W15210

# CAMECO CORPORATION: PARTNERING WITH ABORIGINAL COMMUNITIES

*Professors Peter Moroz, Simon C. Parker and Ed Gamble wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Cameco Corporation's Aboriginal strategy was perceived to play a large role in securing the company's positive reputation and long term success in Northern Saskatchewan. It was 2013, and the company was in the middle of negotiating multi-million dollar Impact and Benefit Agreements (IBAs) with several long-standing Aboriginal community partners which were key to their operations. These negotiations had stoked the interest of another isolated group, called the Reindeer Lake Community (RLC), that had no previous interest in or engagement with Cameco. RLC was much more tied to the traditional economy of hunting and fishing, inexperienced with agreements of any kind and limited in terms of their business capacity, infrastructure and proximity to Cameco's operations.

With the first few exploratory meetings with RLC now over, Sean Willy, Director of Corporate Responsibility at Cameco, needed to somehow temper RLC's expectations of financial and employment benefits while weighing the advantages and disadvantages of entering into a partnership process of some kind. In view of the growing excitement and burgeoning expectations of RLC, Cameco's reputation, changing market conditions, the potential entry of foreign competitors and the duty to consult, Willy needed to consider all the options before settling on a strategy.

## CAMECO CORPORATION—OVERVIEW

Cameco Corporation was created on February 22, 1988, when the Canadian and Saskatchewan governments announced the merger and privatization of Eldorado Nuclear Ltd. and the Saskatchewan Mining Development Corporation. The new company was privatized through a series of public share offerings over a period of seven years and soon established itself as a world-class uranium producer. Its growth strategy was carefully founded upon local and international joint ventures and acquisitions in the mining space (including German subsidiary Uranerz Energy U.S.-owned Power Resources Inc. and French-owned Cogema Resources Inc.); a focus on sustainable development (which produced an ISO 14001 certification for its McArthur River and Cigar Lake mines[1]); and the targeted inclusion of Saskatchewan's Northern First Nations and Aboriginal peoples in its operations. In 2007, Cameco

[1] ISO 14001 certification is one of the most internationally recognized standards for environmental management systems

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announced a new strategic alliance with Western Uranium Corporation,[2] and began to expand outward beyond its base in Saskatchewan to compete in obtaining the rights to other uranium resources globally.

## LEGISLATION, REGULATIONS AND THE DUTY TO CONSULT

Uranium mine development regulations are among the most highly regulated in Canada.

Legislatively, the licence to operate mining operations fell under the jurisdiction of the provincial government. Although regulations and legislative processes varied among provinces, territories and First Nation reserve lands, the intent of these regulations was to permit access to natural resources, while ensuring projects benefited all communities affected with as minimal negative impacts on the environment as possible.

With respect to specific nuclear regulations, the *Canadian Nuclear Safety and Control Act* required a comprehensive licensing process that considered issues ranging from site preparation to decommission and abandonment. Also requiring consideration were other federal and provincial regulations pertaining to environmental impact assessments, surface leases, site maintenance, and health and safety concerns. These conditions had in some ways been exacerbated by landmark court rulings between 1997 and 2005 that first introduced the "duty to consult" into the lexicon of modern resource extraction and development.[3]

The purpose of the "duty to consult" was to provide First Nations and Aboriginal peoples with official "stakeholder" status in any negotiation of land use issues where the project being contemplated had potential for impact on their territorial[4] and Crown held reserve lands, lifestyle or cultural traditions. In short, when any potential impacts were perceived by any party, *all parties* involved were best served by entering into consultative processes.[5] Projects that involved resource utilization, extraction and economic development were most commonly subject to the requirement of government or industry consultation with the communities that stood to be affected. For example, the *Canadian Environmental Assessment Act* required permitting that involved acknowledgement of the existence of inalienable Indigenous rights and the requirement to include Indigenous traditional knowledge as part of the mining and resource development planning and licensing process.

Despite law and policy initiatives designed to encourage and incentivize successful consultation processes in general, the specific processes by which private industry sought to "consult" had been left mostly to the design of the negotiating parties themselves. The varied strategies implemented by private industry had not produced a clear picture as to the specific considerations and activities that were considered to be the most important in satisfying the objectives set out within the duty to consult.[6] The evolving legal history suggested that if the duty to consult was not (properly) pursued, there was potential for significant legal implications—in particular, court-ordered legal injunctions that could stop or reverse any and all

[2] Cameco Corporation, "History," accessed April 22, 2015, www.cameco.com/about/history/.
[3] The Haida Nation case (Haida Nation v. British Columbia (Minister of Forests), [2004] 3 S.C.R. 511, 2004 SCC 73); the Taku River Tlingit First Nation case (Taku River Tlingit First Nation v British Columbia (Project Assessment Director), [2004] 3 S.C.R. 550,2004 SCC 74); the Mikisew Cree First Nation case (Mikisew Cree First Nation v. Canada (Minister of Canadian Heritage), 2005 SCC 69, [2005] 3 S.C.R. 388).
[4] Defined as ancestral lands that may be identified as used for any traditional, cultural or historical purposes; Mary C. Hurley, "Aboriginal Title: The Supreme Court of Canada Decision inDelgamuukw v. British Columbia," (Parliament of Canada Library, Law and Government Division, 2000).
[5] Bill Gallagher, *Resource Rulers: Fortune and Folly on Canada's Road to Resources*, Waterloo, ON, 2012.
[6] Aboriginal Affairs and Northern Development Canada, "Aboriginal Consultation and Accommodation—Updated Guidelines for Federal Official to Fulfill the Duty to Council—March 2011," accessed April 22, 2015, www.aadnc-aandc.gc.ca/eng/1100100014664/1100100014675.

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development investments. Thus, the lack of clarity introduced risk to private industry, as the definition of legal "consultation" was open to much interpretation.

To mitigate risk and build the relationships necessary to carry on operations, negotiated agreements or Impact and Benefit Agreements (IBAs) have evolved over time as a means for entering into comprehensively consulted partnership agreements with Aboriginal peoples. They often seek to address regulatory, legal and legislative issues first-hand. These agreements typically did not involve the government and were often negotiated in secrecy, with the content, spirit and objectives of the agreements kept under a non-disclosure agreement (NDA). Unlike the majority of other agreements signed across Canada, Cameco's agreements were not under any NDA considerations and were made publicly available.

## NORTHERN COMMUNITY PARTNERSHIPS AS A KEY TO CAMECO'S OPERATIONAL SUCCESS

To help guide its engagement with Aboriginal peoples both in Canada and elsewhere in the world, Cameco developed a five-pillar strategy.[7] This strategy signaled Cameco's overarching vision and guided the development and management of the partnerships essential to its business. This five-pillar strategy included workforce development, business development, community engagement, community investment and environmental stewardship. It sought to promote entrepreneurship, business development and economic growth, while minimizing disputes with respect to land use and the traditional rights of Aboriginal peoples in Canada. The result was a gold-level Progressive Aboriginal Relations certification from the Canadian Council for Aboriginal Business. The strategy generated strong community support for continued licensing and access across all of Cameco's operations. It was also credited with having helped to create and sustain economic impact and well-being in Canada's North.

Overall, Cameco had established itself as the leading employer of Aboriginal peoples in Canada with more than $2.5 billion[8] in procurement flowing to Northern-owned businesses since 2004. This reputation was perceived by Cameco as adding value to the company's solid competitive advantage in the industry, especially when it came to competing for access to resources in other parts of the world; largely where Indigenous peoples lived. Furthermore, many within the company viewed the strategy as value-added with respect to investor confidence, access to global resources and the financial sustainability of their operations. The returns from community investment in partnerships were calculated into the price of the stock and were communicated openly by Cameco and its leadership. This value-added perspective would soon be put to the test in 2011, after the tragedy at Fukushima, Japan, and a global flattening of the uranium industry.

## COLLAPSE OF URANIUM DEMAND AND THE RENEGOTIATION OF NEW PARTNERSHIPS

The Fukushima reactor tragedy and a global downturn in the price of uranium created many challenges for Cameco. Stock in the corporation fell from a high of $40 per share in 2011 to a low near $10 per share in 2012, triggering a round of employee downsizing in both the operations sites and at corporate headquarters. On the operations side, hiring was frozen and many positions were eliminated or left unstaffed. These changes were a troubling sign for Northern communities, where Cameco's CR group was heavily involved in establishing and managing partnerships. Most importantly, this downturn also meant a significant loss of revenues to contractors in the North, as major projects were slowed and, where possible, operational costs were mitigated. Tightened spending meant fewer dollars for Northern communities.

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[7] Darrel Burnouf and Peter Dodson, *Cameco's Five Pillar Strategy*, September 2010, accessed April 22, 2015, www.ccab.com/uploads/File/eventfiles/Vancovuer%202010%20Gala/Cameco-Five-Pillar-Strategy--Darrel-Burnouf---Peter-Dodson.pdf.

[8] All currency amounts are shown in Canadian dollars unless otherwise indicated.

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Therefore, negotiations began with English River First Nation (ERFN) and the Métis community of Pinehouse Lake to establish their first collaborative impact and benefit agreements (IBAs) in the region. These IBAs were proposed to deal with issues involving an anticipated reduction in corporate spending in the region that was directly linked to the local economy.[9] The shift to agreement-based approaches for satisfying Cameco's legislated and partner-based commitments allowed for more structured and predictable plans to be developed around community investment, environmental stewardship and business development in an effort to provide some level of certainty for Northern communities and businesses. In so doing, these agreements also sought to create greater efficiency and flexibility with the resources flowing through these communities. Furthermore, most Northern businesses had worked only with Cameco and were therefore directly tied to the corporation's fortunes. Thus, one of the main goals of this strategy was to allow for communities (through the businesses created by these communities) to seek new opportunities and mitigate the dependency issues that currently existed, while maintaining vendor loyalty, community support and improved efficiencies in supply chain costs.

## THE COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA)

On October 18, 2013, Canada and the European Union (EU) reached an agreement, known as the Comprehensive Economic and Trade Agreement (CETA), which was intended to significantly boost trade and investment between the two parties.[10] While the CETA would create new market access between Canada and the EU through the elimination of 98 per cent of all tariffs, it would also remove some old regulations that had significant implications for the uranium industry in general and Cameco in particular. One of the eliminated regulations, the Non-Residential Ownership Policy, had previously limited foreign investment in Canadian uranium production to 49 per cent, requiring the need for a local majority partner. In the past, companies such as France's Areva had needed to establish and work through a Canadian-owned subsidiary to gain access to Canada's uranium mining opportunities. While this change in regulation could bode well for Saskatchewan, with the prospect of an estimated $2.5 billion in investment over the next 15 years, established companies such as Cameco could be exposed to greater competitive pressure. If new investment and new foreign-owned corporations followed on these regulatory changes, the demand for labour and resources in the North would increase considerably.[11] These looming changes pointed to the value of the current partnerships and hinted at the need for new ones when considering Cameco's ability to ensure effective supply chains and resources.

## CAMECO'S REPUTATION AS A MEANS FOR SECURING RESOURCES

> If I showed you a map of uranium deposits around the world, you would be amazed . . . wherever Indigenous populations are found you'll often find uranium deposits.
>
> —Sean Willy, Cameco

Cameco's strategy in forming northern community partnerships had sometimes been framed by media outlets and activist groups as self-serving. This position was understandable due to Cameco's need to seek re-licensing with government agencies and departments every few years as part of the regulations regarding the uranium industry. For example, some First Nations had historically attended hearings and

[9] For example, in 2014, Cameco reduced its annual capital expenditure spending on local projects from $400 million to $110 million.
[10] Foreign Affairs, Trade and Development Canada, "Canada–European Union: Comprehensive Economic and Trade Agreement (CETA)," accessed April 23, 2015, www.actionplan.gc.ca/en/news/ceta-aecg/canada-reaches-historic-trade-agreement-european.
[11] Vivien Diniz, "Canada-EU Trade Agreement is 'New Day' for Uranium Investment," *Uranium Investing News*, October 23 2013, accessed April 23, 2015, http://uraniuminvestingnews.com/16374/canada-eu-trade-agreement-is-new-day-for-uranium-investment.html.

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provided support in an attempt to help Cameco to overcome regulatory and environmental hurdles. But communities were under no legal obligation to do so, and Cameco pointed to such support as one of the benefits of community investment efforts and creating trust. Much of this trust was believed to have developed over time as the Aboriginal hiring policies at Cameco had worked to recruit many individuals from northern communities into the management of the company. As a result, many of the early external challenges had slowly been internalized within the company itself, effectively enabling the development of an Aboriginal consciousness, which was utilized within some areas of decision making, thereby providing a degree of authenticity and legitimacy to Cameco's five-pillar strategy. This "indigenization" was argued as having generated goodwill for the corporation and having significantly affected Cameco's ability to access resources, stave off criticisms from environmental non-governmental organizations that were concerned with the perceived risks associated with uranium mining and to engender loyalty with its Northern vendors and contractors. In this manner, the culture of the company was transformed to encompass a larger viewpoint: that "doing the right thing" could be transformed into added value through proper management of Northern and Aboriginal agreements.

One example of the value of Cameco's reputation arose on other side of the world, where the Australian government had given mining company Rio Tinto the rights to develop land inhabited by the Martu peoples, subject to Martu approval. Cameco then sought to buy these rights from Rio Tinto. As the Martu had a veto over the deal, they reviewed Cameco's record and met with company representatives before approving the deal and signing an IBA. Cameco then flew several Martu tribesmen to Canada to visit Cameco's community partners in Northern Saskatchewan. The Martu visitors witnessed the northern partnerships first hand, driven by the five-pillar strategy, which further convinced them that signing the deal with Cameco had been the right action to take.

The ability to draw on partnerships to defend Cameco's operations against claims about the harmful effects of uranium operations was another important benefit of the corporation's strategy. Freddy Throassie, a Cameco employee and former Chief of Black Lake First Nation, commented:

> Nunavut has uranium and we had projects up there and we were asked to go and participate in a panel workshop . . . we invited one of our community liaisons from Black Lake who worked at Rabbit[12] for 30 years. The people confronted him and would say things like, "you're going to die of radiation" and he would say, "radiation, you don't have to worry about radiation, what you have to worry about is cholesterol working at these sites: I go to my community's grave site and not one person has died from radiation but half of them have died from poverty and addictions."

A campaign by the Sierra Club, one of the world's largest and longest standing grassroots environmental organizations, to denounce "dirty oil" and "poisonous uranium" production in Northern Saskatchewan and Alberta as killing the Earth, eventually culminated in a Canadian Nuclear Safety Commission hearing. All of Cameco's partner communities appeared at the hearing to support the corporation against these claims. The commission eventually dismissed all allegations, and the Sierra Club later removed all documents and promotional material from its intervention.

Executives at Cameco continued to believe that the value in the company's five-pillar strategy outweighed its cost. Thus, the company placed a high priority on managing, protecting and growing this reputation.

[12] "Rabbit" refers to Rabbit Lake Uranium Mine, Cameco.

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## REINDEER LAKE COMMUNITY—HISTORY AND RELEVANT BACKGROUND INFORMATION

RLC was a First Nations settlement located at the south end of Reindeer Lake, the ninth largest body of fresh water in Canada. It was one of seven communities comprising the Peter Ballantyne First Nation (PBFN), which was located across a large portion of the northeastern region of Saskatchewan. The community of RLC had a population of roughly 900 people, with a near split between Cree and Dene but Cree was the more frequently spoken first language. The median age of the population was very young, at about 20 years of age.[13] The community suffered from a lack of infrastructure and was geographically remote, having only two roads (one being the terminus of Highway 102, 221 km northeast of La Ronge, Saskatchewan, the next largest center). This remote access limited RLC residents from travelling to key Cameco worksites, mostly due to a lack of an airstrip large enough to be useable by Cameco aircraft.

From an institutional perspective, although RLC had a school, a health centre and a few small businesses (i.e., a store, a gas station and other service businesses), the community itself had no dedicated PBFN administration, no development office and no development officers: its social and economic needs were not well aligned with the political leadership and direction of the institutions of PBFN that were centralized in the city of Prince Albert, several hundred kilometres to the south. The RLC was in great need of employment for people living in their community. In many respects, RLC could be considered a stand-alone community with different needs and aspirations than the majority of the other communities in the PBFN. It therefore stood in stark contrast to Cameco's previous agreements in which it had partnered with many communities coming together.

## INFORMAL MEETINGS WITH RLC

Exploratory negotiations with RLC began in 2012, when a local band councillor sought to explore potential opportunities for his community to become involved more directly with Cameco's operations. Over time, the relationship progressed, and many of the community's leaders—the two band councillors, the school principal, a youth representative, an elder representative and a retired teacher—soon became part of an informal negotiation committee for RLC. Although the meetings were always cordial, and they typically cultivated a great deal of trust and respect, several key issues began to emerge, two of which stood out.

The first issue was that RLC had little understanding of the history that had shaped the current IBA agreements and negotiations with communities in English River, Pinehouse and the Athabasca Basin. Although Cameco sought to be transparent after the agreements were signed, negotiation periods were often in camera and not released to the public. Furthermore, due to the practice of non-disclosure accompanying negotiated agreements, not much was known about negotiated agreements and how they worked. Industry was keen on keeping such information out of the reach of competitors, while communities were incentivized to not report the contents of these agreements for fear of having resources clawed back from any federal funding received by the First Nations bands. This lack of information about the process, the contexts, the goals and the shared outcomes of these agreements represented a barrier to understanding them, especially for new communities that had not previously been party to any agreement.

The second issue was that RLC was not "partnership ready." For the most part, Cameco's other long-term partnerships had evolved past the early stages of partnership readiness, and the policies currently in effect were not well suited to the creation of new agreements. For example, most of Cameco's agreements were now contract-based, with much of their investment flowing to companies owned or jointly owned by

[13] Statistics Canada, "2011 Community Profiles," Canada 2011 Census, July 5, 2013, accessed January 27, 2014, www12.statcan.gc.ca/census-recensement/2011/dp-pd/prof/index.cfm?Lang=E.

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communities that Cameco had helped to establish long ago. Cameco had identified early on in its operations that joint ventures were really the only way to provide the resources necessary to enhance the capacity of the community. Many of the first steps taken by Cameco 25 years earlier had been to identify, weight and link business creation with key social investment areas; work with government agencies to assess social development needs and required training programs; and provide the guidance necessary for these communities to help identify for themselves what their own objectives might be. This work involved a great deal of hands-on training from Cameco employees as well as dedicated resource and development experts embedded within the communities.

The community enterprises that resulted were then given preferential treatment so as to provide them with greater leverage with outside partners who needed them to successfully bid on contracts. Northern companies were allowed to bill Cameco between 10 and 20 per cent over the established industry margins, as many of these companies paid dividends to their communities. At the time, this approach was viewed as a better way for Cameco to satisfy its economic commitments to these communities than giving them straight cash payments through royalties or other mechanisms. Over time, many of the Northern suppliers grew in size and either bought back shares or acquired their partners to become wholly owned incorporated businesses. For example, Tron Power was a full-service general contractor started in 1985 that partnered with the English River First Nation (ERFN) to gain access to Cameco service contracts. In 1997, Tron Power was acquired by ERFN to become 100 per cent Aboriginal-owned. But for the most part, the northern companies that Cameco had helped to establish and grow worked only with Cameco, which made them highly dependent on the fortunes of the company. Thus, in times of market downturns, northern communities would suffer not only from layoffs to Cameco staff but also from layoffs from within their own companies with the accompanying smaller dividends to communities.

The new IBAs in 2012/13 moved away from this formula, calling for the preferred vendor margins to be tightened and community investment to be aligned with company profits. The rationale for these changes was to provide a buffer for communities when Cameco's spending budgets were cut due to global markets, so as to decouple investments and commitments to communities from a very rigid model that had left them exposed to the boom and bust of the marketplace. It started with the requirement to make northern businesses less dependent upon Cameco, more competitive and thus motivated to diversify and seek other opportunities, not just in the North, but across Western Canada. For example, Tron Power Inc. diversified and now worked on job sites for several natural resource corporations across Saskatchewan, including Cameco. The agreement signed with ERFN was estimated at $600 million in economic benefits, but these benefits predominantly flowed through contracts with community-owned businesses such as Tron Power.

Nevertheless, leaders in RLC were understandably envious of the signed and ongoing agreements with other more experienced and developed northern communities that had taken many years to slowly establish their own businesses. The negotiating committee from RLC was drawn to the media reports of large dollar amounts involved in similar agreements with other northern communities and failed to realize that these agreements had been computed over 10 years and were based on wages and revenues paid out to northern companies that flowed through business contracts. The simple fact was that RLC did not benefit from 25 years of relationship building and had little or no capacity, few institutions, businesses or business experience. RLC would be dependent on resources from Cameco to build capacity, in order to quickly get on par with other communities. The RLC negotiating committee felt that they did not warrant the "tough love" approach that Cameco was currently working into many of their other northern agreements and, in many ways, they were angling for distinct treatment.

A third issue revolved around the difference in perspectives between Cameco and RLC regarding impact and accountability. While Cameco's understanding was that their resource-extraction activities did not affect RLC's community, for its part RLC's leadership highlighted several accidents had occurred on their

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roads, which they attributed to the heavy equipment used by Cameco and their suppliers. Many other issues brought forward by RLC were viewed as being significant to the community, but these concerns were very difficult to connect to Cameco and its operations. Nevertheless, the perception that Cameco had responsibilities to northern people well beyond its actual responsibility was problematic for continuing the negotiations in a constructive manner.

Fourth, as RLC was part of the Peter Ballantyne First Nation, it was also unclear with whom Cameco was legally entitled to negotiate with, where resources would flow and what the reaction would be from the other PBFN communities. Cameco could not ignore the political sensitivity of making a commitment to one community without making a similar commitment to other PBFN communities, even if they were not geographically connected. If an agreement was reached with RLC, other communities within the PBFN might follow suit in petitioning Cameco for similar standing. Therefore, challenges surrounded any attempts to flow investments into RLC beyond the one private business that did exist.

In short, Cameco's representatives believed that RLC had a weak negotiating position and very little leverage when it came to the current legislation pertaining to the duty-to-consult process. But this did not mean that the negotiations with RLC were devoid of risk or opportunity. Because of the emotional tenor of RLC's attempts to establish leverage, the potential for these issues to become disruptive was noteworthy.

## OPTIONS FOR THE WAY FORWARD

To focus his decision making, Sean Willy listed Cameco's options for management decision:

- Option 1: Sign an agreement and deviate from current policies by making a straight cash offer (in response to the expectations of $15 million) that the community could use to begin development of their capacity to enter into the northern and global market.
- Option 2: Sign an agreement but fund only targeted programs and infrastructure instead of making cash injections.
- Option 3: Do not sign a Comprehensive Agreement (CA) at this time, but add more resources to the community and work with them directly to get them partnership ready, build capacity and seek feasible opportunities.
- Option 4: Stay at arm's length, do not seek a CA and advise that RLC consult with other established northern operators (Athabasca Basin Development, Tron Power, etc.) to seek potential joint-venture opportunities. This process would involve Cameco leveraging its current partnerships to help with the development of new ones.
- Option 5: Any other options not previously considered, or some combination of the above.

Willy knew that if Cameco were to work toward an agreement with RLC, a sound business case would be needed to justify the agreement to Cameco's senior management and board of directors. Furthermore, the potential damage to Cameco's global brand and reputation had to be considered if RLC did not believe it was getting full value from any deal. Willy had just become aware that an Ottawa lawyer hired to help RLC negotiate with Cameco had been overheard discussing a $15 million unattached cash payment to the community. When viewed historically, such a payment had never been the policy of Cameco. Rumours of large upfront cash payments quickly spread throughout the community, fuelling talk of community investment possibilities, such as a new hockey rink. This new talk raised expectations from the negotiations and garnered much attention from surrounding PBFN communities. Willy was concerned about escalating expectations within the RLC and was aware of the need for careful management of those expectations. He did not have much time to make a decision.

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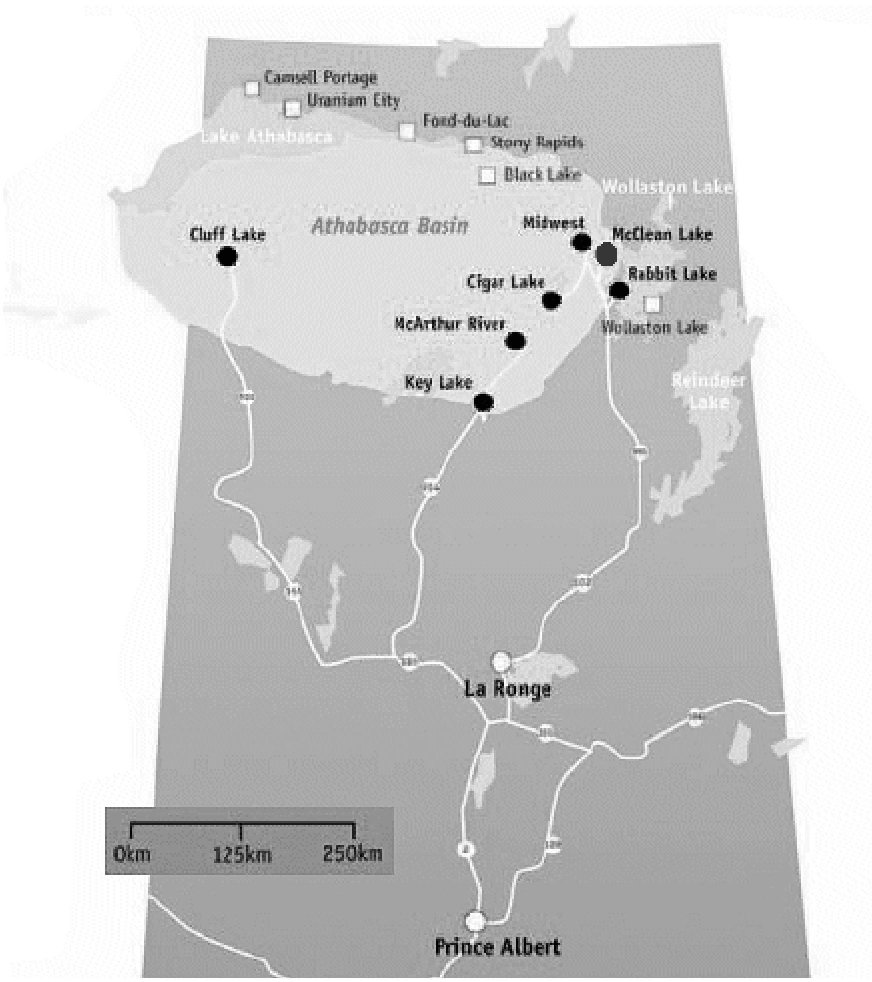
**EXHIBIT 1: CAMECO CORPORATION'S NORTHERN SASKATCHEWAN OPERATIONS**

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