## **LATIN LAWYER**

# THE GUIDE TO CORPORATE CRISIS MANAGEMENT

**FOURTH EDITION** 

**Editors** 

Sergio J Galvis, Robert J Giuffra Jr and Werner F Ahlers

# The Guide to Corporate Crisis Management

#### Fourth Edition

#### **Editors**

Sergio J Galvis, Robert J Giuffra Jr and Werner F Ahlers

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#### Publisher's Note

Latin Lawyer and LACCA are delighted to publish *The Guide to Corporate Crisis Management*. Edited by Sergio J Galvis, Robert J Giuffra Jr and Werner F Ahlers, partners at Sullivan & Cromwell LLP, this new guide brings together the knowledge and experience of leading practitioners from a variety of disciplines and provides guidance that will benefit all practitioners.

We are delighted to have worked with so many leading individuals to produce *The Guide to Corporate Crisis Management*. If you find it useful, you may also like the other books in the Latin Lawyer series, including *The Guide to Mergers and Acquisitions*, *The Guide to Restructuring* and *The Guide to Corporate Compliance*, and our new tool providing overviews of regulators in Latin America.

My thanks to the editors for their vision and energy in pursuing this project and to my colleagues in production for achieving such a polished work.

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# Part III

# Stakeholder Relations

#### **CHAPTER 12**

### Mining Projects in Peru: Community Relations, Indigenous Rights and the Search for Sustainability

#### Luis Carlos Rodrigo Prado<sup>1</sup>

Latin America has great potential to attract foreign investment, not only because it has abundant natural resources but also because there are considerable infrastructure gaps and other opportunities (such as industrial and retail) open for investors to venture into the region. However, besides the common political risks and fluctuations in Latin America that usually make investors think twice before undertaking an important investment, an additional challenge has surfaced in the past decade and is one of the most relevant for investors: the social opposition that these projects may encounter.

It is clear that, despite the need for investment that Latin American countries have, most mining, energy, hydrocarbons and infrastructure projects face great difficulty in gaining the support from the respective local communities and populations. Thus, it is crucial that an investor plans how to approach these communities before the investment takes place; obtains the 'social licence' to go ahead; and only initiates the project once a foundation for sustainable support with the community is built.

Even if all this is done successfully, it is almost inevitable that there will nevertheless be obstacles along the way. Therefore, investors must understand that maintaining good relations with the community is a continuous endeavour and one that may never feel successfully resolved. Even after using best practices, and investing time and resources to build trust, there may always be difficult situations

<sup>1</sup> Luis Carlos Rodrigo Prado is a partner at Rodrigo, Elías & Medrano Abogados.

in which tensions bubble to the surface, or community trust is broken and difficult crises have to be dealt with. This is even truer now than ever, due to the covid-19 crisis and the greater mistrust and risk derived from it. Learning from others' experiences and approaching each case with openness, transparency and creativity is very important, so below, as an example of what investors may face in Latin American countries, I will share some views, based on experiences gathered in Peru's different social challenges, including some recent examples related to covid-19.

#### Current challenges

Peru is a country with a variety of investment opportunities, but it also presents several challenges for investors. On the one hand, it is very rich in natural resources (e.g., minerals, such as copper, zinc, tin, gold and silver; and natural gas, oil, forestry, fishing and agro-industry) but, on the other, it lacks infrastructure (currently, there is a gap of around US\$180 billion in infrastructure investment) and has a weakness derived from the deep difference between the richer coast and the poorer Andean and Amazon populations. This situation has contributed to the lack of trust that these poorer communities have in local and foreign investors, as well as towards the authorities. Different political parties and activists have taken advantage of this to hold up investment, especially regarding mining projects.

Although Peru currently has one of the most advanced legal frameworks for mining investment in the region (if not the world), which requires the prior fulfilment of hundreds of administrative, environmental and social requirements, a few decades ago this was not the case. Thus, there still are some nasty tailings and other environmental legacies throughout the country, left by antique mining operations or illegal miners (who still operate against the law in several areas). This allows anti-mining activists to more easily oppose mining investment, even when the companies involved are socially and environmentally responsible.

For example, there is the case of Southern Peru Copper Corporation (SPCC) regarding the development of the Tía María project. After the project was first rejected, SPCC engaged in a tremendous effort to not only change the project and its environmental impact study (EIS),<sup>2</sup> but also to discuss the new project with the local population to build trust. The effort was very successful and, in 2014, the

<sup>2</sup> Relevant changes were made to the project in 2013, such as changing the water sources from rivers and underground water to desalinising sea water, or moving the processing plant 11 kilometres away from the agricultural areas, etc., which ended in the approval of the EIS in July 2014.

company was finally granted the approval of its EIS after several public hearings and discussion assemblies. However, in mid 2019, after obtaining the authorisation to build the plant and following a month of strike action and protests, the central government suspended the recently granted authorisation, demonstrating how effective unions and direct action can be in opposing projects. Currently, although there is a valid permit in place to build the project, the company and the government publicly agreed not to develop it until allowed by the social conditions. Thus, it is clear that investors should not underestimate grassroots movements or the strength of public opinion, and need to consider such factors in their planning and learn how to manage them. This is more so nowadays when communities prefer to be left alone, due to the coronavirus risk, which they see as something brought by foreign investors into their areas of influence.

In this context, investors have to know that they will face several challenges before, during and after the execution of projects, so they need to acknowledge that, to carry out medium or large projects, early planning, adequate communication and interaction with communities, long before making any investment, are required. Still, even the most proactive, careful and responsible companies face the risk of social crisis throughout their activities. Thus, the purpose of this chapter is to discuss how to prevent or eventually manage a crisis in connection with two social obligations that mining investors have to face involving communities and social actors in their area of influence: the prior consultation process and the public participation process.

To provide some context, it is important to mention that the prior consultation process is aimed at protecting the right of indigenous and native peoples to be consulted before issuing any legislative or administrative measure that could directly affect their collective rights, physical existence, cultural identity, quality of life or development. The challenges associated with the prior consultation process are linked not only to the execution of the process itself, but also to the lack of clarity of the applicable laws and regulations. In fact, the first challenge derives from the difficulty in determining whether a certain project requires passing the prior consultation process or not. This, in itself, usually aggravates tensions between the government and activists, who usually want any activity to be consulted on, even the simplest initial exploration activity, which could entail immense costs to the state and usually to no avail, since less than one exploration project for every 1,000 that are carried out results in an operation.

Since the prior consultation process is an obligation of the Peruvian state (through the corresponding competent authority) and not the company sponsoring the project, this intrinsically entails several risks that:

- the government does not have a complete view of what the project could generate in the future (in terms of both risks and benefits);
- it carries out the process too early when this information does not exist;
- the people involved may not have the expertise, interest or sensibility to adequately convey the known information to the communities involved or offer reasonable benefits; and
- owing to its own political constraints, the government faces more political issues than companies.

All these issues will end up directly affecting the investor, so the investor must be as involved as possible, especially because a lack of clarity concerning the applicable regulations can generate significant delays in the execution of a project and even the questioning of any licence, permit or authorisation that has been granted for its execution without carrying out a prior consultation process. On the other hand, the creation of unfounded expectations in the communities may also be the seed for future problems. All of this creates an uncertainty in potential investors, sometimes affecting their interest in investing, mainly because the implementation of the prior consultation process is out of their scope of control.

On the other hand, the process of public participation is well regulated in the mining sector. It is the company that must carry it out as part of the approval of the socio-environmental impact study process, so it is undertaken just prior to construction. Since this occurs after several years of exploration, it does not resolve the challenge to timely inform (before exploration) the involved population about the project's scope and, more significantly, the need to overcome negative preconceptions about mining. Thus, the proper and timely identification of these situations will allow finding alternative preventive solutions that will enable the adequate and sustainable development of a project.

Undue management of these two processes usually leads to a social crisis, so it is essential to plan adequately how to approach and participate in these processes.

#### On the risks associated with the prior consultation process

Social conflicts have always existed in Latin America, but it was only in the 1990s that our countries started to pay more attention to the legal framework governing consultation with native and indigenous communities as a way to prevent conflicts and abuses. Thus, countries like Peru, Chile, Colombia and Argentina signed and ratified Convention No. 169 of the International Labour Organization on Indigenous and Tribal Peoples in Independent Countries (ILO Convention 169), committing themselves to undertake prior consultation procedures whenever administrative measures (such as granting licences or concessions for projects)

that could affect the rights of native communities would be granted. However, it has only been in the past 10 or 15 years that these countries have regulated, through internal laws, the application of ILO 169.

In the case of Peru, the right to prior consultation of indigenous and native peoples was initially incorporated into Peruvian legislation through ILO Convention 169. ILO Convention 169 was approved by Legislative Resolution No. 26253<sup>3</sup> and entered into force on 2 February 1995.

Since ILO Convention 169 came into force in Peru, the Peruvian state was supposed to maintain or establish procedures aimed at consulting indigenous and native peoples before undertaking any project about the execution of exploration or natural resources exploitation activities taking place in their lands to determine if such indigenous or native peoples could be affected by these activities and to what extent. Article 15 states:

The rights of the peoples concerned to the natural resources pertaining to their lands shall be specially safeguarded. These rights include the right of these peoples to participate in the use, management and conservation of these resources.

In cases in which the State retains the ownership of mineral or sub-surface resources or rights to other resources pertaining to lands, governments shall establish or maintain procedures through which they shall consult these peoples, with a view to ascertaining whether and to what degree their interests would be prejudiced, before undertaking or permitting any programs for the exploration or exploitation of such resources pertaining to their lands. The peoples concerned shall wherever possible participate in the benefits of such activities, and shall receive fair compensation for any damages which they may sustain as a result of such activities.

Just from reading ILO Convention 169, it is not clear when or which specific administrative measures had to be previously consulted, especially considering the development of mining activities – upon the entry into force of ILO Convention 169 – did not require the granting of one specific administrative measure that directly authorised the start of mining activities, but to obtain hundreds of different permits and licences. No internal regulations regarding the execution of the prior consultation process were immediately issued as a consequence of the prior consultation obligation included in the ILO Convention 169. Nevertheless,

<sup>3</sup> Published in the official gazette El Peruano on 3 December 1993.

many years later, the Peruvian Constitutional Court, as well as the Supreme Court, stated that the obligation to consult existed as of the entry into force of the ILO Convention 169 in 1995.

It was only in 2011 that the Law on the Right of Indigenous and Native Peoples to Prior Consultation was enacted.<sup>4</sup> This Law develops the contents, principles and procedure applicable to the right to prior consultation regarding legislative or administrative measures that could directly affect indigenous or native peoples. Later, in 2012, the corresponding regulations were issued.<sup>5</sup>

Considering the above, there is a clear gap between 1995 and 2011. During this gap, and owing to the lack of clarity of the ILO Convention 169, many administrative measures (e.g., mining concessions and environmental permits) were granted without the execution of a prior consultation process. Today, this lack of implementation of the prior consultation process has started to affect many titleholders who obtained mining concessions during the referred-to period (1995 to 2011), given that some protective actions, which question the validity of said administrative measures, have been filed. Further, in some isolated cases, the judiciary has even declared the nullity of the challenged administrative measures.

Under Peruvian law, mining concessions are a different and separate asset from the land in which they are located. Thus, before undertaking the simplest exploration activity, holders of mining concessions are obliged to obtain the corresponding land rights from their holders (usually, peasant or indigenous communities). Such separation between land and mining rights existed centuries ago, so is prior to the ratification of ILO Convention 169. Moreover, the granting of a mining concession does not entail the right to actually carry out mining activities (even exploration, for which many additional permits are required). Therefore, any mining activity that could affect indigenous communities requires that the investor first reaches an agreement with such communities, which in turn implies a direct negotiation between the parties.

<sup>4</sup> Law No. 29785, published in the official gazette El Peruano on 11 September 2011.

<sup>5</sup> Supreme Decree No. 001-2012-MC, published in the official gazette El Peruano on 3 April 2012.

<sup>6</sup> By means of Decision No. 679-2017, the Third Specialized Court in civil matters in Puno (*Tercer Juzgado Especializado en lo Civil en Puno*) annulled 13 mining concessions located in Puno (Exp. No. 01832-2015). In this regard, it is worth mentioning that most of those mining concessions, by the time Sentence No. 679-2017 was issued, were already extinguished as a consequence of the failure to pay the applicable validity fees.

On the other hand, the 1993 Peruvian Political Constitution – which was also in force at the time the ILO Convention 169 entered into force – provides special protection to peasant and native communities regarding their lands. Additionally, there are laws that establish a series of obligations that must be complied with by the investor to develop economic activities in territories owned by peasant and native communities and that state that the territorial property of peasant and native communities is inalienable, does not expire, cannot be waived and cannot be encumbered.

Therefore, taking into account the legal framework in force at the time the ILO Convention 169 came into force, the application of prior consultation processes to mining concessions granted between 1995 and 2011 is highly questionable, and even more questionable is the alleged nullity of said concessions. Despite the fact that the Peruvian Constitutional Court has recognised the difficulty of applying the prior consultation process as a consequence of the lack of applicable regulation<sup>7</sup> and highlighted the importance of weighing the observance of the principles of legitimate trust and legal security to safeguard the validity and effectiveness of the titles granted by the Peruvian state in accordance with the procedures in force during the referred period, activists are challenging rights (mining concessions and other permits) issued more than a decade ago, generating great uncertainty for investors and undue expectations from communities. Several crises have been related to this type of issue, such as the well-known opposition to the Conga project<sup>8</sup> or the Tía María project.<sup>9</sup>

Many lessons have been learned from these cases, in which people died in the protests. First and foremost, it is clear that having all the legal permits and authorisations required under the law is not enough: one must always monitor the social climate in the area of influence of a mining project. Second, even before starting any minimum exploration activity, it is essential to analyse and understand the social composition of communities in the corresponding area and engage with them to build trust, which will eventually allow the investor to obtain the required surface land rights to afterwards carry out exploration and potentially build a project. Third, transparent communication with the population (not only the leaders) is also paramount. Fourth, it is convenient to engage with the government to determine whether it is necessary to perform the prior consultation

<sup>7</sup> Clarification resolution (Resolución de Aclaración) regarding STC No. 6316-2008-PA/TC.

<sup>8</sup> Held by Newmont, this US\$5 billion project was stopped by protestors in 2011 and remains suspended.

<sup>9</sup> Held by Southern Peru Copper, this US\$2 billion project is also stalled since 2011.

process and, if so, support the government in this process. Fifth, since most of these communities (even if they are not indigenous) are very poor and left aside for centuries by the government, it is necessary to formulate programmes with them to cover their needs and expectations, involving the government in participating in this effort but also directly implementing actions aimed at providing benefits to the indigenous or native peoples that may be located in the area of the development of the mining activities.

In general, the best way to ensure that a project may have good chances to go ahead is by being very proactive, very sensitive to the social environment, providing transparent communication to the communities and the authorities and working together in what today are called 'development tables', in which a multi-stakeholder approach that includes communities, government and investors try to determine and prioritise the needs and investments required in the specific area and how each of them will join efforts to accomplish these goals. This is the only way to ensure that a project obtains and maintains the 'social licence' to undertake, build and operate a mining project.

#### On the risks associated with the public participation procedure

Cerro Quilish, Tambogrande, Conga and Río Blanco are some cases in which not obtaining or 'losing' the social licence was an obstacle for the development of mining projects in Peru. In said cases we can find the following common elements:

- an investor with a right for the exploitation of mineral resources (i.e., mining concession and several other permits and licences);
- activists who moved the surrounding population to oppose the execution of the project and promoted social conflicts as a consequence of the existing negative preconception regarding mining activities; and
- authorities that either instigated or, in the best cases, did not anticipate the social conflict and only tried to solve it by requiring the investor to assume greater obligations and commitments.

In the public participation process – which is different and separate from the prior consultation process – the titleholder has sole responsibility to provide adequate and timely information to the population located in the area of a specific project. Every public participation process consists of diverse citizen participation mechanisms, among which we can find workshops, public hearings, surveys, interviews, focus groups, etc. The objective of any type of citizen participation process is also to obtain the social licence, but it is a process that is part of obtaining approval of an environmental permit and for which the investor is exclusively responsible. However, the applicable legislation does not require the

obtaining of any authorisation, permission or licence of social nature. Thus, the mining titleholder has only the obligation to carry out the corresponding citizen participation process and must implement the mechanisms that have been duly approved by the competent authority and that are included in the corresponding citizen participation plan.

As mentioned, one of the requirements to obtain the approval of the environmental management instrument is the execution of the corresponding citizen participation mechanisms. Thus, the mining titleholder is obliged to execute the public participation process in the following stages: before the development of the environmental management instrument; during the preparation of the environmental management instrument; and during the evaluation of the environmental management instrument by the competent authority. Additionally, during the development of the mining project, the titleholder has the obligation to implement the previously approved community relations plan.

Nowadays, there are various factors that make it difficult to obtain the social licence within the execution of the public participation process, among which we can mention the following: the 'legacy' of a mining industry with high rates of contamination; and the mistaken perception that the investor must assume the state's obligations.

#### The legacy of a mining industry with high rates of contamination

Peru has been considered as a great producer in the mining industry since colonial times. Moreover, the international community has always recognised the importance of Peru in the mining field, especially thanks to its large reserves of copper, gold and silver. As is evident, mining legislation has been modified and improved over time. However, environmental obligations have only really been in force since the enactment of the Environmental Code in 1990, the first general environmental regulation with a legal status in Peru that had the purpose of protecting the environment; therefore, several environmental legacies (such as tailings and others) exist in some areas of the country, derived from antique mining activities.

<sup>10</sup> US Geological Survey, 2017, Mineral commodity summaries 2017: US Geological Survey, p. 202, https://doi.org/10.3133/70180197.

<sup>11</sup> Legislative Decree No. 613, published on the official gazette El Peruano on 8 September 1990.

Although things are different now, and Peru has very strict and comprehensive environmental obligations and enforcement authorities, it is still easy for anti-mining groups to generate hostility in populations located close to a mining project, using the examples and concerns derived from the 'old' mining industry, which – as explained above – did not require compliance with any type of obligation related to the conservation of the environment. Further, since the execution of any mining activity requires the use of water for its processes and involves the generation of wastewaters, the main environmental concern now is usually related to how the water supply for agriculture, farming or human consumption will be affected by mining. If the investor does not have a comprehensive and thoroughly thought-out plan, and proactive communication with the communities of the area, these communities will think that the project will cause water scarcity or contaminate their natural water sources. In this regard, the main local activity in the places in which mining activities are being executed usually depends on the exploitation of the land (i.e., agriculture and cattle farming), in which the use of water is of the utmost importance.<sup>12</sup>

Although in Peru there are regulations related to the efficient use of water that must be met by the mining titleholders, and modern mining uses only 2 per cent of the water available (while agriculture – ironically – uses approximately 85 per cent of the available water), <sup>13</sup> it must be acknowledged that water is a great concern for any rural community and, thus, investors must act adequately to prevent or eliminate any concern regarding this resource.

It is clear that corporate social responsibility plays an important role in this regard. Investors should not only focus on maximising their profits, but should also help to improve the quality of life of the populations involved. Especially if we consider that mining activities normally take place in rural areas and zones of extreme poverty.

Thus, corporate social responsibility should be used by the investor as an effective tool to create bonds with the surrounding populations and build trust. Although it is true that adopting corporate social responsibility measures would involve additional costs to those directly related to the development of mining activities, in the long run this will not only bring benefits to the specific holders

<sup>12</sup> Castro Salvador, Sofía. Pobreza, minería y conflictos socioambientales en el Perú / Sofía Castro Salvador. – Lima: INTEPUCP, 2013. 114 p. (Cuadernos de investigación Kawsaypacha, 1).

<sup>13</sup> Instituto Cuánto. 'La verdad del agua y la minería forma en el Perú' in Negocios Internacionales Vol 14 – No. 171–172; available at: https://www.cuanto.org/index.php?modulo=313.

of the mining project – as it will have a more fluid and direct relationship with neighbouring and surrounding populations – but also help to reduce and, eventually, eliminate the existing preconceptions about 'old' and 'contaminant' mining. However, it is essential that the determination of the needs to be covered (e.g., infrastructure, training and health programmes) by any social responsibility programme be made jointly with the communities and always keeping the most transparent communication. Trust is difficult to create and easy to lose, so acting as real partners and being a part of the community – not only for show, but in reality – is the only recipe for success in this effort.

### The perception that the investor must assume the obligations of the state

Notwithstanding the above, the investor does not have to replace the government, but must work with the latter and the communities to contribute to the development of the region in which the project is located.

Peru is a developing country. Although it has managed to reduce its poverty rate, it still has 21.7 per cent of its population living in poverty. As mentioned above, mining projects are normally located in areas with high poverty rates. For this reason, mining titleholders often, in order to obtain the 'social licence' and in the scope of the development of the public participation procedure, undertake obligations and commitments that could correspond to the state's responsibility. Moreover, populations mistakenly consider that mining titleholders have a requirement to build hospitals, schools or many other public facilities, as well as to provide public services such as electricity, drinking water and public health. Competent authorities often reinforce this mistaken notion and request that investors comply with these commitments as part of their community relations plan included in the corresponding environmental management instrument.

Although the mining company does not have the legal obligation to undertake these obligations of the state, the truth is that, in most cases, it should and must be a contributor and facilitator, working with the government and through corporate social responsibility to cover several of the basic needs of the communities. Therefore, carefully planning to work with the government and the communities, without undertaking sole responsibility for resolving the many needs and lack of

<sup>14</sup> Instituto Nacional de Estadística e Informática. Evolución de la Pobreza Monetaria 2007-2017. Informe Técnico. April 2018. Available at: https://www.inei.gob.pe/media/cifras\_de\_ pobreza/informe\_tecnico\_pobreza\_monetaria\_2007-2017.pdf.

infrastructure in some areas, is a delicate balancing act. Given a large part of the population assumes that the mining company has to generate employment (with the duty of offering as many jobs as possible) and resolve many of their problems, it is essential to permanently work on a multi-stakeholder approach involving government, the investor and the community to provide the surrounding population of a project with public services and develop local infrastructure.

Therefore, the investor and the authorities have the challenge of defining the possible social commitments to be met without substituting the state's role. To eliminate the mistaken paternalistic conception of the mining titleholder, it is important that an efficient distribution of the mining canon is made, and the competent authorities are trained to ensure that the mining canon is used in the development of the areas where mining projects are executed. Indeed, the income generated by the development of mining activities – through the payment of taxes and royalties, among other things – must be reflected in the development of the project's area.

The foregoing requires an improvement in the institutions and the training of the authorities in charge of the distribution of the economic resources received and also of those authorities responsible for the use of the aforementioned economic resources.

#### The covid-19 challenge

All the previously mentioned challenges were increased due to the coronavirus risk, because communities felt that the companies and their workers were the ones bringing the virus to their land. This created an additional difficulty but, as always, also an opportunity to work together with the surrounding communities in controlling the spread of covid-19.

Now we can say that, through the organisation of tests and vaccinations, mining companies have significantly helped community members, as well as generally aiding community members who were infected. Mining activities are going very well and most (if not all) operations are producing at pre-pandemic levels or higher. Some mining companies have also installed oxygen plants, and continue assisting with the vaccination process.

#### Final thoughts

As it has been shown, the social factor is highly significant in the development of mining projects and remains the most important trigger for social crisis and unrest. Thus, social conflicts generated within a prior consultation or public participation

process, or owing to their lack of implementation, aimed at obtaining the social licence, are processes that need to be duly managed and planned for with a creative and proactive approach long before the actual exploration starts.

Owing to the negative preconceptions linked to mining activities and the absence of the state in many areas, the holder of a mining project has to assume obligations and commitments, which should be under the scope of the state's exclusive responsibility, but since this could be the only way to successfully carry out a project, the multi-stakeholder approach involving government, the investor and the community is the only way to enhance the chances of carrying out a successful project.

This entails the understanding that investing in timely planning and prioritising social awareness over costs is the best way to enhance the chances of a project going ahead with the support of the surrounding communities. However, currently, uncertainty regarding the position of the new government in connection with mining activities and the intention of once more increasing the mining tax regime have added expectations to communities and risks to mining investors. Despite this situation, investors continue to show interest in Peru and projects are being developed.

#### **APPENDIX 1**

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Mr Rodrigo graduated first in his class in 1990 at the Universidad Católica del Perú and then obtained an LLM from Yale Law School (1993). For his post-graduate studies, he received the Fulbright Scholarship and afterwards the Ford Foundation Scholarship to perform research on international arbitration issues, also at Yale Law School.

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This guide delivers specialist insight to our readers – general counsel, compliance officers, government agencies and private practitioners – who must navigate the region's complex, fast-changing framework of rules and regulations.

In preparing this guide, we have been working with practitioners from a variety of disciplines and geographies, who have contributed a wealth of knowledge and experience. We are grateful for their cooperation and insight.

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