

Linking Impact Benefit Agreements and Project Management:

A case study

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Introduction

Societal Issues and Project Management

Introduction

- Managing societal issues in the development of mineral resource projects has become the most important variable a manager needs to successfully assess and resolve.
- Societal issues have a heightened importance as a result of fundamental changes in political, economic, and technical fields that have occurred over the last fifty years.

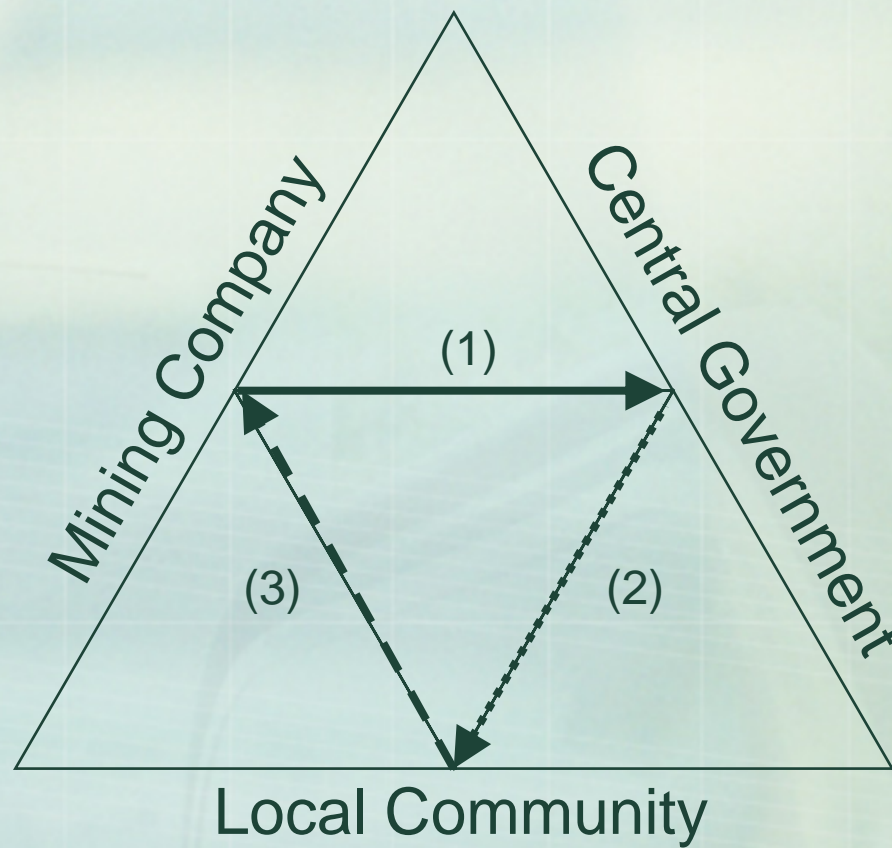


Paradigm Shift in Mineral Resource Development

The Old Paradigm

- Traditionally, mining projects were managed through continuous interaction between the mining company and the central government.
- The region in which the mineral development occurred would only be peripherally involved in the project through the provision of labour.
- Project benefits would flow indirectly to the region via the central government.

The Old Paradigm



The New Paradigm: Big Capital Meets Local Government

- Although the regulatory framework for mineral resource projects continues to be based on the old paradigm, in practice these projects have changed significantly.
- With increased levels of automation, capitalization and citizen empowerment, the relationships upon which the allocation of benefits from mining projects were traditionally based has shifted primarily to a capital versus community axis.

The New Paradigm

- Governments and courts are recognizing the need for regulators and companies to consult with and accommodate the interests of local communities that are negatively impacted by a project.
- In Canada, this has been recognized in a series of Supreme Court decisions involving aboriginal groups challenging the validity of government permits issued to resource companies .

The New Paradigm



- Negotiating an Impact Benefit Agreement with an indigenous community is one technique that can be used to address societal issues and manage the risk such issues pose to mineral resource projects.

The Victor Project



The Victor Project

- The Victor project is Ontario's first diamond mine, and is located in the James Bay lowlands of northeastern Ontario.
- The James Bay lowlands area is populated almost exclusively by indigenous people known as the Swampy Cree or Mushkegowuk Cree.



The Victor Project

- The Victor project is typical of most mineral resource developments with a long timeline from discovery of the resource to production.
- De Beers initiated detailed regional exploration in the James Bay lowlands in the mid-1980s, leading to the discovery of several kimberlite intrusions. The largest of these, the “Victor” body, warranted further work.

The Victor Project

- De Beers signed an Impact Benefit Agreement for this project with Attawapiskat, the most significantly affected community, in November, 2005.
- Commercial production is currently scheduled to commence in the second quarter of 2008.





Managing Societal Risk

Managing Societal Risk

- A manager needs to appreciate that community opposition can unnecessarily delay a project and plan accordingly.
- The manager must assess the community to determine what safeguards will work in the circumstances.

Managing Societal Risk

- Reliance on political leaders and consultants as your sole link to the community can be dangerous.
- Beyond intermediaries such as external consultants and community leaders, a manager and his team should establish multiple meaningful links with as many members of the community as possible.

Managing Societal Risk

- It is particularly important to identify and involve the community's non-elected decision makers in the process.
- To develop an understanding of the local community, all significant groups in the community should be consulted, including elders, women, youth and special interest groups.

Managing Societal Risk

- The mine development process is long, and there are numerous opportunities to create these links. An effective tool to establish such links is short- and medium-term employment for community members.
- Employees from a community are often the best “ambassadors” for a project, because employment can lead to a better understanding of both the company and the project itself.

Managing Societal Risk

- At the initial stages of community engagement, the community's interests may be obscured by outright opposition to the project or demands that are beyond the company's ability to address.
- These demands can include recognition of treaty rights and claims for redress against the central government for past and present inequities.

Managing Societal Risk

- In the case of the Victor Project, De Beers realized that outright opposition and high-level demands for recognition of land claims masked the community's deeper interest for improvements to basic living conditions, such as clean water, housing, employment, and education.

Managing Societal Risk

- The project management team faced the challenge of educating the community on how the development of the Victor project could address these concerns.
- Through a series of engagements, the community began to appreciate how the potential benefits of the project would address its real interests.

Managing Societal Risk

- The final IBA for the Victor Project addresses the following issues:
 - Education and Training
 - Employment
 - Workplace Conditions
 - Business Opportunities
 - Environmental Protection
 - Social and Cultural Protections
 - Use of Facilities and Disposal of Surplus Infrastructure
 - Financial Consideration
 - Implementation
 - Exploration for Additional Resources
 - Dispute Resolution Process

Managing Societal Risk



- It is only when the interests of the community and the company align that meaningful negotiations for an IBA can be initiated.
- A successful IBA comprehensively addresses the interests of both parties.



Managing the IBA Process

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- Basic resolution or mitigation of societal risk components is an essential milestone for a manager to obtain major allocations of capital necessary to fund significant resource projects.
- While Impact Benefit Agreements are not usually required by law, they are seen at the corporate level as a prerequisite to obtaining major capital funding. They provide a level of comfort and certainty to both parties.

Managing the IBA Process

- IBA negotiations have political, economic, social and educational dimensions, and the time required to conclude an IBA is an uncertain variable.
- It may be advisable to stand down other project planning, engineering and procurement until the IBA milestone is met.

Managing the IBA Process

- Typically in Canada, the company and the government are expected to fund the IBA negotiation process.
- This can become an expensive process where the community seeks the assistance of environmental, financial, and legal experts.

Managing the IBA Process

- In order to avoid having the negotiation process consume unwarranted resources and time:
 - employ a small team negotiators who are dedicated to the task and well prepared before each session;
 - establish budgets and tie funding to milestones;
 - maintain corporate flexibility and be prepared to walk away;
 - narrow the scope of issues to those within your control: this is a business transaction with limited parameters, not a treaty negotiation;
 - only begin negotiations once an alignment of interests has occurred and project economics are known.



Conclusion

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- Major shifts in the political, economic and technical parameters of the mineral resource industry have produced a new paradigm for obtaining the necessary social license to build and operate a resource project.
- By understanding the underlying basis for these changes, a project manager can approach these challenges with appropriate planning strategies and tactics that can maximize their probability for success.