

CBSR VIEWPOINT

# Stakeholder Relations in the Oil Sands

MANAGING UNCERTAINTY

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# Stakeholder Relations in the Oil Sands

## Managing Uncertainty

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Stakeholders in Alberta's oil sands engage with each other so that economic benefits from oil sands development can be obtained within a sustainable environmental framework. In recent years, due to the rapid pace of development and heightened concern over the cumulative environmental impacts of oil sands development, stakeholder relations in the oil sands have come under increasing pressure. While stakeholders remain committed to their engagement, they've also felt the need to adjust their strategies through a more careful and balanced consideration of process, targeted partners, and outcomes. How and why this has happened offers important lessons about the practice of stakeholder relations in the oil sands.

## CHANGING GLOBAL CONTEXT PUTS SPOTLIGHT ON THE OIL SANDS

*Amidst a flurry of recent media stories about the oil sands, a global economic downturn, and a new U.S. President committed to altering the direction of his country's energy policy, Alberta's oil sands now sit at the crossroads of a series of significant and complex global issues that require a delicate balancing act for all stakeholders.*

- **Economics of oil sands development** – Oil sands development has slowed considerably due to the precipitous drop in the price of a barrel of oil over the past year.
- **Global credit crisis** – Companies are less willing to take on more risk when projects are unlikely to deliver returns for their shareholders, or when they can't access capital.
- **Shift in U.S. energy policy** – The new Obama administration is calling for technological innovation and new thinking on energy policy, one that would push his country into the forefront of action on climate change.
- **Unsettling global security issues** – Fears of terrorism, the possibility of a nuclear Iran, and continued volatility in the Middle East, have turned the camera more directly on the world's second largest source of hydrocarbons amid concerns about security of oil supply.
- **Oil sands in the news** – Climate change continues to capture the public's attention. Industrial operations, such as oil sands production with their greenhouse gas emissions, have become targets for public relations actions by environmental non-government organizations.

## STAKEHOLDER RELATIONS DESIGNED TO FACILITATE OIL SANDS BALANCING ACT

How and why do different players in the oil sands use stakeholder relations to further their agendas?

**For oil sands developers**, it's about obtaining a "social license to operate"; that is, securing permission from communities and other key stakeholders to develop oil sands projects. This is achieved through community consultation, ENGO engagement, and a wide variety of industry and multi-stakeholder forums, such as the Oil Sands Developer Group, and the Cumulative Environmental Management Association (CEMA).

**For First Nation and Métis Nation communities**, stakeholder relations are tied fundamentally to respect; having a place at the table so their voice can be heard. Of course, there's also an inherent interest in securing long-term economic benefits from oil sands development while minimizing the environmental impact. To achieve a multitude of goals, First Nations communities seek to sign long term impact and benefits agreements, negotiated through stakeholder relations involving companies, governments and, often, ENGO advisors. First Nations also participate in multi-stakeholder forums such as CEMA, and the Oil Sands Environmental Coalition. This positions them as interested and affected parties of oil sands development.

**For environmental non-government organizations (ENGOS)**, stakeholder relations provide them a place at the table to ensure oil sands development is done "responsibly". Playing the role as "public stewards" of the environment, their voice is heard at a variety of levels, through multi-stakeholder forums (CEMA, OSEC, etc.), and bilateral relations with companies, First Nation and

Métis Nation groups, and governments. While some seek a non-partisan “fact-based” approach through public education and advocacy, others seek to push the envelope in a more activist fashion.

**For governments**, particularly Alberta, positive stakeholder relations help bring certainty to oil sands development. This has downstream benefits to the public in the form of employment and revenues for needed government services, and helps mitigate some of the negative aspects of development – increased traffic, crime, environmental impacts, strain on infrastructure. Stakeholder consultation is built into the regulatory process to ensure affected and interested parties can be heard, thus minimizing the risk of a public outcry. First Nations must be consulted, public hearings are held, and development approval is contingent upon addressing issues raised. Because the regulatory regime is critical to oil sands development, the Alberta and Canadian governments send representatives to multi-stakeholder forums (such as CEMA) to give their views on what’s required to ensure development proceeds with the proper care given to mitigating impacts.

## CRACKS EMERGING IN OIL SANDS STAKEHOLDER RELATIONS

*Within the past year, oil sands stakeholders appear to be “taking stock” of their relations with their sector counterparts. Signs of frustration, conflict, and lost faith have emerged as all players struggle to adapt to new global realities. The general trend seems to be a slight stepping back from established relations, greater finger pointing, and a certain “circling of the wagons”. Seven key shifts in stakeholder relations reflect these broad trends:*

1. **Withdrawal from multi-stakeholder process** – In mid-2008, ENGOs and several First Nations bands threw in the proverbial towel, expressing significant frustration with the Cumulative Environmental Management Association’s (CEMA) failure to produce concrete outcomes that would mitigate the environmental impacts of oil sands development. Industry and government, still engaged with CEMA, continue to be concerned their financial investment in CEMA is being wasted. Ultimately, a loss of faith in CEMA has emerged, undermining the work of this multi-stakeholder group that many consider to be unique to the oil sands sector.
2. **Increasing focus on government to show policy leadership** – There’s an increasing concern that insufficient and unclear government policy and regulations are roadblocks to progress in balancing oil sands development and environmental management. It’s almost as if one of the oil sands key stakeholders has been sitting on the sidelines. Debates on the various available choices, from emissions caps to cap and trade to carbon capture and storage remain unresolved. Both ENGOs and industry seek clarity and certainty of outcomes so they can undertake long term planning in their respective efforts to manage risk. And, both see themselves shifting to greater and more focused efforts to have government step up to the plate in a concerted fashion to define its vision for the oil sands.
3. **ENGOs take stronger positions to push their agenda** – In reaction to the perceived unchecked pace and scope of oil sands development, environmental groups have shifted their stakeholder relations to become more demanding of companies and governments. Some have even turned quite radical. Overall, it appears ENGOs have lost some faith in the multi-stakeholder process due to a lack of trust in companies’ and governments’ willingness to meet commitments. Instead, they perceive more lip service being paid to environmental concerns through

public relations campaigns that try to “box in” environmental groups, undermining their concerns by saying they simply want to shut down all oil sands development. As a result, ENGOs have become more active in their advocacy roles, more assertive in their public education and information campaigns, and have demanded a halt to approvals of new projects until regional environmental plans are in place.

4. **ENGOs pursue global connections for support** – Within the changing global context, particularly the Obama election, some Canadian ENGOs involved in the oil sands have joined forces with larger U.S. NGOs (e.g. ForestEthics, Natural Resource Defense Council) to gain support in their lobbying and public relations efforts. The advent of the “dirty oil” campaign managed by ForestEthics, and Earthworks “No Dirty Energy” campaign are two examples of these efforts. In taking this approach, oil sands ENGOs hope to gain credibility for their cause, and build momentum for change. Raising the profile of oil sands development south of the border, they also hope to capture the attention of a new American administration which seems open to their positions.
5. **Companies retreat to local community stakeholders** – Frustrated and impatient with a recent barrage of bad publicity in early 2009, and what they consider to be continued ENGO misinformation about the oil sands, some companies have decided to downgrade their relations with larger provincial and national ENGOs. Instead, they’re choosing to deal in a more focused and concerted fashion with local organizations representing those most directly interested in and affected by their projects. In particular, companies are choosing to engage more with local conservation groups that take a science-based approach to development. They’re considered constructive allies, because they help through the transfer of knowledge of world class environmental management research that companies can use. This shift has not replaced companies’ engagement with and commitment to other organizations or to multi-stakeholder fora; it’s simply a change in emphasis.
6. **First Nations/Métis Nation more active in demands** – In addition to withdrawing from the multi-stakeholder process to protest inaction, local First Nation and Métis Nation communities are more active in challenging companies to do a better job managing the impacts of their development projects. With projects moving further along in the development process, and issues such as traffic management, truck noise, and flares surfacing, the “reality” of oil sands development is upon the local communities in a more direct way; it’s no longer just a hypothetical issue discussed around the consultation table. In response, local communities are requesting long term regional benefits and impact agreements; some are pursuing legal options; others are retreating to discuss the issues among themselves amidst changes in community leadership, leaving companies waiting on the sidelines until decisions are made.
7. **Companies openly challenge ENGO campaigns** – Companies feel ENGOs have unfairly positioned the oil sands as “dirty oil” for an easy public relations “win”. For them, this framing of the debate ignores some basic facts, such as the distinction between different types of oil processing, and jeopardizes their social license to operate. As a result, they’re now actively engaged in a public communications campaign through their industry association (Canadian Association of Petroleum Producers) to clearly explain their business and to demystify what’s happening in the oil sands. This pits them more squarely against ENGO stakeholders.

## MIX OF FACTORS WILL AFFECT FUTURE DIRECTION IN OIL SANDS STAKEHOLDER RELATIONS

*Moving forward, it seems clear that the landscape of stakeholder relations in the oil sands is ripe for yet further change. With the economic slowdown, a “pause” in oil sands development, and heightened public attention to the issues, it’s unclear whether stakeholders will build upon what’s arguably a strong foundation and commitment to engagement, or whether the opportunity for substantive positive change will be lost amid growing mistrust and a lack of confidence in the process. Five factors will play a role in the outcome:*

1. **Governments’ ability to define clear policy and regulatory framework** – Industry, ENGOs, and local communities want and feel they need government to provide leadership and direction to oil sands development. They believe and hope this leadership will bring certainty to the process, clarify risks, and establish some security of outcomes for all concerned. How government responds to the challenge will determine whether stakeholders feel they can genuinely commit to engaging with each other. Companies have an opportunity to lead this process, knowing that they’ll have the support of ENGOs, the same ENGOs who’ve been quite critical of perceived government inaction. And, there has been some government action to date. Sensitive to Alberta’s global reputation, and to the potential economic impact of negative publicity on oil sands development, the Alberta government released a policy paper, *Alberta’s Oil Sands: Resourceful. Responsible.* that seeks to mollify those concerned about the environmental footprint of oil sands development, and to lay the foundation for more active government leadership in the sector.
2. **Direction of U.S. energy policy** – President Barack Obama appears committed to re-positioning the United States in the world energy market as a leader rather than a laggard on climate change policy, and to supporting innovation in the area of environmental technology. The recently proposed Waxman-Markey bill (the American Clean Energy and Security Act), for example, would create a cap-and-trade system reducing greenhouse gas emissions over the long term, and enforcing steep reductions early. If the bill passes the U.S. Congress, and is signed into law by Obama, there’s little doubt among Canadian oil and gas companies and ENGOs that Canada would follow suit to maintain an integrated continental energy market. While oil sands companies tend to believe these U.S. initiatives will take some time to become reality, ENGOs are convinced Obama represents a sea change, and they’re prepared to do what it takes to help push the agenda. Whose judgment is more sound here will undoubtedly impact stakeholder relations in the oil sands. The risk for companies is that they’re caught off-guard by an Obama administration that shows greater determination to make change quickly. The opportunity for them is to stake a position that’s out in front of governments on technology and innovation, on mitigation of environmental impacts, and on pushing towards greater energy security. This could enhance their position vis-à-vis other stakeholders, notably the ENGOs, and strengthen relations in the oil sands.
3. **Impact of public relations battles** – With ENGOs, companies, and governments already staking their positions in the public relations arena, there’s every reason to believe the debates will get hotter as more time passes without a resolution on many of the basic issues. The fact that both ENGOs and companies appear to have hardened their positions somewhat over the past year, means stakeholder relations risk being downgraded further as an ineffective means

of resolving disagreements.

4. **Duration of global economic crisis** – While oil sands development is in “pause” mode for the time being, a significant amount of development is still proceeding. Over the medium to longer term, the depressed price of oil and the lack of access to credit will increasingly dictate the degree to which investments in the oil sands can or will proceed. The longer the recession, the less urgent oil sands development issues will seem to key stakeholders, and particularly to the general public. However, if things turn around more quickly, there will be a greater urgency for stakeholders to find appropriate and acceptable ways to collaborate. Companies and ENGOs have an opportunity to plan now for different possible future scenarios. Whether or not they seek to re-establish some of the good will lost over the past year or so will speak volumes about the future of oil sands stakeholder relations.
5. **Success in revamping multi-stakeholder process (CEMA)** – Several reports have already been written outlining the unraveling of CEMA, and what’s needed to re-build its operations and its credibility as an effective mechanism for resolving issues and providing balance in oil sands development. This includes having more senior government representatives with sufficient decision-making authority, re-structuring CEMA’s Board to provide a better representation of interests, defining a more focused mandate, and eliminating incentives to delay progress on the development of environmental management systems. The sooner recommendations are implemented, the greater the opportunity to create a more balanced approach to development. If things are delayed too long, stakeholders could/will lose confidence, and move to other mechanisms or strategies.

Interestingly, and perhaps ironically, there seems to be a consensus that something new does need to be developed to address the inherent uncertainty in the changing oil sands context. As one industry representative commented: “All engagement processes have a natural life; you reach a point in time, and the nature of the dialogue will change”. To expand upon this Darwinian notion, oil sands stakeholder relations will likely evolve to a form better able to survive and meet the new challenges of oil sands development.

## STRENGTHENING FAITH AND CREDIBILITY IN OIL SANDS STAKEHOLDER RELATIONS – RE-ESTABLISHING CONSTRUCTIVE ENGAGEMENT

*To ensure stakeholder relations continue to improve, and deliver expected outcomes, a number of next steps can be taken:*

1. **Re-establish commitment to the process** – Stakeholders must not let their relations be pushed apart further by short term considerations. For this to happen, stakeholders need to: re-assert their genuine belief in the stakeholder relations process by building long-term ownership and commitment; search for win/win outcomes; explore shared and different interests, values, needs, and build on common ground; seek results judged on merit and which seem fair and reasonable to all parties; consider feelings, values, perceptions and vulnerabilities of all parties; and invest in mutual learning.
2. **Manage expectations** – Amid the complexity of issues, overlapping interests, and borderless concerns, it’s critical that stakeholders remain realistic about the pace, scope, nature, and

expected outcomes of the stakeholder process. While this should not be used as an excuse to accept unreasonable delays, an acceptance of the on-the-ground reality of oil sands development should be a guiding force in discussions and relations.

3. **Find the easy “wins”** – Stakeholders should look first to the most common agreements they share, and register some easy successes, however small. This would generate positive momentum, build faith and credibility, and instill a broad sense of good will.
4. **Undertake scenario planning** – Given the context of uncertainty, and the many overlapping pressure points where oil sands development occurs, it would be helpful if oil sands stakeholders engaged in scenario planning exercises to bring some level of “predictability” to their relations. Different scenarios demand different actions, and require different resources. Knowing these in advance could forestall conflict, and outline timely actions.

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