known and applied by the companies and communities studied, how the level of the SLO has been changing during the period of 2014-2018, and how the use of this concept in relationships between the mining companies and local communities can promote development of the host communities. The findings were analyzed along both company’s and community’s lines.

On the companies’ side, the results of the case studies show that the SLO is not a familiar concept to managers and workers of both companies (Apatit and NWPC), whereas the concept of corporate social responsibility is widely known and applied in practice. In academic literature, it is commonly recognized that, when using the SLO-based approach, companies acknowledge that they respect interests and needs of host communities and due to this they benefit from reduced local protests, financial risks or reputation wars [6]. The interviews with the companies’ managers shown that the motives for the companies to carry out social projects in local communities have been the desire to project a positive company’s image to the authorities at all levels, and to host communities; the wish to possess a favorable reputation for the company in the national and global business arenas; the aspiration to support the towns that are homes to companies’ employees, and the long-standing, going back to the Soviet era, tradition of CSR [13].

The companies do not explicitly seek the SLO from local communities, but they obtain certain levels of it as a result of their CSR activities. Both companies invest significantly in local development and social projects. For example, in the case of Apatit company, yearly financial contributions for CSR policies in 2011-2014 were equal to the yearly municipal budget of Kirovsk [13]. Apatit company announces goals to diversify local economies to help towns to be better prepared for the future. It invests in development of transport infrastructure for both towns and in tourism. The company’s support made it possible to revive local airport “Khibiny”, and the company owns ski resort Big Wood in Khibiny Mountains, 3 forest resorts and mining museum, which is free of charge for visitors, and in the last years actively develops industrial tourism. The company supports development of new small and medium-sized businesses with grants via the Center for tourism and business development in Kirovsk.

In the beginning of its activity, the new mining NWPC company had several conflicts with both local communities. It involved itself in the conflict with Apatity municipality by avoiding to fulfill social obligations to the municipality laid by the state mining permit [11, 13]. Also, it went into the conflict over the plan for technological road construction across the planned National park which received strong public attention and protests. After lawsuits from local government, 6 mln USD debt was paid to Apatity municipality in 2014, and after negotiations in joint commission with the representatives of regional government, NWPC, non-governmental and research organizations, the company canceled the plan to transport ore through the National park. At the same time, the company started to sponsor healthcare, sports and cultural activities in both towns (see Table 1).

One of the important findings from the study is that both companies are lacking transparency, and their information policies towards local communities are weak. There are processes of developing public-private partnerships – both companies take part in partnership agreements “company-town-regional government” (Apatit company) or “company-town” (NWPC). However, agreement procedures are non-transparent for local population; local people are not involved in negotiations and decisions on their content, public hearings to define local needs had never been taken before signing the agreements.

However, there are notable differences in information policies of the companies towards local communities. Apatit company does not have any own web-page, its activity is covered only through PhosAgro group site with limited information for the local audience. NWPC has its own web-site with specific reference to local social policy, and regularly informs local audience on its community oriented projects.

Table 1. Cases summary

Ways to obtain the SLO	**Apatit company** **"Old", since 1929, extracting and processing apatite-nepheline ore, part of PhosAgro group since 2001, private**	**North-Western Phosphorous Company** **"New", 2005, operation since 2012, extracting and processing apatite ore, part of JSC "Acron", private**
1. Follow "hard law"	Follows official legislation norms towards community	Avoided fulfilling social obligations to Apatity municipality laid by the state mining permit. In 2014 – lawsuits from local government, 6 mln USD paid
2. Follow "soft laws" (sustainability and CSR principles, global initiatives – GRI, EITI. SLO as a new "soft law")	PhosAgro group "Sustainable Development Report"	Report of JSC "Acron" with "Sustainable development" chapter
	GRI (Global Reporting Initiative)	Conflicts and public protests over the road construction via National park in 2012
	SLO concept is not known	SLO concept is not known
3. Create jobs for locals	50% reductions of staff since 2013	2000 new jobs since 2005, mainly for locals
	Introduction of fly-in fly-out model	
4. Create new business opportunities	Transport infrastructure (revived local airport)	
	Tourism (ski resort Big Wood, 3 forest resorts, industrial tourism)	
	Grants to support new businesses (local Center for business development)	
5. Transparent information policy	No company web-page. Only PhosAgro group site with limited info for local audience	Company web-page, regular provision of local audience with information
	Excursions to mines for local experts	
6. Local agreements	4-parties partnership agreements "company – towns – regional government"	Bilateral agreements with Kirovsk and Apatity municipalities
7. Educative efforts	PhosAgro classes in schools	
8. Philanthropy	Sponsorship of health care, culture, sports, town events	Sponsorship of health care, sports, culture
Level of the SLO in 2013-2018	**Dropped – from psychological identification/approval to acceptance**	**Increased – from rejection to acceptance**

(Compiled by the author after processing interview data)

On the communities' side**,** when using the SLO-based approach, local communities usually learn to formulate and express collective interests and demands towards a company; they also learn to defend local people's common interests [11]. The two Russian cases revealed that the SLO concept is not known by citizens in the communities studied. Interviews have shown that the most important aspects

for people were local benefits derived from mining industry development – first of all, employment opportunities at the companies' enterprises and more or less clean environment. The interviews revealed that in regard to Apatit company, the most important aspect of the company's activity for local people was a possibility for employment at the enterprise. In 2013, the company introduced changes in its employment policy, turned to fly-in-fly-out model and started hiring workers from other regions. It led to cuts in working places (-2, 000 in 2013), increased recruiting of top-managers from outside the region and population outflows from both towns. Due to restructuring of Apatit company, in 2013-2015 the number of employed in the town with 28 th inhabitants decreased by 3,5 th people.

The study has shown that in 2014-2016, the level of the SLO for Apatit company decreased from psychological identification to approval, and lately, in 2017-2018, dropped to acceptance level. As it was expressed in most interviews, it happened first of all because people felt betrayed by the "old good" company when it started to hire non-resident workers. Out-migration has not become considerable only due to new company NWPC which started to re-employ locals for itself. The new company began to sponsor health care, sports and cultural activities in both towns, and the research revealed that in 2016-2018 the level of the SLO for NWPC increased from rejection to acceptance level.

Such aspects as information and understanding regarding potential impacts of resource extraction industries and possibilities to be heard and to influence decisions about resource extraction have been also mentioned, but less often. People complained about lack of information from the companies, especially from Apatit, saying "*we don't know the truth*". There is a lack of arenas for real dialogue between the companies and ordinary people, and people told about their feeling of not been heard by the companies. With information from other studies carried out in the Russian Far North [11], we conclude that situation of these two host communities is typical of that of other communities hosting extraction industries in the Russian Arctic.

The companies invest considerable amounts of financial means in local social and development projects, but they seem to underestimate the importance of wide, inclusive and continuous dialogue with local people, transparency and systemic information policies towards local communities. At the same time, there is no strong demand from civil society to have a meaningful community-company dialogue and take part in the decision making process. The companies prioritize the attitudes from regional and local authorities, and this creates the sense of powerlessness among local people which might lead to social apathy – *"when you feel that no one cares about your opinion, you lose your interest in town's life"* (a local citizen in Apatity).

A specific finding from the Russian cases is that people tightly relate socially responsible behavior of the companies to place-identity of the companies' leaders. Highly important factor for taking interests of local people seriously by the companies, as seen by local people, is strong emotional attachment of the companies' leaders to the towns and treating them as homes. In peoples' opinion, such attitudes should be built, first of all, through permanent residency in the community, and not on fly-in-fly-out basis. One of a company top-managers, local resident, said: *"It is absolutely important to have locally attached leadership of the company – the leaders who live here, who love, respect and understand the place".*

4. Discussion and conclusion

Many studies show that there is a strong relationship between company practices and levels of a SLO acquired from the community [6, 8, 11], and our study supports this view. When linking the themes of the SLO and local social and economic development, findings of this study yielded that ways to obtain the SLO for the companies highly correspond to important local development aspects as understood by local communities. The better companies perform as promoters of local development, the higher levels of the SLO they get from the communities.

The case studies also demonstrated that in a given local context most important factors for the level of a SLO are working places provided by the companies within the communities and presence of emotional attachment of the companies' top managers to the towns and treating them as home places.

The cases studied show that changing practices by the companies influence, and quite quickly, the levels of the SLO. The strong approval (even psychological co-identification) level initially bestowed on the old Apatit company in four years was eroded to the acceptance level mainly because of changed employment policy towards communities, while the newly established NWPC, which initially had had problems in gaining the SLO, increased its level from rejection to acceptance due to increased respect of communities' interests.

It is crucial to understand that the SLO is a process – an ongoing wide and inclusive community-company dialogue which includes both identification of local needs and the expectations that local people have for the extraction industries. This process also implies coordinated actions on commonly defined important aspects of local development.

Ways to improve community-company dialogue are relevant for the two Russian cases discussed in this paper, as well as for many other Arctic towns in Russia and abroad hosting extractive, specifically mining, industries. These ways are: continuous, open and reliable information reported to a community through various media sources, especially via web-sites of companies addressed to local audiences; regular meetings with all groups of stakeholders; creation of new platforms for community-company dialogue; establishing groups or committees for cooperation among various groups of stakeholders on specific issues. Further academic discussion, especially in Russia, is necessary to theorize, operationalize and monitor empirical functioning of the Social License to Operate.

For Russia' Arctic communities hosting extraction companies, the SLO is a meaningful component of local development, and this aspect of extraction companies' activities should be explored, monitored and evaluated. At the same time, if understood as a continuous process of community-company dialogue shifting the focus to the needs identified by local people themselves, the Social License to Operate can be a useful practical tool to promote development in host communities.

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