



Mineral Exploration and the Challenge of Community Relations

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- [Introduction](#)
 - [Mineral Exploration and the Community](#)
 - [The Culture of Mineral Exploration](#)
 - [Socio-political Pressures](#)
 - [A New Culture for Mineral Exploration](#)
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Introduction

The decision to develop a mine, and the social, socio-economic and environmental consequences of that decision comes midway through a process that begins with mineral exploration and continues through closure, decommissioning and reclamation. In recent years, significant structural changes have occurred in both the minerals industry, and the socio-political environment into which the industry has moved, particularly in Latin America. Because of these changes, the point of contact and potential conflict between communities and mining interests over social, socio-economic and environmental issues, has been drawn forward from the mining phase into the exploration phase. It is the opinion of these writers that the industry, collectively, is ill equipped to handle this reality.

For the last eight years the North American based mining industry has increasingly redirected its activities overseas into new and apparently expanding opportunities. The stock market fall of October 1987 and subsequent recession brought to a close a cycle of exploration and mine development in North America. During this cycle the industry had become frustrated by land withdrawals in Canada and the United States, growing costs, complexity and uncertainty in the environmental permitting process, and the apparent difficulty of finding new mines in a very well explored part of the world. In the aftermath, Major (integrated exploration / mining) and Junior (exploration only) mining companies started to look overseas in earnest, first to familiar countries such as Chile and Mexico and then for new opportunities; one of the first was Venezuela.

The mining industry found that the rules were changing, not only in Latin America but around the world, as country after country liberalized foreign investment and land

ownership, redrafted mining codes, and opened their borders to mineral development in an attempt to invigorate national economies. To the companies, this was (and is) an unprecedented opportunity to explore in areas that had been inaccessible for years and often never before worked using modern exploration technology or considered in terms of modern mining methods. New frontiers were (and still are) opening, offering a vision of unbounded opportunity where the quick and skillful explorer locates and develops spectacular new wealth.

A bull market for Canadian mining companies began in 1991, lasting through to the Bre-X debacle of early 1997. During this time several billion dollars were raised to fund international mineral exploration and mining ventures, more than half of it for projects in Latin America. In the process the Junior, high risk venture capital companies became the dominant force for mineral exploration throughout Latin America and around the world. The trickle of companies moving offshore in 1991 had become a flood by 1994, and large numbers of mineral industry professionals found themselves working internationally for the first time.

Over much the same period of time there has been a significant increase in sensitivity to environmental and social development issues at all levels, from local to international, and a steady growth in the concept of the "rights" of local peoples. In 1987, the World Commission on Environment and Economy, also known as the Brundtland Commission, published its final report "Our Common Future", a seminal document which gave rise to a generalized endorsement for the concept of "sustainability" with respect to the environment and human development. This, in turn, generated critical discussion, which continues today, about the consequences of both industrial development projects and environmental protectionism on communities which live in and exploit a given area. From 1989 to the present, international organizations such as the United Nations (UN) and the World Bank have responded with initiatives intended to cushion the impact of external forces on local, traditional and indigenous peoples. Central governments in a number of Latin American countries, Bolivia for example, have formally endorsed at least some of these initiatives thereby validating the general concept of "rights" in the minds of local populations and advocacy groups.

The net result has been a steadily growing confidence on the part of many communities that they can exercise control over the timing, direction and process of social, political and economic development by exerting their rights, real or perceived. For a mining company, this means communities that want to question, manage, or challenge the presence of a company from the first appearance of its personnel in their area. As a consequence, the need to address the social impacts of mineral development is being pushed into the exploration phase.



Mineral Exploration and the Community

For the mining industry, exploration is an expensive, high risk, and potentially very high

reward, activity. It requires the opportunity to conduct surveys over vast tracts of land and to visit, examine, and evaluate innumerable mineral occurrences in the search for the rare economically viable deposits. Exploration is a dispersed and transitory activity characterized by uncertainty and ambiguity: a problematic situation from the point of view of company-community relations. This is in marked contrast to mining which takes place at fixed locations and over extended periods of time. Where a mine exists, company-community issues can be focused around the relatively stable realities of a productive commercial venture.

The dynamics of company-community relationships at the exploration stage are driven by some unique characteristics; most notably that there is no certainty that any individual exploration project will become a mine. Industry experience suggests that less than one in a hundred mineral showings are considered worth evaluating, while barely one in ten advanced exploration programs go to feasibility; nor is there any certainty as to which company will be the final operator of a project. A Junior company may deal the property to a Major company for development of a mine, or it may pass through the hands of various Juniors and/or Majors before the right circumstances are found for mine development. Furthermore, exploration projects typically proceed episodically, with periods of intense activity (drilling etc.) separated by periods when there is little or no activity on the property. The process is often protracted and it is not uncommon for several years to elapse between first identifying the economic potential of a mineral deposit and the decision to mine.

In our view, there are two key factors which structure the relationship between communities and mining companies, and which have considerable impact on how exploration activities are viewed. These are first, the cultural distance between modern business practices of developed countries as represented by exploration activities, and traditional communities, indigenous or otherwise, which may be isolated and are at times only marginally integrated into their own nation. Second, and following from the first, the extreme power differential that inherently exists in any contact between two such groups.

The local community typically views exploration activities in isolation, with little knowledge of the larger picture within the minerals industry, and is therefore uncertain and frequently fearful as to what is implied by exploration activities. The community does not normally understand the high-risk nature of mineral exploration or the timeframe required to prove the economic viability of a deposit. Communities frequently assume that a company would only invest the considerable sums of money and the time required for advanced exploration, if they were certain that a profitable mine would be developed. This results in expectations or fears which seem perfectly justifiable on the part of the community, but which may not correspond either to reality in terms of a mine being developed, or to what the exploration company is telling them, if they are being told anything at all.

To the community, a Junior and a Major company are indistinguishable and appear equally rich, powerful (aligned with particular vested interests, either economic or political) and potentially threatening. Typically, the community has a fear of being marginalized, and an intense desire for information about what is going on. They look first to the company to provide answers to questions. In the absence of direct information, or when misconceptions about the exploration activity exist, ill-founded rumours or incorrect information can gain

credibility. The community may become increasingly fearful and come to believe a worst case scenario. This situation of fear and distrust, which arises from the lack of communication by the exploration company, or lack of development of an understanding between company and community, opens the door to the involvement of outside interest groups, and may severely impair later efforts to dialogue or negotiate.

The response of a community to what appear to be powerful mining interests will be conditioned by past experiences and the extent to which they feel threatened by what they believe to be the impacts of future mining activity. In an area with no history of mining, the community may be quite naive and passive towards exploration activities taking place around them, believing something good may accrue through job opportunities or associated development. More common today, however, is a high degree of sensitivity to what the community regards as an assault on their land or way of life, to which they may respond aggressively. The response in communities with a history of mining can be equally diverse. Some may welcome exploration as heralding a return of wealth, others may be hostile to the presence of foreign interests or oppose a return to the environmental and social destructiveness experienced in previous mining activities. Where small scale, artisan mining is well integrated with the local economy, there may be widespread fear that it will be displaced by modern mining, destroying the traditional livelihood and way of life of the community. Without knowledge of the community, its hopes and fears, traditions and social norms, the exploration company may unintentionally provoke conflict, with negative consequences to all parties.



The Culture of Mineral Exploration

Regrettably, the culture of mineral exploration does not encourage good community relations. For exploration personnel the paramount issue is access to land, while for communities it is protection of their traditional resource base. The mining codes of most countries in Latin America provide for a right to explore, and this right is often taken as an unconditional license for companies to go where they want and do what they will. Although there is often additional legislation requiring explorers to recognize the legal rights of people occupying the land, there may be a significant difference between local customs towards land use and access, and the formal legal land rights. In more traditional and isolated communities, national laws may be poorly understood and have very little relevance to how people live and manage their resources, leaving ample room for offending local customs. From the community point of view the culture of exploration can be arrogant, insensitive and very threatening.

Today's mineral exploration is highly competitive, high cost and, until the later stages of a project, secretive. The industry respects technical skill, business acumen and aggression: success is measured by rate of discovery. Competitive advantage is often a case of knowing where a good mineral property is located, or the geological controls to a certain type of mineral occurrence. There is immense pressure to be cost effective. Funds are allocated for sufficient work to locate or advance properties of merit to see if they have the potential to

become an economic mineral resource. The ability to make good business decisions as to the worth of a mineral deposit, based on available technical information and experience, is considered essential. There is a general belief that exploration is a "low impact" activity while mining is the "high impact" phase when community and environment become "real issues". However, damaged relations with local communities through unintentional offenses, or the failure to address the community's fears or expectations during the exploration phase(s), can have serious impacts on both the cost and the timing for bringing a mine into operation.

A number of Junior company characteristics further compromise the potential for good community relations: most particularly the fact that their involvement in a project is normally expected to be transitory with no long term vested interest in the potential impact. They do not necessarily consider the community to be "stakeholders" in the development of the exploration project. Typically there is a superficial attention to or appreciation of local concerns: often the relationship is limited to providing temporary employment for local people. In addition, the Juniors are results driven, strongly oriented to the venture capital markets and thus focused on the technical aspects of a project. Community relations are, at best, a secondary consideration.

Given the uncertainty of success, there is little internal interest for the company to develop community relations until a project is well advanced. Moreover, because the background of exploration personnel is in science and business, knowledge of social and socio-economic matters is limited and the skills required for cross-cultural relations are not normally present. Currently, the prevailing attitude amongst exploration groups appears to be one of avoiding or limiting interaction with local communities to an "as needed" basis unless there is some compelling reason to do more. By way of contrast, these same companies often show a high level of interest and responsibility towards environmental management practices, which are concrete, scientific activities. This is a reflection of the scientific training of many exploration personnel, and the commitment to the environment that has become instilled in a new generation of mineral industry professionals.

With respect to the less tangible social issues, there is a widely held confidence amongst the Juniors and, unfortunately, some of the Majors, that by simply following the legal code, mining code and environmental regulations of any country, a company has inherently met all obligations to the local community as well. Almost every country in Latin America has brought in legislation during the last ten years that specifically encourages mineral exploration and mine development. To a majority of exploration groups such legislation carries a tacit understanding that the State will manage / mediate their relationship with local communities and maintain law and order until a mine is proven. This is a first world assumption that is not necessarily valid in developing countries.



Socio-political Pressures

The mineral exploration companies that moved into Latin America over the last few years

have taken with them first world attitudes, cultural conventions and business practices. There, they have encountered a rising movement promoting the rights of indigenous and local people, as well as international environmental activism opposing the development of modern mining operations. In many places an alliance of convenience exists between these interest groups which uses both social and environmental arguments to develop local opposition, and also to rally developed country public support.

The socio-political pressures on mineral exploration and mining are going to increase. A turning point occurred in 1989 with the International Labour Organization of the United Nations (UN) formulation of International Convention 169 "Concerning Indigenous Peoples and Tribes in Independent Countries" which is a strong, wide ranging, and very widely known endorsement of the rights of the indigenous people to control their lives, territories, and development processes. With this resolution, the rights of indigenous and traditional populations came onto the agenda of countries throughout Latin America. A bottom-up linkage of indigenous and traditional groups keeps the issue of rights very much alive, supported in many places by regional and international interest groups. Of particular relevance to the minerals industry is that, although the Convention recognizes that mineral resources may be owned by the State, it states, inter alia, that there should be consultation with communities prior to authorizing any exploration or exploitation of mineral resources. In addition, communities should benefit from the activities, as well as receive indemnification for potential damage resulting from such activities.

The UN Human Rights Commission, which is now the central forum for these discussions, is developing a framework within which indigenous groups will be provided with "space" so they can participate in decision making processes. With respect to mining, the UN is promoting the concepts of 1) free and informed consent, 2) participation in the benefits of development, 3) compensation and 4) the mitigation of adverse effects. The mining industry can expect local communities to be very well informed of these principles through the efforts of non-governmental organizations (NGO's) and religious groups. Items one, three and four are of consequence at the exploration stage.

Socio-political pressures are building from the ground-up as well, which are not reflected in the formal structural changes attracting mining companies into Latin America. It is important for the exploration industry to recognize that in developing countries, local realities do not necessarily correspond to national level structures and legal frameworks. This is particularly true in countries with substantial indigenous and/or traditional rural populations such as in andean Latin America. Here central government presence is often very weakly developed or absent outside of the cities, in addition to which the central government may be seen as a negative or repressive presence, and not a positive one, as is frequently assumed. In place of central government, quasi stable organizational structures exist, either traditional cultural structures or newer political/organizational ones, that serve to protect the interests of the local people. For such communities the reference base is typically not the State but local or regional groupings such as traditional cultural identities or specific interest groups (peasant unions, miners unions, regional or national indigenous organizations).

The historical poverty and at times repression of rural communities in Latin America has

given an important role and a high degree of influence to numerous intermediate organizations, such as NGO's, religious groups and more recently international environmental and indigenous organizations. Such organizations support the rights of communities and provide them with (at times selective) information on international treaties, standards, and networks, regardless of whether or not the State has ratified such treaties. The activities of these organizations are often part of larger political struggles, with agendas which may not always correspond to the priorities of local communities.

Exploration companies must, therefore, realize that they cannot rely on government to inform the community of resource development practices or guarantee their acceptance, nor should they expect government to enforce the rule of law as a means of resolving conflicts. Rather, companies must engage the community directly and deal with the local situation as it exists. They have to be prepared to resolve or, better still, be proactive in avoiding conflict by themselves.

Given the relationship that exists today between capital-hungry national governments and public-opinion sensitive international institutions such as the UN and World Bank, the possibility exists that a legislative solution will be developed to resolve perceived problems in the relationship between mineral exploration and communities. This should not be regarded by industry as a satisfactory course of action. The diversity of communities and the range of positive company-community relationships that can develop mean that flexibility must be retained for the benefit of all players. This requires that industry take a leading, pro-active role in improving social relations between communities and companies. The creation of positive models of community-company relations which enhance the potential future benefits to both sides will pave the way for more constructive, less confrontational dynamics in general, especially as and when these models become known through increasing electronic communications and the global networking available to communities.



A New Culture for Mineral Exploration

The mining industry must move quickly to change the culture of mineral exploration if it wants to keep working in some of the most prospective areas of South America. Failure to do so will result in more projects being disrupted or stopped completely, and has implications for public perceptions of the industry as a whole. There is a real lack of collective experience and an absolute shortage of people within the exploration industry to take on this challenge but if changes do not come from within, there will be legislation imposed that obligates companies to follow certain procedures.

Exploration could learn much from the operational sector of the industry. Over the past ten years mine operators have developed strategies, policies and the concept of best practices in community relations in response to social and political pressures and the introduction of legislation. The Environmental Impact Statement and the Environmental Impact Assessment processes now serve to modulate the relationship between mine and community. Responsible companies regard these as minimum requirements, however, and that working

to higher standards is necessary to ensure real success.

It is essential for the successful advancement of a mineral property through exploration to mining that the company have a positive relationship with the community and that it hands over the project to the mine operator in social, socio-economic and environmental "good standing". Building a positive relationship between company and community during the exploration stage requires care, patience and corporate commitment. The relationship will be subject to constant change as a project either advances or fails to meet the corporate objectives. As a project advances the stakes are raised on both sides - a reality that must be confronted and managed. Establishing a dialogue is absolutely critical. Both sides need to be prepared to listen; most particularly the company. The ability to communicate in a context of uncertainty requires the development of a trust relationship between the company and the community; what is required to build trust will depend on local realities. Sensitivity to local customs is important and open dialogue over the hopes and fears of the people is essential. Some form of community relations program should be developed based on an open exchange of information in which great care is taken to work with locally-recognized authorities, and to avoid making false promises or creating unrealistic expectations on both sides.

Above all else, exploration has to respect the local community and its rights, real and perceived. Community hopes, fears, and way of seeing the world must be listened to with open-mindedness, not through the cultural filters of developed country value systems and/or predetermined categories. Only by fully accepting how the community thinks, what it values, and what kind of future its people want to see develop for themselves, can a company hope to develop, with them, a project which advances the interests of both parties. This alone will keep the debate focused on the real impacts, benefits, and risks, and debated between the parties actually involved. By this single adjustment of attitude and behavior, the power differential between company and community, which is the ultimate source of most conflictive situations, can be largely removed.

It is quite unrealistic to think that changes in the culture of an entire industry sector will be driven solely by moral and ethical considerations. An economic stimulus is required so that risk and reward, the prime forces in resource development, remain in balance. A simple desire to stay in business will be enough for some, but there could be a more persuasive force. We suggest that placing and maintaining a project in social and socio-economic "good standing" can be considered "value added" in the same way that exploration which defines the grade and tonnage of a mineral deposit is regarded as adding value to a property. The alternative, a problematic or conflictive relationship with the community which might deteriorate to the point where it threatens the viability of a project, is clearly negative value since considerable investment will be required to mitigate or recover the situation. In this context, skill in handling the constantly evolving relationship between company and community during the exploration phase becomes a new competitive advantage.

There is potential for leadership by the operating companies who should recognize the enhanced value offered by projects that come to them in social "good standing". An assessment of the socio-economic situation surrounding a project should be part of the due diligence and valuation conducted when a property is optioned or purchased. Payment of a

premium price for delivering projects maintained in "good standing" through exploration would help provoke the acceptance of new standards for industry practice. This will be increasingly true as the social issues of community rights outlined above become publicly accepted conventional wisdom, as has occurred with environmental issues over the past two decades.

There will be those who feel that such changes will unnecessarily increase costs. That the effort is wasted, a burden on the industry that should only become a requirement when a project has some strong signs of being potentially viable. We would argue that company-community relations begin the day a geologist arrives on the ground: first impressions are long lasting. Community opinions and attitudes can become deeply entrenched quite quickly and a polarized situation exist long before the company considers the project capable of becoming a mine.

Developing and applying the skills to handle company-community relations during the exploration phase is essential. They are already a cost of doing business, but up until now have been deferred to the mine phase. Exploration organizations now need to consider employing specialists with relevant training to research, design and implement effective community relations programs, and ensure that appropriate linguistic abilities are available to facilitate communication. There should be support for project managers to focus on community relations, and managers should be held accountable for implementation. Just as consultant geophysicists bring necessary skills to optimize mine finding, appropriate expertise must be built into a project to ensure that it is in social good standing. Companies that succeed and prosper into the next century will have done all this and more.

This discussion has used Latin America as a point of reference. Our opinion is, however, that we are looking at a phenomenon with world wide implications. Successful modern mining should begin with the highest standards of work during the exploration phase. It is both common sense and good business practice to be environmentally responsible and actively conscious of a company's inherent position within, rather than outside, the community, from the earliest stages of part-time residency. There should be a seamless transition in social relations as a project passes through exploration and is then handed on to an operating group for mine development. The challenge for all mining companies is to understand that social, socio-economic and environmental issues are relevant to them at all stages of activity, and act accordingly.

This paper was written following the authors' participation in an international conference and roundtable on 'Mining and the Community,' sponsored by the World Bank and held in Quito, Ecuador, May 6-8, 1997.