



Original research article

Human capital development and a Social License to Operate: Examples from Arctic energy development in the Faroe Islands, Iceland and Greenland



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ABSTRACT

The Arctic region is opening up due to climate change, causing sea ice extend and snow cover to decrease. Over the past decade economic activities, including fisheries, shipping, oil & gas, mining and tourism have increased throughout the region. Especially the oil and gas activities are subject to public debate and attract a lot of (international) attention. Obtaining and maintaining the support of local stakeholders are thus of major importance if governments and companies want to see these activities continue and contribute meaningfully to the resilience of Arctic societies. The concept of a Social License to Operate addresses the acceptance of an activity by local communities and other stakeholders. This manuscript explores the role human capital development in obtaining and maintaining a Social License to Operate in Iceland, the Faroe Islands and Greenland. As trust and legitimacy are the two fundamental principles on which a Social License to Operate is based, these are being examined more closely. On the basis of three case studies, this manuscript explores how human capital development can contribute to the legitimacy of Arctic energy development and trust building between various stakeholders.

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1. Introduction

The Arctic region is opening up due to climate change, causing sea ice extend and snow cover to decrease [1]. The effects of climate change are most profoundly felt in this part of the World, also called “the canary in the coal mine” [28,49]. Over the past decade economic activities, including fisheries, shipping, oil & gas, mining and tourism have increased throughout the region. It is estimated that the resources to be found in this region could amount up to 90 billion Barrels of Oil Equivalent (BOE) and 1.670 trillion cubic feet of natural gas, which are technically recoverable [53]. This equals approximately 22% of the World’s undiscovered technically recoverable oil and gas resources. With oil and gas, mining and shipping as the largest drivers, the Arctic could potentially attract over \$100 billion of investments [23]. However, these economic estimates

were made before the drop in oil- and other resource prices, making these them currently questionable on the near- to mid-term.

The increase of Arctic oil and gas activities between 2008 and 2014 attracted a lot of attention and sparked public and political discussions on national, regional and international levels. The balance between economic development and environmental preservation is the main subject of these discussions. Already under pressure due to climate change, the oil and gas activities and the associated risks of an oil spill and pollution are seen as another threat to the sensitive Arctic ecosystem. At the same time, the (local) public debate is also focussed on the balance between local benefits and the risks associated with these activities. Since the region’s own market for oil and gas is too small, the resources extracted in this region will be mainly transported to other parts of the World. How will the Arctic societies then benefit from these activities? And do these benefits compensate for the risks? As most of the resources are expected to be found in the Exclusive Economic Zone (EEZ) of the Arctic countries, the decision to and the way in which these activities are developed lies primarily in their jurisdiction. Also, there are already a number of mechanisms to ensure the maximisation of local benefits that are incorporated in their regulatory frameworks. However, the mechanisms currently

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incorporated into the legislation do not necessarily meet the expectations of societies and other stakeholders. As a consequence public debate or opposition can arise against a company's planned activities, even though it fully complies with all the rules and regulations set in a specific country.

From a company's perspective, (negative) public debate and opposition is an undesired situation which can damage its reputation and become a costly affair. However, public debate and opposition is part of a democratic society and should therefore be respected. The trend is that the time for oil and gas projects to come online is increasing and has almost doubled in the past decade, making projects significantly more costly [11]. Remoteness and scale play a role in this increasing trend, but part of it can also be explained by the increase of non-technical risks including public unrest. A concept that is increasingly used to address these non-technical risks is a Social License to Operate (SLO), which is aiming at obtaining and maintaining the acceptance and/or approval of an activity by local and other stakeholders. Paying attention to these social aspects of an activity is extremely important, especially in the Arctic region where deadlines are tight and the window of opportunity in the ice-free summer is limited. Missing any deadline here, would imply major delays and additional costs. Having not only the support of a national government, but also of the society at large is therefore crucial for companies having the ambition to operate in the Arctic. Moreover, given the long term timeframe these resources generally take to be developed it is important to build a sustainable relationship based on trust and mutual understanding. Public acceptance cannot simply be bought, tricked or fooled.

This article will explore the concept of a Social License to Operate of energy development, including hydropower and geothermal energy and offshore oil and gas, in the Faroe Islands, Iceland and Greenland. Although the cases have considerable differences, there are also a number of similarities that make them interesting for comparison in this article: All three are located in the North-Atlantic part of the Arctic, were or are still part of the Kingdom of Denmark and have small societies ranging between 50,000 and 350,000 inhabitants. We chose three case studies because a comparison could generate lessons learned and conclusions applicable to a wider scale, compared to focussing on one case study only. To ensure the quality of the gathered data one has to use data triangulation. By choosing three different methods of data collection it is ensured that findings or data are confirmed or disconfirmed in multiple ways [57,54]. This research is based on document analysis, participative observation and interviews. A total of 8 interviews were conducted with representatives of the industry ($n=3$) and governments ($n=5$). The authors of this article have a background in science and the private sector.

The first section will elaborate on the concept of a Social License to Operate. Thereafter the case studies of a Social License to Operate for oil and gas development in Iceland, the Faroe Islands and Greenland will be presented. In these case studies we will look at how the development of human capital stimulates the institutional and business sector strength of that specific country. Both the short and long term opportunities related to human capital development in relation to a Social License to Operate will be discussed. Finally, the findings of these three case studies will be discussed together, after which the article will end with some concluding remarks.

2. A Social License to Operate

2.1. The emergence of the concept of a Social License to Operate

The concept of a Social License to Operate emerged in the late 1990s, when it was first used by the Canadian mining executive Jim Cooney in a meeting with World Bank officials [9]. Since then,

the term is increasingly used by business people, academia, consultants and media, and is still on the rise. Most research has focused on the application of this concept in the extractive industries, but is also used to an increasing extent in other sectors such as forestry, agriculture, renewable energy generation and pulp & paper manufacturing [17,30]. Until now the Social License to Operate concept has been predominantly considered from an industry point of view, while its application also makes it an interesting concept to look at from a government and civil society perspective [17,31].

Cross-sector research has indicated that the concept is differently understood among various (energy) sectors, and that its application changes in every context [17]. Elements that are commonly present in many of the definitions are (ongoing) acceptance, approval, local communities, stakeholders and industry's activities [17,30,50,55]. Generally, in the literature a Social License is seen as an ongoing process that runs through the entire lifecycle of a project. It can be granted at one point in time but can be withdrawn again as well at another point in time. Often the withdrawal of a Social License to Operate for an activity happens much quicker than granting one. A withdrawal or lack of a Social License to Operate might not only affect the activity itself, but also has the potential to influence the reputation of a company and even an entire industry. The dynamic nature of a Social License to Operate requires companies to adapt and respond to changes if they want to secure and maintain the public acceptance of their activities [43]. Based on the aforementioned aspects, this article refers to a Social License to Operate as "*the ongoing acceptance and approval of the activities of an industry by local communities and other stakeholders*". This definition reflects the dynamic nature of a SLO and the fact that there are more than only local communities as stakeholders playing a role in this process.

One of the most challenging aspects of a Social License to Operate is the difficulty of measuring whether or not it has been granted. This also raises the question of who is granting the Social License to Operate. There will always be stakeholders opposing an activity, if only for fundamental beliefs or Not-In-My-BackYard (NIMBY) phenomena. The lack of a Social License to Operate is mostly measured based on the presence of protest and opposing voices in the public domain [40,44]. If there is protest against an activity, it is challenging to determine if this opposition represents the majority of stakeholders and the common interest, or not. One could argue that the loudest voice automatically 'wins', which goes against the democratic principles on which many societies are based. When an activity is in the interest of all other stakeholders, it does not necessarily mean that the one stakeholder opposing it holds a veto [31]. Moreover activities may continue anyway when they are of regional or national importance [56]. On the other hand, measuring the existence of a Social License to Operate is difficult for a number of reasons too, as it is based on the assumption that a lack of objection means a Social License to Operate is present [56]. The lack of opposition or conflict in the public domain does not necessarily mean that stakeholders support or even accept the activity. The absence of publicly known objections and conflict may for example be caused by stakeholders disengaging from the project, cultural habits and customs or resistance voiced in less tangible/overt forms [40]. Thomson and Boutilier [50] distinguish four levels of Social License to Operate: the lowest being the Social License withheld or withdrawn, then the mere acceptance of an activity, the level of approval when credibility is established and the level of psychological identification when trust is established.

2.2. How to obtain and maintain a Social License to Operate?

The previous section illustrated that having a Social License to Operate is essential for companies wanting to successfully implement their activities against budget and time, but how does one

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