Briefing Note

Social License to Operate for Mining Companies in the Russian Arctic: Two Cases in the Murmansk Region

Larissa Riabova & Vladimir Didyk

Introduction

This paper presents research notes discussing the theme of social licensing of the mining companies in one of the mining regions in the Russian Arctic. The paper is the outcome of the authors’ participation in the research project “Sustainable Mining, local communities and environmental regulation in Kolarctic area” (SUMILCERE). The project is funded by the Kolarctic European Neighbourhood and Partnership Instrument of Cross-Border Cooperation (ENPI CBC) Programme and is carried out by researchers from several institutions in Finland, Norway, Russia and Sweden: University of Lapland, Northern Research Institute (NORUT, Tromsø), Institute of North Industrial Ecology Problems and the Luzin Institute for Economic Studies of the Kola Science Centre of the Russian Academy of Sciences, Luleå University of Technology. The lead partner of the project is University of Lapland; the project period is 2013-2014. The research within the project is carried out through 3 thematic research sub-projects. The authors of the paper were involved in the Working Package 1 (WP 1) lead by Dr. A. Buanes from NORUT. The thematic task of the WP 1 is “Current practices on the participation and relationships between mining projects and local mining communities in order to develop the suggestions for the social licensing”.

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Within the SUMILCERE project the authors have conducted case study research aimed to understand whether and how the social license concept is used in Russia. This research note briefly presents the theoretical background for the study and discusses the results of the case study of the two mining and processing companies operating on the territories of the Kirovsk and Apatity municipalities in the Murmansk region. Data for the study have been obtained from scientific literature, statistics, media sources and through the semi-structured interviews conducted by the authors during the fieldwork in spring of 2014 with officials from the Kirovsk and Apatity municipalities, deputies of their municipal Councils, the representatives of both mining companies and ordinary people living in both municipalities.

Social License to Operate: Theoretical Aspects

The emergence of the “social license to operate” (SLO) concept is connected with growing public concern in many countries during the 1990s in the results of mining activities. These concerns arose due to a series of environmental damages made by some mining projects which evoked sharp conflicts of the companies with local communities. The term “social license to operate” was suggested by Canadian mining expert James Cooney in early 1997 at the meeting with the World Bank personnel. He suggested this metaphor to explain the quality of the relationship between a mining project and its host community (Thomson, Boutilier, & Black, 2012). The concept and terminology surfaced in May 1997 in discussions at the conference on mining and the community in Quito, Ecuador, sponsored by the World Bank (Thomson & Boutilier 2011: 1779).

According to the definition given in one of the documents of the World Bank, “a social license to operate is the acquiring of free, prior and informed consent of local communities and stakeholders” (Pike, 2012). R. Pike, who cited the definition in his article, stressed that “this is part, but not the whole, of the social license. The whole consists of both the acquisition and ongoing maintenance of the consent of the local stakeholders” (ibid).

The SLO concept has several conceptual roots. Among them there are sustainable development and multilevel governance concepts, as well as the concept of corporate social responsibility (Buanes 2014). A very important pillar of a social license to operate is corporate social responsibility (CSR), widely understood as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large” (World Business Council for Sustainable Development). According to an article of web resource for Canadian Mining Information – “the concept of “Social License to Operate” comes from the continuous study of the broader, older, and better established notion of “Corporate Social Responsibility” (Miningfacts 2012). Hence the SLO could be regarded as one of the derivatives of CSR.

In the literature, a social license is often regarded as having three normative components: legitimacy, credibility, and trust; and four levels of social license: withdrawal, acceptance, approval and identification with the project psychologically, or co-ownership level (Prno & Slocombe, 2012; Thomson & Boutilier, 2011). Meanings of the components and levels are described by Thomson & Boutilier (2011).

Defining the terms legitimacy, credibility, and trust Thomson and Boutilier (2011) suggested the following approach. First, they define legitimacy drawing on the Knoke’s approach who put
legitimacy in the context of stakeholders and politics as “the acceptance by the general public and by relevant elite organizations of an association’s right to exist and to pursue its affairs in its chosen manner” (Knake, 1985). As to credibility, Thomson & Boutilier (2011) see it as the foundation of trust. “When a company is regarded as credible, it is seen as following through on promises and dealing honestly with everyone” (ibid: 1785). Trust is fundamental to moving through the levels, and can take two basic forms: interactional trust and institutional trust. Interactional trust is observed when there is the perception that the company and its management listens, responds, keeps promises, engages in mutual dialogue, and demonstrates reciprocity in its interactions. Institutionalised trust takes place when there is the perception that relations between the stakeholders’ institutions (e.g., the community’s representative organizations) and the project/company are based on an enduring regard for each other’s interests (Williams & Walton, 2013: 9, based on Thomson & Boutilier, 2011).

According to Thomson and Boutilier, the levels of SLO represent “how the community treats the company” (Thomson & Boutilier, 2011: 1784). The normative components (legitimacy, credibility and trust) serve as the boundary criteria dividing the levels. The levels represent how the community views the company in connection with the company’s behavior.

The levels and normative components (the boundary criteria) are arranged in a hierarchy, which could be interpreted as phases of earning a social license. Withdrawal level constitutes the lowest level of the hierarchy. It is the worst-case scenario meaning rejection of the SLO for a company. In this case realization of a project could even be stopped.

Acceptance level is the minimal objective for any company interested in its relations with the local community. It gives a company a social license for the project to proceed. The level could be achieved when the criterion of legitimacy boundary is met − not only legal legitimacy, but also pragmatic (based on audience self-interest), moral (based on normative approval) and cognitive (based on comprehensibility and taken-for-grantedness) ones (Thomson & Boutilier, 2011: 1784).

Approval is the level where a community regards the project as favorable. Approval could be granted to a company for the project realization when the company established both legitimacy and credibility (foundation of trust). This level of SLO represents the absence of sociopolitical risk.

Identification with the project psychologically (Prno & Slocombe, 2012), or co-ownership as Thomson and Boutilier (2011) suggest, is the highest level of social license when the community sees the company as having full trust in it. In this case the community shares responsibility for the project’s success. Psychologically, both parties come to view it as a co-ownership arrangement. The level could be achieved when the full-trust boundary criterion is met − communities that have full trust in a company believe that the company will always act in the community’s best interest (Thomson & Boutilier 2011: 1784-1786).

A recent evolution of this framework models SLO as three levels comprising economic legitimacy at the base; socio-political legitimacy and interactional trust as the mid-tier; and institutionalised trust as the highest level (Boutilier & Thomson 2011; Williams & Walton, 2013). These four factors represent a continuum and are displayed in Table 1. The authors distinguish between perceptions of the company’s behaviour at the regional (socio-political) scale and perceptions of its interactions with individuals.
Table 1. Four factors constituting three levels of SLO (after Thomson & Boutilier 2011) (Williams & Walton, 2013: 9)

<table>
<thead>
<tr>
<th>Level and Label</th>
<th>Description</th>
<th>Role in Determining SLO Levels as Described in Thomson &amp; Boutilier Pyramid Model</th>
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<tbody>
<tr>
<td>1. Economic legitimacy</td>
<td>The perception that the project/company offers a benefit to the perceiver</td>
<td>If lacking, most stakeholders will withhold or withdraw the SLO. If present, many will grant an acceptance level of SLO</td>
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<tr>
<td>2a. Socio-political legitimacy</td>
<td>The perception that the project/company contributes to the wellbeing of the region, respects the local way of life, meets expectations about its role in society, and acts according to stakeholders’ views of fairness</td>
<td>If lacking, approval level of SLO is less likely. If both this and interactional trust (2a &amp; 2b) are lacking, approval level is rarely granted by any stakeholder</td>
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<tr>
<td>2b. Interactional trust</td>
<td>The perception that the company and its management listens, responds, keeps promises, engages in mutual dialogue, and exhibits reciprocity in its interactions</td>
<td>If lacking, approval level of SLO is less likely. If both this and socio-political legitimacy (2a &amp; 2b) are lacking, approval level is rarely granted</td>
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<tr>
<td>3. Institutionalized trust</td>
<td>The perception that relations between the stakeholders’ institutions (e.g., the community’s representative organizations) and the project/company are based on an enduring regard for each other’s interests</td>
<td>If lacking, psychological identification is unlikely. If lacking but both socio-political legitimacy and interactional trust are present (2a &amp; 2b), most stakeholders will grant approval level of SLO</td>
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The concept of an informal social license is “comfortably compatible with legal norms in the countries that operate under the principles of common law” (Thomson & Boutilier 2011: 1780). However, in the countries with legislatures operating under the principles of civil law (i.e. Finland, Russia, Norway, and Sweden) “the concept runs into difficulties” (ibid). The difficulties are related to the legal norms in these countries which constitute that only the official authorities can grant a license and, thus, many companies equate the license with formal permission to operate.

The SLO concept as well as different aspects of its practical use attracted high interest among scholars in many countries during the last years, especially in Australia, Canada and Finland. Beside the authors we have already referred to, see, for example, Kokko et.al. 2014; Lacey et.al. 2011; Nelsen & Scoble 2006; Thomson & Joyce 2008; Tognato 2011. For the Russian scientific
discourse the concept of social licensing is quite new, and there are very few publications related to this theme.

**Social License for the Mining Companies in the Russian Arctic: Relationships of Two Companies with the Local Communities**

For the case study research on whether and how the social license concept is used in Russia we have chosen two mining and processing companies and two municipalities. Both companies have mines located in the central part of the Kola Peninsula in the Khibiny mountains, on the territory of the Kirovsk municipality, and processing plants in the Kirovsk and Apatity municipalities of the Murmansk region – one of the oldest mining regions of Russia located in the Arctic Zone of the Russian Federation. The first one is “Apatit” Joint Stock Company, which over 80 years has been extracting and processing apatite-nepheline ore (raw material for phosphorus fertilizers). The second one is the young “North-Western Phosphorous Company” Ltd (NWPC) that in 2007 started development of two deposits of apatite-nepheline ore “Olenyi ruchei” and “Partamchorr” in the eastern part of the Khibiny mountains (Bay-Larsen et. al., 2014).

The total number of population in the Kirovsk municipality by the beginning of 2012 was 30,600 people. The administrative centre of the municipality is the town of Kirovsk, founded in the beginning of the 1930’s, upon the decision of the Soviet government on the development of rich deposits of apatite-nepheline ore discovered in the 1920’s. The population of the town of Kirovsk is 28,400 people, and 2200 people live in two rural settlements of the municipality – Titan and Koashva; the latter is tightly connected to mining activity, too (“Municipalities of the Murmansk region” 2012).

“Apatit” company belongs to the group of companies “PhosAgro”, one of the biggest fertilizer manufacturers in Russia and around the world. It has four open and underground mines and two processing plants, and the total number of its employees reached 11,600 in 2012. The company is the town-forming enterprise for Kirovsk, which is officially recognized as a single-industry town, being included in the special Register of the RF Ministry of regional development. The company produces more than 90% of the total volume of the town’s industrial production and employs 30% of the town’s workforce (6400 out of 21,000 of the working age population). One of the company’s processing plants is located in Apatity – a neighboring city with a population of almost 60,000 people. About 5000 people living here are employed by the company.

Being the owner of a big part of the social infrastructure in the Soviet period and playing an essential role in social policy at the local level, “Apatit” used to be the socially responsible company not only towards its employees, but for several above mentioned local communities. Even though strategic decisions have been taken in Moscow, the company’s operational decision making, including social policies, was greatly locally based and the top managerial staff used to have strong personal attachments to the local community.

The inherited Soviet-era socially responsible behavior continued in the post-soviet period. It was stated in the interview with a top-manager of the company that the main motives for the company’s social activities are:
“...the desire to establish good reputation on the domestic and international business arenas, the wish to support the town which is home for the company’s employees, the wish to demonstrate good image of the company to the authorities at all levels and to the local community, and the long-lasting since the Soviet times tradition of the company’s social responsibility”.

Additionally, the company is motivated by requests from different levels of governmental or political bodies and by the international requirements for corporate codes of conduct.

The company has been doing a lot for the towns’ improvement, repairing roads and reconstructing social infrastructure – for example, it financed full reconstruction of the lakeside promenade and of the swimming pull in Kirovsk in 2008-2012 and granted 20 million RUB for the renovation of the department of intensive therapy at the city hospital in Apatity in 2013. It also used to buy equipment for the hospitals in Kirovsk and Apatity and regularly organized the contests of socially important projects “Problems of our town we resolve together” and funded the realization of these projects. Due to its long-time role of main-employer enterprise in Kirovsk and regular social activities in several local communities, “Apatit” used to enjoy strong trust among the inhabitants of these communities, and in Kirovsk even a psychological identification with the company for a major proportion of the community. For instance, a deputy of Kirovsk municipal Council stated:

“In the meetings with people in Kirovsk, especially with the older generation, I've many times heard that they considered their lives and destinies inseparably linked with “Apatit” company”.

In accordance with the SLO concept, such attitudes pointed to the high level of social license that for decades had been given to the company. However, lately the level of social license for “Apatit” company has decreased. Since April 2013 “Apatit” company, due to the decision of its main owner (based in Moscow managing company “Phosagro AG”), started a deep-restructuring program aimed at the reduction of operational costs and growth of labor productivity. The restructuring anticipates the dismissal of 2420 employees and the phasing out of the company’s internal servicing subdivisions towards outsourced companies (Information, 2014). As a result, the total number of the company’s employees dropped from 11,600 to 7600 people by the beginning of 2014. This has led to the decision of the special governmental commission of the RF to include Kirovsk in the list of single-industry towns with the most difficult socio-economic situation (List, 2013). In addition, during the last decade the company has been transferring all of its social objects (sport complex, palace of culture etc.) to the Kirovsk municipality. As a result, the burden for the municipal budget notably increased.

It is worth mentioning that over the last decade, first, decision-making processes in regard to the company’s activities, including its social policies, have concentrated outside of the Kirovsk municipality – in the company’s head-quarters in Moscow and other towns of central Russia. Second, gradually the top managerial staff of the company has been replaced by the newcomers from outside the community. In interviews, a gradual loss of the top-managers’ local attachment is seen as one of the reasons for the weakening of the company’s social responsibility. In one interview a top-manager of “Apatit” company stated:

“Trust is the main thing. If there is no trust between the company and people, living in the towns, nothing good will come out. It is not possible for the company to possess trust if

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we (the company) don’t speak about social problems and don’t solve them. It is absolutely important to have locally attached leadership of the company, the leaders who was brought up here, who love, respect and understand the place”.

These events strongly influenced public attitudes towards the company and have lowered the SLO level. During the last years it decreased, and as of today we estimate it as “approval”, or even as the lower “acceptance” level.

The second case is the new “North-Western Phosphorous Company” Ltd. It was founded in 2005 as a subsidiary company of JSC “Acron”, a large fertilizer manufacturer and consumer of apatite concentrate in Russia. “Acron” previously consumed the concentrate from “Apatit” and, due to the monopolistic position of the latter on the Russian market, had contradictions with “Apatit” concerning the prices for the concentrate. “Acron” has created the NWPC to ensure its own source of raw material. In October 2006, NWPC won a contest for acquiring the state mining permit to develop two new deposits of apatite-nepheline ore “Olenyi ruchei” and “Partamchorr”. In 2007 the construction of the mine and processing plant at “Olenyi ruchei” deposit for production of the apatite concentrate began. In 2012 their exploitation was started (Bay-Larsen et al., 2014). Today NWPC employs about 2000 people, of which more than half live in the city of Apatity.

Implementation of the new project caused serious conflicts between several interest groups. Firstly, was the conflict between “Apatit” company and the newly appeared NWPC, since they became direct competitors for the production and supply of apatite concentrate in Russia. Moreover, the new competitor has started to use the ore deposits which “Apatit” considered its own prospective reserves. Secondly, initiation of the construction of the mine and the new ore processing factory caused a conflict with environmental NGOs since the deposits and processing plant were located in close proximity to the “Khibiny” National Park, which is planned to open in 2015.

In spite of the conflicts, the implementation of the new mining project was actively supported by the government of the Murmansk region. The support was provided mainly due to large investments (around 1 billion USD) on the territory of the region and expectations for the additional tax revenues to the regional budget. It was also supposed that implementation of the project would provide benefits to the Kirovsk municipality: Additional working places for the locals (along with the weakening almost monopolistic position of the “Apatit” company as an employer in the local labour market) and good prospects for the revival of the formerly depressed rural settlement Koashva situated in the vicinity of the newly developed deposits (Bay-Larsen et al. 2014).

There are many examples of the social activities of NWPC, such as investing in the reconstruction of several municipal social objects, in particular on the territory of Koashva settlement – renovation of the house of culture and the first-aid station, establishing of the youth center, a children’s playground, and others. However, dissatisfaction with the social and environmental aspects of the new company’s behavior was one of the main themes in the interviews. As the interviews with employees of the company revealed, they are not satisfied with the social policy of the company first of all towards its own employees. As an example they mentioned the recent canceling of quarterly monetary premiums that notably decreased the level of wages, weak concern for the creation of favorable working environments and the absence of adequate compensations for unhealthy job conditions. Such irresponsible behavior was largely
explained by the extremely weak attachment of the new company’s leadership to the community since the company’s decision-making is taking place outside the territory where the company operates (from the head-quarters of its ultimate parent – JSC “Acrone”) and the top level managers are almost entirely from outside the municipality. A reason for the negative attitudes was also the company’s conflict with environmental NGOs on the “Khibiny” National Park. The conflict reached its peak in 2012 due to the intention of the new company to build the technological road for ore transportation from the “Partamchorr” mine to the processing plant near the “Oleniy ruchei” mine. The road (about 30 km long) had to cross the area of the planned National Park. Local ecological NGOs were strongly against the road construction. To resolve the conflict the regional government initiated the creation of a commission with participation from various interested parties, including representatives of NWPC, ecological NGOs and research organizations. The conflict was actively discussed in the local media and among the members of internet communities, but public hearings, which were conducted at the planning stages of the new project in 2006, were not used this time for its resolution. After long and hard negotiations involving the RF Ministry of Natural Resources and Ecology, a compromise was found. It was decided that the company would cancel the initial plan of ore transportation through the nature reserve and organize processing directly on the “Partamchorr” mine site. The decision negated the necessity to construct the road and satisfied the demands of local environmentalists.

An example of prevailing attitudes from the representatives of the Kirovsk local community to NWPC could be found in the opinion of this municipal official:

“Almost everything what NWPC does for the Kirovsk municipality is done mainly for their selfish interests. Most of their social doings are done because it is required by the state mining permit – it prescribes to transfer annually during several years the sum equal to $1.5 million USD to the municipality for social goals”.

The latest conflict caused by the lack of social activities on the part of the new company occurred in April 2014 when the local government of the city of Apatity filed a claim in Court in the amount of $5.6 million USD to NWPC, requiring it to pay the debt from the execution of the company’s social obligations towards the Apatity municipality. The obligations were obtained from the 2006 state mining permit to develop the “Partamchorr” deposit (NWPC, 2014). Municipal authorities accused the company of avoiding fulfilling the agreement on socio-economic partnership that was stipulated in the state mining permit, and failed to transfer the funds for the development of the city. Such agreements, which have been concluded by NWPC with the Kirovsk local government in the past, have been usually fulfilled.

The study revealed that the new company NWPC has not acquired full trust and support from the majority of the local population in the municipalities of Kirovsk and Apatity. The level of SLO given to NWPC in both municipalities we estimate as “acceptance”, however, getting closer to “withdrawal”.

**Discussion and Conclusions**

This case study has shown that neither the officials and politicians of the Kirovsk and Apatity municipalities, nor the representatives of the two mining companies described here are familiar with the concept of social licensing. On the corporate side, obtaining and maintaining a high level
of social license from the local communities has not been explicitly declared as one of the companies’ goals. This is typical for companies in Russia, however, where the SLO concept is quite new even in the scientific discourse.

By contrast, the concept of corporate social responsibility (CSR) – one of the pillars for the social licensing concept – is widely used. The main motives for the mining companies’ social activities include the wish to demonstrate good image of the company to the authorities at all levels (federal, regional and local) and to the local community; the desire to establish a good reputation in the domestic and international business arenas; the wish to support the town which is home for the company’s employees (as the case of “Apatit” company demonstrates); and the long-lasting tradition, going back to the Soviet-era, of CSR. Furthermore, demands for CSR can also be laid down within the state mining permit (as it was in the case of the new company NWCP in our study). Additionally, the companies can be motivated by requests from different levels of governmental or political bodies and by international requirements for corporate codes of conduct. Also, an important motive, as our study has shown, is basing the company’s decision-making locally and, especially, a strong personal attachment of the top managerial staff to the towns where the companies operate.

Building relations with communities on the concept of corporate social responsibility, and being motivated by internal (corporate, such as considerations of image, tradition or, in the case of strong attachment of top management to the place, a desire to support the local community) and external (institutional requirements, e.g. the state mining permit) factors, the companies do not prioritize the attitudes from the local population which, we believe, is the essence of the SLO concept. At the same time, drawing on the CSR concept, the companies possess certain levels of social license, and themes which are central to the SLO concept such as trust, acceptance, and compensation are present in the local mining discourse, though sometimes implicitly.

Institutionally in Russia, relations between the municipalities and large resource-based companies often are framed by bilateral, trilateral or multilateral agreements on socio-economic partnerships between the company, municipality and/or regional government. However, so far, as a rule, the local population plays a minor role in determining their content. The study has shown that on the community side, instruments such as public hearings were not used for decisions on the content of the agreements in any of the cases studied, a quite typical situation. Moreover, changes in federal legislation related to environmental impact assessment introduced in 2006 cancelled the norm to conduct public hearings for most of the mining projects, with an exception for projects occurring on the territories of protected areas.

Such factors as generally weak development of institutions of public participation and organizational weakness of civil society, typical for many of the post-communist societies, as well as often low levels of cross-community social capital do not allow strong local communities’ participation to influence mining companies’ activities.

However, even under such conditions there are instruments that make it possible to voice out and to meet the local demands for socially responsible behavior of the companies. As the case of the conflict of NWPC and local plans for the establishing the nature reserve revealed, it can be local information campaigns on the acute problems in the “company-community” relations, establishing the multilateral commissions for conflicts of interest solving, or lawsuits from the local government against the company demanding the compensations stipulated in the state mining license.
To sum up, today the social license concept is a “white spot” in the Russian Arctic mining discourse, both theoretically and practically. However, the SLO concept can be an important and highly relevant instrument for the adoption of sustainable mining practices in the Russian Arctic. Thus, there is a need for more research in this field in the Russian Arctic context and for popularization of their results to promote the practical use of social licensing in corporate and public policies.

Notes

1. Information on the project can be found at: [http://www.ulapland.fi/InEnglish/Units/Faculty-of-Law/Research/Research-Projects/SUMILCERE](http://www.ulapland.fi/InEnglish/Units/Faculty-of-Law/Research/Research-Projects/SUMILCERE).

References


