

Speech by Sir Mark Moody-Stuart, Chairman of Anglo American plc to the China Mining Conference in Beijing, 17 November 2004

Opening
Slide

Mr Chairman, I will start with a brief introduction to the Anglo American Group; comment on some specifically Chinese issues; and finally consider the contribution which mining can make to achieving sustainable development.

Anglo American was founded in 1917, in South Africa - funded half from the UK and half from the US. Hence our name. Over the next 80 years the Company played a vital role in opening up the gold resources of South Africa and, subsequently, other mining sectors in Southern Africa. During the 1990s the Company underwent a transformation to prepare it to move from being an overwhelmingly Southern African operator to become a global player. This process gained further impetus in 1999 when Anglo's primary listing was transferred to London - where it currently ranks 13th on the Stock Exchange.

Slide 2
Business
Units

Since 1999 Anglo has improved its focus through the sale of some \$8 billion worth of non-core businesses and invested \$13 billion in acquisitions to strengthen our portfolio. The Group now operates in 67 countries with seven distinct business streams:

- 74% owned Anglo Platinum; the world's largest platinum producer;
- 51% owned AngloGoldAshanti; one of the world's leading gold producers;
- Anglo Base Metals - predominantly a Latin American business;
- Anglo Coal - the fourth largest coal export producer with interests in South Africa, Australia and Latin America;
- Anglo Ferrous Metals - which is dominated by our stake in Kumba Resources;
- Anglo Industrial Minerals - predominantly a European aggregates and construction products business; and
- Anglo Paper and Packaging - with interests all over Europe, in Southern Africa, the Middle East, the US and Mexico, Malaysia and China.

We also have a 45%, non-controlling, interest in De Beers - the world's leading diamond company. De Beers has had a long-standing presence in China and has worked closely with the Chinese Government in areas like the establishment of National Gem Testing Centres to increase consumer assurance.

Slide 3
Map of
Operations

Excluding De Beers we employ some 200,000 people - including 1,800 in China.

Some two-thirds of our assets are in developing countries.

Anglo in China

Anglo American's involvement in China is wide but still shallow. Almost every one of our business units has a presence here - from Boart Longyear's drilling equipment factory in Wuxi to Tarmac's new Yang Quarry near Shanghai. From Kumba Resources' zinc refinery in Inner Mongolia to Anglo Coal's drilling project in Shaanxi. From our packaging factories in Guangdong Province to our asphalt plants in Shanghai. AngloGold Ashanti and Anglo Platinum are both active too in looking at investment opportunities.

*Slide 4
Anglo in
China map*

The Yang Quarry is a particularly interesting enterprise. It is a limestone quarry which has just commenced production. It was formerly worked by five different small-scale operators with a poor capital investment record and 12 to 15 fatalities annually. With the support of the provincial Government, Anglo American has acquired the consolidated quarry and has made a significant investment in modernising the operations to reflect best practice. We are, moreover, determined to draw upon our experience elsewhere to instil a safety culture that we hope - and expect - to eliminate fatalities.

Overall we have invested some \$120 million and, including indirect sales, sell some \$1.2 billion in product into the Chinese market. Our ambitions both in respect of inward investment and market development are, however, significantly greater. Moreover, China is rapidly becoming the leading consumer of most metals and is likely to be the principal determinant of the health of metals markets for the foreseeable future.

But China will not only play a pivotal role in determining demand, Chinese companies will increasingly become our competitors and partners in world markets. I am sure that MinMetals' proposed purchase of Noranda is only the first of a number of big deals. That is the reality. I hope both that the opening up of such investment opportunities will be a two-way process and that we will see Chinese firms taking their place in the leading business coalitions on issues like sustainable development and especially the International Council on Mining and Metals, the World Business Council on Sustainable Development and the Global Business Coalition on HIV/AIDS.

China and Sustainable Development

*Slide 5
China and
sustainable
development*

I have been asked to address the theme of sustainable development. The key global

performance indicators of our progress towards sustainable development are the Millennium Development Goals. The alleviation of poverty - and the many faces that it presents to the world - seems to me to be the most significant indicator of them all. This is because so much flows from it including: securing wider access to education; tackling HIV/AIDS; improving environmental practices and reducing child mortality. Between 1990 and 2015, the first Millennium Development Goal sets the objective of halving the number of people living on less than a \$ a day. The progress being made towards realising this objective is frankly better than for most of the other Goals. But if you interrogate this global progress, it soon becomes apparent how large a proportion is represented by China's achievements. Out of the 200 million people lifted out of the lowest level of poverty during the 1990s, 150 million are in China. 37 countries actually saw their numbers living in poverty increase.

In the early 1970s the well-respected Club of Rome published a document, "The Limits to Growth". This was based on concerns about natural resources - including metals and oil - being depleted at an unsustainable rate. Much of this analysis has been discredited as inaccurate in its predictions and as presenting too static and simplistic a picture. Nevertheless, I think there is a general understanding of the need to evolve new economic models that reflect the depletion of natural capital and seek to put a price on some of the externalities of industrial activity.

Our shared natural environment - especially in relation to issues of climate change and biodiversity - is under strain. We can no longer take its resilience for granted. There appears to be an acceleration of warning signals that we ignore at our peril. But in saying this I am not adopting an anti-development stance. We have to find means of accommodating the development needs of the high proportion of people who live in poverty and who are also typically the ones who are most vulnerable to the impact of environmental degradation. Of course the developed world must make significant changes in the way in which it consumes resources but China's leaders well understand that there are, indeed, limits to growth on existing models.

It is striking how rapidly the debate about sustainable development has evolved in China. There is no retreat from the commitment to raising the living standards of the Chinese people but a thoughtful debate, led by President Hu Jintao and Premier Wen Jiabao, is underway about how this can be achieved sustainably. It is my impression that this debate is being conducted at many levels. It includes how, at a time of rapid economic growth, the fundamental solidarity and stability of Chinese society can be

preserved. How are the disparities between regions and between urban and rural communities to be bridged? It includes how China's need for secure supplies of raw materials to underpin its development can be met. And it involves an increased focus on many challenges including: the efficiency of resource use; safety at work; reducing pollution; and arresting climate change.

I know of the programme to spend \$85 billion on environmental protection measures during the current five year plan. China will, of course, continue to develop and use its coal resources – there is no alternative - but I am impressed by the close interest being taken in clean coal technologies. Alongside this, the Government has set itself a target of 12% of power being generated by renewables, by 2020. A recent World Bank study also concluded that China's Clean Development Mechanism potential may represent up to 50% of the global carbon market in the long-term.

Many developed countries - including those who lecture longest and loudest today - made profound errors during the heyday of their emergence as industrial powers. We all have our shortcomings but, in a world that has become so much more interdependent and against a backdrop of global environmental degradation, there is less margin for error. I believe that China has the potential to skip a generation - at least - of errors in defining strategies for 'clean growth'. Moreover, given the sheer scale of China's manufacturing potential and of the Chinese market you will have the power to dictate many of the environmental standards going forward, including in areas like automobiles.

Whilst I pretend no monopoly on wisdom on the part of multinational companies, I do believe that a number of international extractive companies have a good deal to contribute in helping China to accelerate its learning process about the mistakes made elsewhere and how these can be rectified. I welcome, for example, the recent establishment of the Chinese chapter of the World Business Council on Sustainable Development.

HIV/AIDS

*Slide 6
The SA
AIDS
epidemic*

What the world learned about the new generation of Chinese leaders during the SARS epidemic is their willingness to confront and be honest about bad news. This has increasingly been reflected in the willingness of the Government to acknowledge the scale of the challenge in improving the safety performance of mining in China.

In one of my other roles, as Chairman of the Global Business Coalition on HIV/AIDS, I welcome that the national leadership has acknowledged the challenge of a potential HIV/AIDS epidemic in China. AIDS has wreaked enormous harm in many societies - especially in Africa. In South Africa, for example, the infection rate amongst adults is over 20% - compared with less than 1% twenty years ago. This slide shows the rapid spread of the epidemic.

Anglo American employs over 100,000 people in Southern Africa. We have taken the HIV challenge very seriously for more than 15 years. We have won international awards for our education, prevention, care and community outreach programmes. But in 2002 we had to confront the failure of these programmes - in common with those operated by other major corporates - to arrest the epidemic.

That is when we recognised - helped by the significant fall in the cost of anti-retroviral drugs - that the key to change lay in a huge expansion of Voluntary Counselling and Testing to challenge stigma and denial. This step-change could only be achieved through the Company providing an absolute assurance to staff of non-discrimination together with the incentive of access to life-saving anti-retroviral therapy drugs. Our move to a testing and treatment model established a new benchmark in the corporate sector in South Africa and helped to break the logjam regarding access to treatment within the public health service.

We still have much to do. But in our coal and base metals operations in Southern Africa, we now have participation in VCT programmes of over 50%. We now have some 5,000 in the earlier stages of infection who are on 'wellness' programmes - built around improved lifestyles and nutrition support - and 2,000 on anti-retroviral drugs. The results for those on treatment are very encouraging.

The epidemic feeds on poor social conditions and poverty. Its march is assisted in many countries by the weak position of women in society. Its progress is accelerated by poor medical infrastructure; and it thrives where there are high levels of migrancy and mobility. But above all it spreads fastest in an environment of stigma or denial. To reverse its spread, people need to be encouraged to know their HIV status and to manage their sexual behaviour accordingly. They must also have access to treatment and care.

People will not willingly be tested for HIV in an environment of coercion and fear. Which is why I believe Premier Wen has been right to set the tone in reaching out to victims of the epidemic in China. It is often said that the one lesson of history is that 'Man does not learn the lessons of history'. That is a counsel of despair. There have been successes in rolling back the epidemic, in countries as diverse as Brazil, Thailand, Senegal and Uganda. I believe it is a challenge of historic proportions to ensure that lessons learned elsewhere are used to prevent HIV reaching 'take off' point in new geographies.

Global Mining Initiative and the Extractive Industries Review

*Slide 7
Mining
and
Society*

In many parts of the world, and through many ages, mining has acted as a motor for wider development. Conversely, in some cases, mining has left behind a legacy of pollution and poisoned land. In some instances it has also fractured fragile communities and has left behind a significant legacy of social problems. Within China - a country of some 150,000 mines - I know that you have not been immune to these problems and that the Government is taking a lead in seeking to enforce stricter environmental standards and to tackle historical problems.

At a global level, in the late 1990s, the major international mining companies confronted the reality that there was a growing disconnect between how they saw the world and how stakeholders saw the industry. Such a dissonance of view was not sustainable and weakened the industry's long-term licence to operate, threatened to increase the cost of capital and to deny it access to the best quality recruits. Thus the 22 leading companies launched the Global Mining Initiative and, under its umbrella, the independent Mining Metals and Sustainable Development project. This process of dialogue and research created an agenda for change and led to the formation of a leadership group within the industry - the International Council on Mining and Metals. This represents 15 of the leading mining and metals companies and some of the major national industry associations. It also led to mining's potential developmental role - when conducted responsibly - specifically being recognised at the World Summit on Sustainable Development in Johannesburg in 2002.

Notwithstanding this endorsement, the World Bank had already set in train a review of its involvement in the extractive industries - in response to the so-called 'resource curse' theory propounded by a number of NGOs and academics. I played a part in the final stages of that review. In the event it represents a missed opportunity to build upon a good deal of common ground. I disagreed with the tone of the Report and

many of its conclusions. It was largely backward looking in failing to recognise the strides made by the industry over the last 10-15 years in improving its environmental and, latterly, social performance. It was cavalier over issues of national sovereignty and concocted 'consent' tests that certainly do not apply in most developed countries and which could have been an incentive for division and separatism.

Few would deny that there are particular challenges associated with a high dependence upon international commodity markets. Through their volatility they can rapidly turn feast into famine. No one should under-estimate these problems but the exploitation of a natural resource is not what typically causes poor development outcomes. It is weak macro-economic management and, overwhelmingly, poor governance which does so.

I am glad that many developing country governments latterly became engaged with the process. They injected greater balance into proceedings. Moreover, it is important to maintain their continuing engagement on these policy issues - which I hope the Global Mining Dialogue will help to achieve.

The new World Bank draft Social and Environmental Standards - which are currently out for consultation - will generally reflect the best practice which has evolved in the mining industry in recent years.

Mining typically has very significant impacts on the physical environment - air, water, land use, biodiversity. Large scale operations, especially in non-traditional mining areas, may also have profound implications for demographic, social structures and alternative livelihoods. The industry has not always recognised the extent of these impacts. I think that has changed, especially in the light of evolving expectations of the boundaries of 'corporate responsibility'. These changes highlight however the importance of two factors: better understanding of the nature of an operation's social and environment footprint and the growing importance of the concept of partnership.

Mining and Sustainable Development

*Slide 8
Mining and
Sustainable
Development*

At a simplistic level, mining is not a sustainable activity. It involves the removal of natural capital that cannot be replenished - in anything less than millennia - from a particular location. It may be that a large proportion of metal produced can be recycled but this will not be a source of continuing profit for the original area of extraction. Mining only becomes sustainable if, over the lifetime of a mine, the

depletion of natural capital is balanced by the enrichment of social and human capital. In many countries this will be achieved overwhelmingly through payment to employees and suppliers and through tax and royalty payments to the State, for reinvestment in services like infrastructure, health and education. Too much of the debate about corporate social responsibility in Western societies has been about philanthropy rather than about how the beneficial impacts of core businesses can be maximised. In many countries we have excellent community programmes but they cannot match: the impact of paying workers decently relative to other operators in the same geographies; of investing in training; of providing sustainable employment; and of using a proportion of procurement expenditure to build local capacity.

The industry has learned a great deal over the last two decades about diminishing its environmental impacts and returning disturbed land and water to communities in a useable condition. More recently, the focus has moved increasingly to the socio-economic dimension. Anglo American, for example, has recently launched a leading-edge initiative designed to build capacity at a site level in the management of what have traditionally been regarded as 'softer' skills. The Anglo Socio Economic Assessment Toolbox – or SEAT - process is intended to create a better understanding of the diversity of views, priorities and needs of local communities; the understanding of the totality of each mature operation's impacts and to build a more sophisticated planning process for the management of issues like human capital development, local business generation, forming partnerships and the social dimension of long term closure planning.

I mentioned earlier the international sustainable development buzz-word of the moment – partnerships. Their central importance going forward was recognised at Johannesburg. Their philosophical underpinning recognises, that companies often have specific skills and capacities to offer but have no desire to shoulder unsustainable responsibilities in areas beyond their core competence - like the provision of health and education. Companies are most likely to be able to leverage sustainable socio-economic outcomes where we can work in partnership with competent government authorities; where appropriate, the International Financial Institutions; and credible civil society organisations. No one should under-estimate the difficulty of making such partnerships work – whether it be because of different agendas; accountabilities; ways of working or longer-term ideological agendas. Nonetheless, they provide a middle way for companies between being detached from the areas surrounding their operations and creating an unhealthy culture of dependence. They ensure that

governments remain engaged in their proper roles and responsibilities and help to create structures that may endure beyond the day of mine closure.

Although many of its processes are technically highly sophisticated and, in some cases, increasingly automated, mining is still a relatively labour-intensive business. It increasingly needs highly-skilled individuals at all levels. It also generates significant supply chain requirements. For many developing countries and for some regions of otherwise advancing economies, the exploitation of natural resources may represent their sole window of opportunity for development. I believe that, internationally, the industry has made significant strides in identifying optimal ways of doing this.

Of course the power of companies to deliver sustainable outcomes is strongly influenced by the actions of governments. Tax systems, for example need to avoid creating perverse incentives and should, instead, support environmental best practice. I understand, for example, that there are problems with China's tax rules in respect of provisioning for decommissioning and site rehabilitation.

Moreover, it is for governments to ensure that they too maximise the chances of good development outcomes in the ways in which they invest the revenues generated by natural resources. That is one reason why Anglo American has been an active advocate of the UK-led Extractive Industries Transparency Initiative. The International Council on Mining and Metals is undertaking important work too on identifying the factors that support the positive use of resource endowments. Through partnerships with organisations like the World Bank and the International Union for the Conservation of Nature ICMC is also developing best practice models in community development and biodiversity.

To take Anglo American again as an example, we have a good track record of operating our businesses principally utilising nationals from the countries where our mines are sited. We recently opened a zinc mine in Namibia and after an intensive training programme even at commissioning we had over 90% Namibian employees. With a view to medium-term opportunities we are already recruiting international management trainees from China to gain experience of the Anglo American Group prior to putting them into in-country management roles. We have also created in Southern Africa – and are increasingly using the same formula in Latin America – a leading-edge model for local business development and black economic empowerment. Thus our purchases from local black-owned companies in 2003 stood

at almost half a billion US Dollars, from a low base a decade before. Last year our local business development unit was also invested in some 30 companies supporting over 2,000 jobs. We also have a strong commitment to investing in our employees to help them increase their skills and, for example in Brazil, to achieve qualifications that they didn't have the opportunity to secure at school or college.

To sum-up, I strongly believe in the benign potential of responsible mining to contribute to sustainable development. Our products continue to be vital to modern life. Our industry can support the development of other businesses in the supply chain. The expansion of the production of many metals and coal within China and overseas, for the Chinese market, is vital to China's development. I know that the Chinese Government is well aware of the challenge of making that development sustainable. I believe that – perhaps because of the knowledge and experience gained by mistakes in other parts of the world – the leading players in the mining industry have much to offer to China as partners in her development.