



Melbourne Mining Club

Cynthia Carroll

Real Mining. Real People. Real Difference.

Good evening ladies and gentlemen. It is a great pleasure to be with you this evening, under the kind auspices of The Melbourne Mining Club.

As a native of the land of baseball, speaking at Lord's, the home of cricket, I am conscious that I am batting on a sticky wicket and should be diplomatic in my approach. So I'd like to start by making it absolutely clear that, unlike the comedian Robin Williams, I do not regard cricket as being "basically baseball played on valium". Nor do I share George Bernard Shaw's view that the key advantage of baseball over cricket is that it ends sooner.

No, as a sports lover, and as an American living in England, I appreciate that both cricket and baseball have their unique attractions. Also, as a wonderful exhibition at Lord's has recently pointed out, the history of the two sports has much in common and they have each helped the development of the other. So cricket and baseball are in fact in perfect harmony-just like Anglo and American.

If I have narrowly avoided being bowled out in my first paragraph, I'd like to move on to my topic for the evening.

Immensely proud though I am of our achievements, I am not here to deliver an advertisement for Anglo American. Nor will I be talking about mergers and acquisitions or industry consolidation. But just to remind you, we have businesses on six continents, we employ around 150,000 people including contractors, more than 90% of our operations are in emerging countries and we have a market capitalisation of around \$65 billion. Instead I want to talk more broadly about a topic critical to all of us – the future of mining and what we need to do as an industry to succeed. And in doing so, I want to say some things that challenge conventional wisdom.

The expression "the conventional wisdom" was coined over fifty years ago by the great economist John Kenneth Galbraith. He used it to describe ideas which audiences automatically accept as being true, but which in fact are no longer valid, because times have moved on and new ideas are needed.

The comfort of conventional wisdom is just as great a danger in the mining sector as it is in other walks of life.

For governments, there is the temptation to court popularity by treating mining as at best a necessary evil and at worst just plain evil. Hand in hand, there is the temptation to caricature mining companies as rapacious and irresponsible profiteers who deserve at best to be subject to windfall taxes and at worst to have their assets seized.

For mining companies themselves there is the temptation to regard governments and communities as obstacles rather than as partners and to bemoan society's lack of understanding of the benefits that mining brings and the need for shareholders to earn proper returns.

Any politician on the campaign trail and any mining CEO addressing mining executives could construct a speech around these themes that would be received with acclaim.

But the applause that greets conventional wisdom ultimately rings hollow and stands in the way of building the future. In the case of the mining industry, we need a new way forward – a way forward that builds the relationship between stakeholders on partnership and understanding, rather than cynicism and suspicion.

The starting point is the reality that modern human life is impossible without mining. For over forty thousand years, mining has been one of the key engines propelling the development of civilization. Now, in the twenty-first century, it is more important to society than ever. The commodities the people in this room produce are vital both to fuelling growth in developing countries and to enabling the continuing technological revolution in developed countries.

We have all witnessed the phenomenal growth of demand for commodities over the past ten years, driven above all by the urbanisation and industrialisation of China.

For the future, there is overwhelming evidence that we should be optimistic rather than pessimistic.

Yes of course there are short term risks. The US is struggling to overcome the after effects of the financial crisis, Europe is stumbling through its sovereign debt crisis and Japan is still coming to terms with the impact of its tragic earthquake and tsunami, as well as the nuclear power emergency.

But the medium to longer-term outlook for economic growth and commodity demand is very strong, in spite of the near term risks. We are still much closer to the beginning than the end of the developing world growth story.

For example, even after the last decade of pulsating growth, GDP per capita in China is just a fifth of that in the United States. On this measure, China is now where Japan was in 1950, just before its living standards really began to catch up with those in the US. And, on the same measure, India has even further to travel.

As living standards in the developing world converge with those in the developed economies, the structure of the world economy will inevitably change in a way that supports continued strong demand for commodities.

The facts already provide conclusive support for this view. For example, China will add 36,000 kilometres to its highway system by 2015 and is building the world's largest high-speed rail network. This year alone, the country is targeting to build ten million affordable housing units.

And the development in China so far has been concentrated on the eastern coastal belt -a tiny fraction of its prodigious land mass.

And the opportunities are not confined to the developing world. Let's take the United States as an example. We tend to be sceptical about American prospects and there are certainly significant short-term issues. But, in the longer term, the US's continuing population growth with a growth rate set to overtake China's in this decade -combined with the recent collapse in construction activity, mean that the country will face a severe housing shortage. Filling this shortage and delivering President Obama's ambitious infrastructure plans will create strong US-driven commodity demand.

So the prospects for commodity demand remain very exciting. The critical question is how we will ensure that commodity supply is there to meet that demand.

The answer lies in the creation of a new partnership between all the stakeholders in the mining industry. And tonight I want to talk in particular about the role of two critical stakeholders – governments and mining companies themselves.

Mining makes a huge contribution to the economies of resource producing countries. As an industry, we constitute 8.6 per cent of South Africa's GDP, 7.8 per cent of Australia's and 19.2 per cent of Chile's. In the case of South Africa, Anglo American alone contributed around 4 per cent of GDP last year.

In an industry of such importance, it is critical for all stakeholders to make wise decisions.

We all need to acknowledge the long-term nature of the mining industry. The investment decisions we make today will build the mines that will serve not just our children, but also their children and their children's children.

But there is often a tension between long-term needs and short-term pressures.

The horizon of politicians is usually defined by the electoral cycle. They have the temptation to court short-term popularity. And they have a consistent tendency to concentrate on mining only during the industry's good times and not when times are tough.

But the pressures are not confined to politicians. Dare I say it, mining companies themselves often have the temptation to respond to short-term pressures from financial markets. And if the time horizon of politicians can be measured in a small number of years, the time horizon of financial markets can often be measured in a small number of seconds.

So the short-term pressures are real. But they have to be resisted. Long-term businesses call for long-term thinking, both from governments and from mining companies themselves.

Let's look at the role of both partners, starting with government.

The first and most fundamental role of government is to ensure the rule of law. A strong regulatory framework that is clear, that is fairly applied to all parties and that is upheld by a strong, independent judiciary is vital. Integrity and transparency are the cornerstones of sound government and sound business. Corruption is the enemy of economic growth and the enemy of civil society.

The rule of law goes hand in hand with the protection of individual liberty and the protection of property rights.

Mining companies need to know that their property rights will be respected and protected. We make major investments and we need to be able to plan with confidence twenty, thirty, even fifty years ahead.

If the fundamentals of the rule of law are in place, the other key building block is economic policy. Governments who promote enterprise and who follow fiscal policies that are stable over time create an environment that fosters growth. It is critical that taxation and royalty regimes enable mining companies to earn a fair return on their investment and are not subject to arbitrary and unpredictable change.

With the right legal and economic foundations in place, it remains critical for governments to ensure that their nations have the infrastructure they need to grow. Societies cannot flourish without effective health and educational systems and sound governmental administration. Crucially for the mining sector, they also need adequate physical infrastructure in terms of energy, water supply, railroads and ports, to enable efficient production and distribution.

I said that I wanted to challenge conventional wisdom. Let me be absolutely clear what I mean in relation to the role of government.

Firstly, we have all seen a number of instances in recent years, around the world, in which governments have been tempted to respond to short-term fiscal pressures by increasing taxes and royalties on the mining sector in a way that threatens to create excessive and unsustainable burdens. Sometimes governments seek to justify their proposals by coating them with a misleading environmental veneer.

Governments tempted to move in this direction convince themselves that necessary mining investments in their countries will continue unabated, despite the imposition of such arbitrary changes. They are wrong. International businesses have choices to make between investment opportunities in different jurisdictions. Countries which maintain stable and fair fiscal regimes will inevitably be more attractive investment destinations than those that do not.

As this is the Melbourne Mining Club, I hope you will forgive me if I take as my example of this tendency the carbon pricing proposals advanced by Prime Minister Gillard's government in Australia. As drafted, the government's proposals would place unacceptable burdens on the mining industry, which is responsible directly for around 150,000 jobs, damaging Australia both as an investment destination and as an exporting nation.

In addition, rather than promoting carbon reduction, they would actually divert funds away from the development of carbon abatement technology, a field in which we and others in the Australian industry have a strong track record.

The second issue is that in some parts of the world there is a danger that it will again become the conventional wisdom that nationalisation of mining assets is a path to prosperity. I have said it before, I will say it again and I urge all of you to join me in saying it – nationalisation does not work.

This is not a debate about whether the minerals in the ground belong to the people. That question has been answered – for example in South Africa through the Mineral Resources and Petroleum Development Act. Instead, the question is about how mineral wealth can best be developed for the benefit of society as a whole.

The proper and natural role of government in relation to the mining sector, and industry as a whole, is to create and administer an appropriate framework of licensing and regulation. The development and operation of mining assets is a business best carried out by the private sector. This is not about the private sector being better than the public sector or vice versa. It is simply about each partner concentrating on the things it can do best.

Let me now turn to the role of mining companies.

The developing world is of vital importance to mining, not just as a source of demand but also as a source of supply, with many of the world's most attractive undeveloped deposits sitting in developing world countries.

Anglo American has almost one hundred years' experience of operating in the developing world and our experience has taught us many things.

We understand that some things – for example, a total intolerance towards corruption – are non-negotiable everywhere.

Equally, we understand that developing world countries are usually not only in the process of developing their economies. Typically they are also still in the process of developing the physical and institutional infrastructure of society, often in the face of a historical legacy of problems and conflict.

In these circumstances, while it is right that mining companies should be clear with government about the conditions that are necessary for business to succeed, it is also essential for us to act as true partners with government in putting those conditions in place.

Let me illustrate my point by taking some Anglo American examples of the positive role that business can play, especially bringing partners together to tackle big issues.

It begins with safety. Zero harm is a non-negotiable goal wherever we operate and it is a goal we pursue through partnership. The Anglo American Tripartite Safety Initiative, launched in 2008 in South Africa, is a ground-breaking approach, bringing us together with our partners in government and the trade unions. It has made a major contribution not only to safety improvement in our own company, but also by leading the drive for safety in the South African mining industry as a whole – where the number of fatalities has declined by 25% since this launch.

Next there is the vital field of health. Anglo American's world-leading HIV/AIDS programme in South Africa, which provides free testing and treatment for all our employees and their dependants, has been recognised by the Global Business Coalition on HIV/AIDS, TB and Malaria as the best workplace programme in the world.

And in the last year, we have taken two further important steps, with commitments of \$3 million each to support the critical work of the Global Fund on HIV/AIDS, TB and Malaria and the Global Alliance for Vaccines and Immunisation. Since the year 2000, the Global Fund and GAVI have between them saved more than ten million lives through their work.

Our commitment to safety and health goes together with our commitment to environmental responsibility. This goes beyond ensuring that we minimise mining's footprint to generating positive environmental benefits from our operations. For example, in South Africa, our Witbank water recycling and treatment project in partnership with BHP Billiton is delivering safe drinking water to many thousands of people who previously had limited access to this vital resource. Our Eastern Limb water project in Limpopo will provide almost two million people with a clean, safe and reliable source of water for the first time.

In meeting environmental challenges, technological expertise is clearly critical. Anglo American has a long-standing commitment to innovative technology development. Let me mention just two examples.

In Queensland we have invested in two gas power stations to capture methane from our coal mines, delivering annual greenhouse gas savings equivalent to taking 700,000 cars off the road.

Also in Australia, our investment in MBD Energy, which is developing a hybrid CO₂ capture and algal synthesiser process, has the potential to provide large-scale commercial and sustainable solutions to three of the world's most critical issues – the availability of bio-oil, the production of nutritious meal for use in livestock and aquaculture and, of particular importance to us, carbon sequestration.

These and many other examples demonstrate our commitment both to technology and to the environment.

Innovation is not just about technology – it is also about innovative business ideas that transform lives.

Last week in Johannesburg, I had the honour of hosting Anglo American's first Local Procurement and Enterprise Development Trade Fair, a gathering of one thousand people, joining together many of our suppliers with many of the businesses we have supported through Zimele -our outstanding enterprise development and empowerment initiative.

To date, in South Africa, Zimele has invested some \$68 million in 845 local businesses, which together employ almost 16,000 people and generate an annual turnover of over \$260 million.

In a country in which creating sustainable employment and fostering entrepreneurship are key priorities, Zimele is quite simply a model that works. The average cost of sustaining and creating a job via Zimele is less than one fourteenth of the average cost of creating a job in South Africa.

Our drive on local procurement complements Zimele's work. In the past ten years, our BEE procurement has grown from less than \$150 million to more than \$3 billion. And that is just the beginning.

Building on our South African experience, we have used the Zimele model to create successful enterprise development programmes in Brazil, Chile, Peru and Venezuela.

We have committed to create a total of 25,000 sustainable jobs by 2015 and we are the only mining company to have a commitment in support of the Millennium Development Goals recognised by the Business Call to Action.

You will have gathered that I am very proud of Anglo American's commitment to sustainability and to partnership. I strongly believe -of course I do -that we can justifiably claim to be leaders in our industry in making a real and positive difference to the countries in which we do business.

But, at the same time, I acknowledge that there are others in the room who could also point to good initiatives in pursuit of sustainability, whether it be BHP Billiton's work through its Sustainable Communities charity, Rio Tinto's work on bio-diversity or Vale's work on reforestation in Brazil, to take just three examples.

In the light of all this good work, and returning to my theme of challenging the conventional wisdom, I have a number of questions for us all.

- Given that so many of us are doing such great things and are genuinely committed to sustainability, why is it that the mining sector still does not have the reputation it deserves?
- Why is it that as a sector we still sometimes struggle to persuade governments and communities of the essential and beneficial nature of mining and our commitment as a sector to act responsibly?
- Why do outmoded ideas like nationalisation, which have been comprehensively discredited by history, still receive political airtime?
- How can we as a mining sector do a more effective job in arguing our cause?

You will all have your own answers to these questions, but in closing my remarks this evening I would like to offer a few observations of my own.

I am realistic that in democratic societies, and in an industry as important and as cyclical as mining, there are some debates that will always come round from time to time – particularly the debate about how the economic benefits and risks of mining are appropriately shared between stakeholders.

But I do believe that as a sector we can do a better job in representing our interests and that this requires us to be both honest with ourselves and assertive with government.

Sustainability and partnership are not just about what you do, they are also about your values and about who you are as a company. At Anglo American, our commitment to sustainability and partnership is not a nice to have or a price of doing business. It is at the core of our values, it is central to how we think about life and it is at the heart of how we conduct and talk about our business.

Real Mining. Real People. Real Difference. These are the things we stand for.

You may have guessed that I'm a pretty competitive person. My aim is for Anglo American to be The Partner of Choice in the mining sector. It is right that mining companies should compete fiercely to be the best in relation to sustainability and partnership, just as we do in every other aspect of our business.

But there is also an extent to which we need to work together. The reputation of Anglo American and the other responsible companies represented in this room is affected not just by what we do but also by the reputation of the sector as a whole.

We all know that our industry has a historical legacy. Not all miners have acted responsibly in the past and, if we are honest, there are still elements of our industry that do not act responsibly today.

As responsible mining companies, we need to be ever more assertive in insisting on the highest standards in our industry, so that the reputation of the responsible many is not damaged by the actions of the irresponsible few.

But if we need to be more assertive with ourselves, we also need to be more confident and assertive with others.

This industry has a great and true story to tell – about the benefits we bring to society and our commitment to acting responsibly. Together we need to be more positive, more confident and more effective in telling that story.

And we also need to be more assertive in challenging ideas and demands that are wrong or unreasonable.

I have always made my views known -and I will carry on doing so – particularly in challenging those who argue for the blind alleys of nationalisation or excessive taxation.

I have not been alone. But there are some in our industry who have remained quiet – whether for reasons of politics or politeness.

Together we are responsible for an industry that is the lifeblood of the twenty-first century. An industry that has a great long-term future, but a future that requires the industry's stakeholders to work together in partnership to achieve success.

My message to you this evening is that it is time for us all to stand up and to be clear and bold in campaigning for the future of the industry we have the honour to lead.

Thank you very much for listening to me ladies and gentlemen. I would now like to invite you to bowl this maiden over with your questions.