

**Keynote Speech by Cynthia Carroll,
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‘Reflections on Corporate Responsibility from the Extractive Sector’

Mr Chairman, it is a great pleasure to speak to this distinguished audience. The attendance today is a strong indication of the importance of corporate responsibility for today’s business leaders.

I pay tribute to Business for Social Responsibility’s work over many years in spreading good practice and stimulating constructive debate around the role of business in society. BSR has been instrumental in fostering co-operation and the sharing of best practice between businesses, and dialogue between business and NGOs.

Today I will start by telling you a little about Anglo American. Then I will talk about some of the challenges facing the mining sector and, finally, offer some thoughts about the role of business in development.

Introduction to Anglo American

Anglo American was founded in South Africa in 1917 and grew to be the largest company in Africa. The start-up capital was drawn equally from Britain and the United States – hence our name.

Thirty one years after Anglo’s foundation - in 1948 - apartheid was imposed in South Africa. The Company became identified with the constitutional opposition to that evil system. Anglo funded the Parliamentary opposition, owned the opposition newspapers, was the first major company to recognise black trade unions and invested in black education. It led business’ engagement with the ANC in exile – and was threatened with nationalisation as a result. By the standards of the day, Anglo was a bastion of liberalism, and yet there are some who, with the benefit of hindsight, will say that despite

what the company achieved in its zone of influence, it prospered and benefited from the migrant labour system and was implicated in a system of institutionalised discrimination. The glass is, in my judgement, a great deal more than half full – but we understand too the important role that our business must play in contemporary South Africa in building a more equitable society.

In 1999 Anglo moved its primary listing to London – the mining finance capital of the world – but our roots remain strong in Africa. In March of this year I became Chief Executive and I have found a company with a strong sense of the positive role that business can play in making people's lives better.

In 2002 this commitment to social responsibility was manifested when Anglo became the first major employer in Africa to announce the provision of free anti-retroviral treatment to our HIV positive employees. We stepped up to the plate when others were not prepared to take a lead. Today we have the largest workplace voluntary counselling and testing and treatment programme in the world. We now have 11,500 HIV positive employees on health support programmes and almost 5,000 receiving anti-retroviral drugs at the company's expense. This programme has helped to reduce the number of new infections and to save the lives of thousands of breadwinners, enabling them to continue to provide for their families. Working with the trade unions, we are achieving annual participation in voluntary counselling and testing of around 90% in our best performing units. Furthermore, our testing and treatment programmes – which cost about \$10 million a year - are beginning to pay for themselves through reduced absenteeism and keeping skilled people alive.

In recent years, Anglo American has changed from being a conglomerate into a focussed mining company – with major businesses in platinum, iron ore, base metal, coal and diamonds. We provide jobs for about 150,000 employees and permanent contractors and work in around 40 countries.

I am the first outsider and the first woman in 90 years to lead the company. And I have come to the role with some different perspectives.

Firstly, I was struck by how a well intentioned and highly-motivated organisation had failed to get a grip on safety. Certainly our safety record had been improving over the years but, particularly in South Africa, there has been an attitude that since mining is dangerous, we will always have fatalities and injuries no matter what we do. I simply cannot accept this and so I have made it our absolute priority to eliminate fatalities from our workplaces. As a result, it is no coincidence that the only meetings that we have had of our 100 top global managers have focussed entirely:

- on making safety our over-riding priority;
- on setting consistent and demanding standards;
- on creating real passion behind our safety objectives; and
- on reinforcing our goal of 'zero harm'.

Certainly, there are some big challenges in running deep mining operations in South Africa, with our employees speaking ten or eleven different languages. But people are beginning to believe and to sign-up to the vision of Anglo as a leader in safety.

An objective of mine is to ensure that our mines are places where all our employees feel valued, respected and cared for. Whilst changing the mindset around safety is part of this process, diversity is also an important dimension. We have an ambitious transformation programme to make our management ranks and working environment more reflective of the racial and gender mix of contemporary South Africa. But I am also determined that we should apply the same principles to our operations worldwide, taking our commitment to diversity to the heart of our business.

The mining industry has had a poor record of employing women and this must change. I have met some very impressive women at our operations - driving

240 tonne trucks at an open pit mine in Chile or leading teams underground at mines in South Africa and Australia, as well as in technical and professional roles. But, at only 10% of the workforce, there are simply too few of them. At a time when the mining sector is facing a major skills shortage, reaching out to the other 50% of the population is not politically correct, it is pragmatically and morally simply the right thing to do.

So, not only will Anglo lead in safety and health, it will also be a leader in diversity.

Mining and Sustainable Development

Having shed our non-core businesses we are now in an expansionary mode. To this end, we have recently acquired three significant projects in Brazil, Peru and Alaska. Of these, both Michiquillay in Peru and Pebble in Alaska depend upon convincing local people that we are to be trusted not to adversely impact their environment or their livelihoods. Indeed if we cannot provide that assurance we will not earn or deserve their trust – or our licence to operate. Rightly, neither project will proceed without clearing rigorous regulatory processes and gaining public acceptance. So when it comes to winning trust, a commitment to the highest standards of corporate responsibility should, I believe, be a real source of competitive advantage.

Some people might imagine that a major mining company would find it convenient to work in places where there are weak governments. This could not be further from the truth. We welcome regulatory certainty and we like operating where there are strong regulatory frameworks that command public confidence. Ultimately our operations stand or fall on the basis of trust. We work hard to build trust but it is much better if, in addition to our efforts, communities feel that their government looks after their interests and ensures accountability. It is much more difficult for us to achieve good development outcomes where there is poor governance.

Our corporate objective is not only to generate attractive returns for our shareholders but also to create a positive legacy for the countries and communities where we work. In this respect, it is important to look at how the benefits of our activities are distributed. I think you will find this slide informative since many people over-estimate the share of the value that companies create which goes to investors. In Anglo American's case, in 2006 our suppliers received over \$17 billion; our employees almost \$5 billion; and we paid tax and royalties of \$ 3.0 billion – rising to \$4.5 billion if employee and sales taxes are included. In contrast our dividend payments were only \$3.2 billion.

Tax is a relatively recent addition to the corporate responsibility agenda – but a fundamental one. We have sought to integrate our tax policies with the ethical and developmental stance set out in our business principles. Thus we seek to pay as high a proportion as possible of our tax payments in the countries where we have our operations. Paying our fair share of taxes is part of the social contract that we enter into when we invest in new countries; excessively aggressive tax planning undermines that contract.

I would draw your attention to the contribution which copper mining has made to the transformation of Chile into South America's most successful economy. Between 1990 and 2003 foreign direct investment in mining was \$15.5 billion. Over that period poverty fell from 39% to 21% of the population and have continued to fall. Thus we can safely say that in significant part because of mining, Chile's poverty levels have more than halved in 15 years. And the region where mining is strongest now has the highest level of educational attainment and the lowest proportion of the population living in poverty.

The extractive sector is the antithesis of footloose capitalism. It will typically take more than a decade from discovering an ore body to mining it. Thus, we have a strong interest in the stability and prosperity of the societies where we operate. The sustainability challenge for a mining company is to ensure that over the lifetime of an operation – which may stretch to between 50 and 100

years - we enhance the social, human and manufactured resources of our local communities and, to an extent, the countries where we operate. **I strongly believe that mining can contribute to wider development and poverty alleviation in the countries and communities where we work.**

In developed societies much of a company's sustainability obligations are met through being a good employer and paying taxes for governments to reinvest in health, education and infrastructure. In those countries, however, which lack fundamental governmental capacities, companies must often play a more active role. Whilst we should be firm in trying to stop others – including governments themselves – pushing responsibilities on to us which properly belong with the State, we do not live in a clear world where the boundaries of corporate responsibility are consistent and well defined.

If, for example, members of one of our host governments pocket the revenues which we generate, rather than spending them for the public good, it simply is not enough for us to deny all responsibility. Whilst we may not be technically responsible, many people will view us as complicit if we remain silent. **So for us, corporate responsibility goes beyond paying our taxes.** Hence, our close involvement in the Extractive Industries Transparency Initiative, or EITI, where we work with donors, host governments, NGOs, and other companies in support of good governance. In those countries which implement EITI, resource companies declare what they pay to the government and the government declares what it has received; providing an opportunity to compare both sides of the ledger. This transparency is intended to guard against embezzlement, increase accountability and to lead to a wider debate about the use to which these time-limited revenues are put. It is not a silver bullet for dealing with all corruption but it is beginning to produce some worthwhile results.

Similarly, when we open a mine in a poor country we know from experience that this may attract an influx of people to an area. Their arrival may be disruptive to the original residents through pressure on land, water and

services and competition for livelihoods. Such impacts are, strictly speaking, not our responsibility, but many reasonable people would be justified in expecting us to work in partnership with others – whether in government or civil society – to tackle the problem. **Good corporate citizens are active citizens who understand and take responsibility for their impacts on the society around them.**

Key challenges for the mining sector

Let me now turn to the specific challenges faced by the mining sector through addressing five sets of issues:

- firstly, the problems inherent in having **large and immobile assets**;
- secondly, **benefit sharing** between stakeholders,
- thirdly, **energy security and climate change**;
- fourthly avoiding the so-called ‘**resource curse**’ and,
- finally, the relevance of corporate responsibility in an era of **resource nationalism**.

I have already spoken about the **immobility of our assets** – we cannot pick up our mine shaft and walk if we don’t like what is happening around us. Moreover, since it is accidents of geology which determine the location of economically viable mineral deposits, mining and oil companies often have little choice but to work in challenging environments. Of course we have countries and areas where we will choose not to operate, because of issues like corruption or human rights abuses. But in less extreme cases, minerals may be found in fragile societies or environments or they may be in weak governance zones. Factors such as these dictate that we must be clear about what upholding our core business principles and international standards requires us to do.

At one time keeping your head down and complying with local laws and governance practices would have been the paradigm. Now, the growth of ‘soft law’ in the form of conventions, the ten principles of the UN Global Compact, and a growing body of guidelines and standards, help to define good practice.

Moreover, mere compliance with local norms in one country may cause outrage amongst important stakeholders in other geographies. We must aim to go beyond compliance. Multinational companies are regularly denigrated in some countries. But **what we can and should do is to use our wealth of experience, our knowledge of best practices and our know-how to exert leadership and to raise standards in the countries where we operate.**

My second set of issues relate to **benefit sharing**. Traditionally, mining has been labour intensive - so when a mine was built it offered a triangle of benefits: profits for the operator, revenue for the government and jobs for local people. But times have changed. One side of the triangle has shrunk. Not only has mining become more capital intensive; the skills needed to do the available jobs may not be readily available in subsistence economies or remote communities. This context, coupled with greater assertiveness on the part of many communities vis a vis their own governments, is leading to demands for new models of benefit sharing. For many indigenous communities in North America, for example, this takes the form of equity participation. This is also a model we have also used in some black economic empowerment transactions in South Africa.

But, in addition – and **I think that this goes to the heart of an understanding of corporate responsibility as going beyond philanthropy – mining companies are having to understand how best to leverage their core businesses to create better development outcomes.** This may involve, for example, local enterprise initiatives linked to the supply chain; pre-employment training; local human and institutional capacity building; or designing infrastructure – like roads or water supplies - so that it will also create benefits for local people. Let me give you two examples from Anglo American's experience.

Firstly, there is our Socio-Economic Assessment Toolbox, or SEAT, process. SEAT does not replace a full Social Impact Assessment when we start a new operation. Rather it ensures that our **existing** mines engage in a rigorous and

structured way with stakeholders, so as to improve their understanding of local priorities and needs. SEAT has four stages:

- Firstly, stakeholder identification and engagement;
- Secondly, an assessment of each operation's impacts - direct and indirect; positive and negative; social, environmental and economic;
- Thirdly, the creation of management plans, in conjunction with stakeholders, to improve the operation's local impacts; and
- Finally, publication of a report which feeds back what stakeholders have told us and includes our commitments to improvement.

It is a major step forward in making operations more accountable and better equipped to understand the communities around them. It is a reminder that in our dealings with communities, companies should do as we do elsewhere in our businesses – innovate and be creative.

What has it taught us? Well it has given rise to several new initiatives including a major enterprise development programme in Chile and many supply chain or training projects elsewhere. It has reminded us that as far as communities are concerned, their perceptions are the realities with which they live. If these perceptions are objectively wrong we must not leave them to fester but must find the means to change them through better communication or through trust building measures - such as involving local people in environmental testing.

We have learned a lot more too about the priorities and concerns of local people. And I think we understand a good deal more about the views of sometimes marginalised groups and about the dynamics between different communities, ethnic groups and political factions. This latter point is crucial in identifying potential causes of conflict, ensuring employment equity and the fair distribution of social investment.

We have improved our internal management of social issues and we are proud of what has been achieved at many of our operations. The One World Trust, was recently quoted as describing SEAT as the best private sector social management framework. Up until now we have protected our intellectual property rights. But I am delighted to announce today that, as a contribution to spreading good practice, we will shortly be making the first version of the SEAT manual available on our website for use by other businesses and civil society organisations.

To take a second example around the theme of benefit sharing, Anglo American has an enterprise development unit in South Africa, called Anglo Zimele. In Zulu it means, 'to be independent'. Since 1989, working generally, but not exclusively, around supply chain opportunities, Zimele has helped black entrepreneurs to establish viable and sustainable businesses. The model, which has also been used by the World Bank, involves a combination of time-limited equity participation, loans, opportunities to compete for contracts and mentoring.

At any one time Zimele, together with a fund that we manage for junior mining companies, is invested in about 46 companies employing some 4,000 people. Crucially, these companies have a survival rate three times the South African average for small and medium sized enterprises. We are now using this experience in South America with particularly encouraging results in Chile.

A third set of issues relates to **energy security and climate change**. Mining is both a major energy user and a producer of coal. In operations across the world we face issues of energy security as host countries struggle to align their electricity production capacity with the strong economic growth of recent years. Given this demand for energy, coal will inevitably continue to play a major role. The fundamental challenge is to harness its energy but to reduce its impact on the climate through clean coal initiatives. **Business must be a key partner in addressing how to deliver growth in a carbon constrained**

world and we look to governments to provide clear rules as soon as possible to facilitate investment.

We are inhibited by uncertainty around what the post-Kyoto regime for carbon reduction will look like. What role will there be for technology, what role for market mechanisms and what role for regulation? At Anglo American, we have set ourselves, so far, relatively modest targets for improving our energy efficiency by 15% by 2014 and for reducing our carbon emissions per unit of production by 10%. We have developed methane generation projects at our coal operations in Australia – which are already saving the equivalent of the emissions of 375,000 vehicles each year – and are looking to do more. We are part of the US Government-led FutureGen Alliance which is aiming for near zero emissions coal generation. We are also looking at the opportunities for coal to liquids projects coupled with carbon capture and storage. Finally, as the largest producer of platinum, we are closely involved in research with Johnson Matthey and others into this incredible metal's role as part of a cleaner energy mix – especially in fuel cell technologies.

My fourth set of issues relates to improving the management of the **macro-economic challenges** of a high dependence on mineral resources. There is a phenomenon, known as the 'resource curse', whereby resource rich countries sometimes fare worse in terms of economic growth and human development than those without such endowments. Countries like Chile – the world's leading copper producer – or Botswana – the producer of the world's best diamonds are outstanding success stories. They show that there is nothing inevitable about the 'resource curse'. The problem is not the existence of resources but of poor national governance.

We are seeking to tackle the issue pro-actively. Thus, our industry leadership group, the International Council on Mining and Metals, has, working with the World Bank and others, produced a toolbox – based on the experiences of

Peru, Chile, Ghana and Tanzania – to guide the key actors in ensuring that a resource endowment becomes a blessing and not a curse.

The current sustained strength of commodity prices is not only enhancing mining share prices but also fanning the flames of ‘resource nationalism’. The strength of prices largely reflects the emergence of strong demand from China and India. These countries, together with Russia, are, in turn, generating major resource companies with global ambitions, dedicated to ensuring that they have guaranteed access to the raw materials on which their economic growth ultimately depends.

So my fifth and final set of issues for the mining sector relates to the **relevance of sustainable development and corporate responsibility** in an era of resource nationalism.

‘Resource nationalism’ comes in different shapes and sizes. It may range from nationalisation through to unilaterally changing previously agreed fiscal arrangements or imposing additional industrial policy requirements. The phenomenon reflects the fact that at a time of constrained supply and strong demand, the governments of mineral rich countries feel that their negotiating hand is stronger and they – not always unreasonably - want a bigger share of the value being created. It is, however, important for governments to remember that whilst there may be a boom today the commodities business is a long term one and cyclical in nature and that it is important to maintain investor confidence.

A driver of the demands for higher taxes or penal measures against mining in some countries has been the impression that we don’t ‘give enough back’ to society. In some cases this is a clear misperception but one which underlines the importance of communicating better what we contribute to the places where we operate.

Another issue raised by some industry commentators is whether a commitment to higher standards can be sustained in light of the emergence of

competitors from new geographies. I am not seeking to argue that the leading Western mining companies are without fault. We have made – and still make - our share of errors. However, over the last decade a leadership group has emerged in the industry and has been successful in beginning to re-engage with wider society. We have learned from our mistakes and are finding better ways to operate.

I expect that the leading Chinese, Russian and Indian companies will learn quite quickly that a responsible and engaged approach is the strongest protection for their long term ability to access resources. **Since the emergence of these new competitors is inevitable, I believe that the right response must be engagement and co-operation rather than confrontation in areas like safety, climate change and sustainable development.**

So, in summary, the world needs - and will continue to need - minerals and metals. The challenge is to ensure that these products are produced responsibly. A lot of progress has been made in evolving new models which have improved our contribution to sustainable development. We need, however, to spread good practice more widely and, as a sector, significantly to improve our communication and engagement with governments and communities.

Our businesses are operating under strain as we seek to meet strong demand but we must remember to keep an eye on the big picture. We have not always been thoughtful enough about the social and political dynamics created by our industry or engaged pro-actively with governments to seek sustainable and mutually beneficial outcomes. The emergence of new sources of competition could call into question some of the progress that has been made in raising standards. But, many of these new players will soon become aware, if they are not already, that resource businesses must contribute to sustainable development if we are to continue to have access to resources.

Business and Development

Much of my address today has been concerned with the development challenges of the extractive sector and how Anglo American and some of our peer group have been seeking to respond. In July of this year I was a signatory to a declaration initiated by the British Prime Minister, Gordon Brown, to urge the United Nations to convene a special meeting in 2008 to address the likelihood that the Millennium Development Goals will not be met by the target date of 2015. This meeting should bring non-governmental actors, and especially business, into a coalition with governments based on our shared commitment to the realisation of the Goals.

I am glad that the development debate has progressed towards an appreciation that a disproportionate emphasis on aid will not produce sustainable wealth creation. Of course, such aid has an essential role in supporting infrastructure development, human and institutional capacity building and disaster relief. **But the Millennium Development Goals will only be delivered if there is growth; and business – from the individual entrepreneur through to international investors – is what will put bread on the table.**

To that end Anglo American, together with eight other multinationals, the World Bank, the African Development Bank, the European Union and the Governments of South Africa, Britain, the Netherlands, Ireland and Norway have jointly invested in the creation of the Investment Climate Facility for Africa. This will support those African governments who wish to reform their regulatory and legal structures so as to facilitate the creation and growth of new and existing businesses. Early issues to be addressed include business licensing processes, customs procedures, commercial dispute resolution mechanisms and strengthening property rights. To date about \$150 million

has been pledged and I hope that the Facility will play a part in enabling African business to play a pivotal role in poverty reduction.

Mr Chairman, business has to be an integral part of addressing the big challenges facing society – whether they be climate change or the unacceptable proportion of the world’s population that exist on less than a dollar a day. There are many people whose agenda is to portray business as the root of our problems. We must be robust and prepared to argue our corner in response. But, if we wish business to be seen to be part of the solution then we need to bring our creativity to bear in improving the lot of those around us.

In our sector, that is what Anglo American is seeking to do. We have a lot to do in improving our own performance in relation to safety and diversity. But we have also have a strong sense that business is not only about the bottom line. We have the rare privilege of being able to lead and to innovate in areas like HIV/AIDS, the creation of new businesses, and community development. We have the ability to open the way to many positive opportunities for the communities where we do business.

The English poet, John Donne, observed that ‘no man is an island entire unto himself’. The same is true of business; we cannot succeed if the societies where we work fall apart. It is a uniquely exciting time to be in business – rarely have we had such scope to make a difference in improving the lives of so many people throughout the world. Clearly the desire to make that difference is what unites us all here today. Thank you.