

Social License to Operate in the Oil and Gas Industry

Driving the Sustainability Agenda



1. Introduction

Unless the relevant stakeholders including the host communities embrace an oil and gas project, there can be obstacles in the way of its implementation even if all the relevant regulatory permits and authorizations have been obtained. It is the reason international oil companies (“IOCs”) and their major contractors nowadays attach significant attention to the sustainability agenda as means of achieving the social license to operate (“SLO”). The civil society is vocal in demanding for accountability and transparency in the sector considering that oil and gas activities can have social, economic and environmental consequences both positive and negative.

Despite the shortfalls sometimes, it is a primary objective today of the oil companies and their contractors to harmonize their aspirations with community expectations as a means of getting their projects embraced by the respective host communities. This acceptance is what has come to be known as the social licence to operate. SLO is as important as the legal licence for continuous project success.

2. What is SLO?

SLO refers to the ongoing acceptance or approval of an operation by the stakeholders in the community affected by it. It is derived from the beliefs and perceptions of the local community and other stakeholders such as citizens, government and activists among others.

In order to achieve the SLO, companies must invest heavily in earning the trust of the community for the project to be embraced. There must be broad social acceptance and enduring recognition of the project though some stakeholders may remain opposed to it. Building this trust and relationship with the community takes time, effort and thoughtfulness. To demonstrate their commitment to improve their wellbeing, IOCs in Uganda have engaged in several activities including offering scholarships to students at different levels of education and building health facilities in their host communities amongst others.

It is however noteworthy that a core component of the SLO is that it is neither permanent nor perpetual. Continuous engagement with the community is critical to reinforce this SLO.

3. Measuring SLO

According to Thomson and Boutilier’s framework to measure beliefs, perceptions and opinions that impact social license in the extractives industry, the SLO exists in a four-level hierarchy; psychological identification or co-ownership, approval, acceptance and lastly withholding or withdraw.

In order for the SLO to exist, the project must meet the criteria of legitimacy, credibility and trust. For the project to be considered legitimate, the activities must contribute to the well-being of the community, respect existing traditions and lifestyles and be conducted in a manner the community considers fair. Where the community considers the project illegitimate, it can withdraw or withhold access to essential resources.

Secondly, approval level refers to a situation where the project is perceived as credible by the entire community. This level of SLO requires that IOCs and their contractors communicate openly and honestly with the community, deliver on the actions they promise and provide benefits to the community. The key attributes of this stage are support for the project and participating companies, perception of the companies as good neighbors and pride in collaborative achievements.

Following, is acceptance which arises from the credibility and legitimacy of the project. It can sometimes be granted grudgingly or reluctantly by parts of the community and while it implies tolerance, there may be recurring issues from the community or monitoring institutions.

The highest level of SLO is psychological identification or co-ownership which can only occur when a high level of trust is present throughout the community. Such level of trust requires consistency in communication and execution. At this level of SLO, the community and stakeholders incorporate the project into their collective identity and becoming the advocates and defenders of the project since its members consider themselves to be co-owners and emotionally vested in its future.

4. Reinforcing SLO

Companies should map and understand the social structure, issues and vision of the various individuals, groups and organizations that form the community. This can be through periodic measurements.

(a) Directed Communication

Because SLO is intangible and dynamic, conflicting ideas among stakeholders can impact the level of licence that is granted. Each community has specific issues and interests that form the basis for relationship building between it and the project operator. Beliefs, opinions and perceptions are subject to change as new information is acquired.

(b) Utilizing of social media

In a highly digitized generation, IOCs and their contractors cannot work without engaging with stakeholders through social media. Through social media, new actors have emanated providing a powerful platform to voice their concerns thus projecting unrelenting criticism towards these companies. Activist groups heavily rely on social media and provoke overwhelming support from the community. IOCs need to harness social media by being part of the conversation especially those conversations that are taking place beyond the local communities where they operate.

(c) Addressing climate change

Climate change is undoubtedly the most important issue facing the oil industry. To play its part in mitigating climate change, the oil and gas sector must reduce its emissions by 2050. IOCs are facing a critical challenge as the world increasingly shifts towards clean energy transitions.

Under the 2015 Paris Agreement, 195 countries pledged to limit global warming to well below 2.0°C, and ideally not more than 1.5°C above preindustrial levels. Recently, activists have imposed immense pressure on global financial institutions to refrain from financing the EACOP project due to the environmental risks it poses.

Previously, the IOCs prioritized the provision of jobs, taxes and other corporate social responsibility activities over the environmental concerns raised. It is notable that the IOCs operating in Uganda are showing deliberate concern about the impact of their activities to the climate. This can be seen in the investment in technology used to undertake exploration activities in Murchison Falls Game Park to reduce the carbon footprint and opting to use solar energy to heat the pipeline among other measures.

(d) Local Content

Involvement of locals in the activities of contractors at all levels is one sure way of obtaining the SLO. It is noteworthy that Uganda has enacted legislations to ensure involvement of locals however, IOCs must be seen by the communities to be taking deliberate efforts in employing residents of the communities that they are undertaking the activities and this commitment has been given by the oil companies for Uganda's oil project.

5. Conclusion.

While the legal licence is issued by a governing authority, the SLO is earned from a community of stakeholders. Thus, legal and social licences both speak to what is acceptable behaviour by companies from quite different perspectives. The terms of a social licence are located in the values, expectations and perceptions of a broad set of stakeholders. Therefore, IOCs must plan their project works with such aspirations forming a core part of their undertakings.

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