**Address to the CESCO Dinner**
**Cynthia Carroll, Santiago, 2 April 2009**
***"Facing up to the mining industry's challenges"***

**Minister of Mines, Santiago González; Undersecretary of Mines, Ms Veronica Barahona; members of the CESCO Board, distinguished guests, ladies and gentlemen…**

It is a great honour for me to be able to address this, the most prestigious copper conference that takes place in Santiago every year.

Tonight I want to talk, from the perspective of a global mining company, and one that has very substantial investments in copper and in Chile, about the challenges the mining industry is facing on a number of fronts. In doing so, I hope to strike an upbeat tone, because I firmly believe that, while conditions in our industry are currently very tough, the medium- to long-term fundamentals are still in place for strong commodity prices and demand growth, and that this is particularly so for copper.

## Chile – fundamental to our future

But let me start by saying a few words about why so many of us in mining enjoy doing business in Chile – where our own Group has had a presence since 1980 when we first acquired an interest in Mantos Blancos.

Chile accounts for around 35% of global copper production, this is the place for all serious copper players to be – and you have centuries of reserves and resources still waiting to be developed.

In our own case, with ownership in 6 copper operations, representing 13% of total Chilean production, Anglo American Chilean copper operations contributed almost a quarter of our total operating profit in 2008.

But the big players in world mining are here because this country is also a great place to do business: for us in the mining industry, having to invest for the long term, we are proud to be here.

The regulatory environment is balanced, infrastructure is well developed, the government wants to work constructively with business, the communities are welcoming and perhaps most importantly, the people are hard working and want to do the right thing.

The success of Chile in establishing a stable macro-economic environment and attractive investment climate is the envy of the world. It is quite astonishing that right in the midst of the current unprecedented financial market turmoil, global recession and general doom and gloom – that has shaken the financial foundations of many of the world's largest economies and has led to the disappearance of several of the world's largest banks and companies – that Chile should just a few days ago have received a credit upgrade from Moody's Investors Service along with a positive outlook. This is an achievement of which all Chileans can be rightly proud.

Behind it lies a long record of fiscal and monetary discipline and stability. Importantly, the prudent investment of some $22 billion of windfall copper receipts in sovereign wealth funds not only helped protect non-copper exports from an overvalued exchange rate when copper prices were at recent record highs, but it now places Chile in a position where some of these proceeds can now be used to offset some of the worst effects of the current global downturn.

In the midst of global despondency and questioning of the economic policies that appear now to have failed in many areas, Chile stands out as a beacon of what exemplary governance can achieve in both good times as well as in bad.

**There's life after the downturn**

In these challenging times, we should constantly remind ourselves of the fundamentals that remain in place for the long-term expansion of the mining industry.

China and India – the great drivers of the increase in commodities in recent times – are not going to go away. Even the gloomiest of forecasts sees China's GDP growing just under 6% in 2009.

Over the next 10 years, the so-called 'BRIC' nations of Brazil, Russia, India and China are committed to spending $21 trillion on infrastructure, with China alone accounting for $9 trillion.

In terms of copper, 55% of the global increase in consumption during the past 10 years has come from China, which now consumes more than a quarter of world output of the metal.

Urbanisation will continue apace in these most populous of countries, meaning hundreds of millions of new people will move into new cities as well as ever-expanding existing cities. As economies continue to urbanise and industrialise, the demand for commodity-intensive infrastructure expansion will continue to grow.

This vast number of people will demand better IT and telecommunication systems; they will want the latest computers and mobile phones and an ever-wider array of electronic goods; better home-heating systems or air conditioning; greater international travel and more vehicles.

All of these require large amounts of new copper. Over the next decade we estimate that almost 10 million tons of additional copper production will be needed – or around an extra 60% of current annual mined output. We are going to need around 20 mines as big as our joint venture at Collahuasi – one of the world's largest, with production of around 450,000 tons of copper a year. And there are only four or five copper mines of this scale or larger today.

This is why we are all having to continue to plan for the long term, while riding out the sector's ongoing cyclicalities. In our own Group, we are keeping intact one of the strongest project pipelines in world mining. Naturally, we have slowed things down, but we have projects – all of them in the lower half of the cost curve – approved or already under development, with a combined development cost of around $16 billion. Over $2 billion of that is being invested here in Chile on our expansion at Los Bronces, in preparation for the next upward cycle. And we have plans to continue investing in all our operations in Chile, including Collahuasi.

In addition, I am further encouraged by the price-tightening trend that has characterised the copper market recently with prices rising to $1,80 /lb, stimulated by restocking by China.

**Mining's changing world**

I would now like to move on to some of the issues being faced by the world mining industry – starting with the competition amongst the established players in the business.

Today, we are seeing enormous challenges as Russia's new mining and metals magnates battle for control of the country's key resources and extend their reach beyond the country's borders in what has become a global scramble for resources. China, of course, is making major offshore investments in resources, particularly in Africa, Australia and South America and, as we have seen with Rio Tinto, right at the heart of the mining industry. Indian companies, too, are increasingly moving abroad. Thus, as they seek to improve security of commodity supply to their domestic industries, our largest markets are also becoming our global competitors in some instances.

And then there are the sovereign wealth funds of countries such as China, the Gulf States and Singapore – and their appetite to acquire new assets abroad. Although such funds have been around for quite some years and have generally been content with being largely passive investors, they represent powerful new or potential entrants to the mining industry.

They often complement national champions like China's Chinalco and have substantial state capital behind them – and they are increasingly venturing beyond their domestic bases and building up significant stakes in the metals and minerals businesses.

Chinese enterprises are backed by state funds that have some $100 billion to potentially spend on assets abroad. The IMF estimates that sovereign wealth funds represent up to $3 trillion of capital, or around the entire GDP of Germany, some of which could be looking for a new home. According to some estimates, they could reach well over $10 trillion within a decade.

**Cost pressures**

We are in uncertain times and our forecasts do not assume a substantial change in underlying assumptions for the next two years. Thus, there is one subject that is uppermost in the minds of all of us at the operational level and that is costs.

Although, since the onset of recessionary conditions globally, certain costs such as diesel, sulphur, steel and shipping have come down significantly, the cost pressures in the mining industry remain considerable – from the energy and labour costs to maintain existing businesses, to the regulatory, environmental, social and infrastructural costs incurred in expansion and new development.

Anglo's near-term strategy is to focus internally – driving down the cost curve, being most rigorous in everything we do no matter where we are in the cycle and delivering a select few projects including the Los Bronces Project here, ensuring that we are most competitively positioned.

Our Procurement and Asset Optimisation initiatives, to drive efficiencies throughout the organisation, are expected to deliver $2 billion to operating profit by 2011.

**Achieving stakeholder buy-in**

I would now like to say something about a key issue for all of us: achieving stakeholder buy-in. Managing the impact mining has at a local level, and ensuring that it is strongly positive and sustainable, continues to be one of the great challenges faced by any mining company.

It involves balancing the often-conflicting expectations of a whole range of stakeholders – host governments, shareholders, employees, communities surrounding the operations, aid agencies, NGOs, trades unions, suppliers and others.

When we are considering a new mining project, for example, we may have support from, say, the financial analysts and people who see potential employment opportunities – yet others from the same community, such as landowners and farmers, may bitterly oppose the arrival of mining companies, and they may readily seek NGOs for support.

We cannot just impose our will – we have to reach some kind of broad consensus among our various stakeholders.

The reality is that we have to form partnerships if we are to win over hearts and minds. Mutual dependence makes it only natural that resource companies make positive and enduring contributions to their host communities. Being a good neighbour, going beyond creating jobs and paying taxes, is good business.

Within our own Group, our award-winning Socio-Economic Assessment Toolbox, or SEAT, is the primary mechanism by which we seek to enhance the development outcomes and capacities of host communities. It is used in conjunction with community-engagement plans that are required to be in place at all significant operations within an agreed-upon timeframe and must precede the establishment of any new operations.

SEAT assessments are taking place at all of our major operations in Chile, where we have also established the Emerge programme, which works to improve the welfare of neighbouring communities by providing technical and financial support for the development of sustainable small and medium-sized businesses.

Emerge is now generating jobs for over 3,000 people – and is still in expansionary mode. It was very pleasing for me to see Emerge receiving recognition for its contribution to community development when it received the Bicentennial Seal from the Chilean government in 2007 and the Chilean-North American Chamber of Commerce's Good Corporate Citizenship prize last October.

**Water**

I would like to move on now to what, for me, is perhaps the most critical challenge in the sustainable development arena: that of water.

In southern Africa, South America and Australia, Anglo American has operations in extremely arid areas, where there is inevitably competition with communities and other industries over this vital resource.

For example, our Mantos Blancos and Mantoverde copper mines lie in the Atacama – the world's driest desert. At Mantoverde, we are working with the local community to study the potential for using mist traps to harvest water for community use in agriculture and to support sustainable tourism initiatives.

The imperative to use, and measure, water wisely and efficiently is exemplified by our expansion at Los Bronces. Here, we plan to reduce the use of fresh water by around 40% per pound of copper produced, principally through increasing the re-use of water from the tailings pond.

Similarly, at our Quellaveco copper project in Peru, we intend to use water from an alternative source to that being used by agriculture, and also increase the availability of water for all users during periods of low rainfall. An Anglo American team has been doing demonstration work along with the local authorities in the field of drip irrigation, with the result that one farmer now uses only 20% of the water he did previously, while the 'value-add' he has obtained through the upgrading of his crops will pay for his drip-irrigation system within a year.

**Energy**

A major constraint to the mining industry's ongoing capacity to deliver the world's need for minerals and metals could well be that of energy. In the 15 years from 2005 to 2020, around 40% of all power-generation capacity will be replaced or built for the first time. This burgeoning demand for power, principally from the developing world, means that everything will need to be thrown into the energy mix.

Substantially reducing the traditional coal, oil and gas that now supply around 80% of global energy consumption is an immense challenge. It will require appropriate policies and economic instruments to promote energy efficiency and to incentivise clean fossil-fuel, nuclear and renewable technologies.

In our own Group, we are planning to improve our energy efficiency by 15% over the decade 2004-2014, with the twin aim of achieving a 10% reduction in the amount of carbon produced per unit of output. In this country, as in South Africa, Anglo American Chile has its own energy-efficiency programme and is committed to helping the authorities to find a way through the power-supply problems that are impacting our industry.

That includes doing simple things, such as lighting in buildings being switched off automatically, low-energy light bulbs replacing traditional ones, and incentivising employees to buy hybrid vehicles, to mining applications such as using electricity instead of compressed air or diesel in rock drills and experimenting with the use of biofuels in our mine-vehicle fleets.

In Australia, Anglo Coal has been capturing methane gas from underground workings and selling it to power stations to generate electricity, as well as to Queensland State Gas's pipeline grid. These projects have achieved greenhouse gas savings equivalent to taking nearly 700,000 cars off the road.

With fossil fuels likely to bear the brunt of generating most of the world's energy for decades to come, it is essential that they, and especially coal, become cleaner. Anglo American has become one of the mining industry's frontrunners in examining the downstream options for making coal a more environmentally acceptable product.

Currently, we are engaged in research with various partners, including major international names like Shell, on projects related to integrated carbon capture and storage or CCS, the feasibility of converting coal-to-liquids and in taking forward Clean Development Mechanisms.

**Conclusion**

In concluding, I hope that this evening I have been able to provide a degree of perspective on some of the main challenges facing the global mining industry as all of us manage our way through this global economic downturn. It is my strong belief, moreover, that the people in our industry have the skills and the technological and financial ingenuity to overcome the hurdles facing them so that the upside in our sector is virtually limitless. This is still an exciting time for the industry – and the upturn, when it comes, may well be surprisingly strong. It is up to all of us to position ourselves to take advantage of it – because come it will.

**Thank you**