

**Speech by Cynthia Carroll, Chief Executive, Anglo American plc to the
Annual General Meeting of Transparency International (UK)
20 November 2007**

Mr Chairman, it is an honour to be invited to speak to you this evening. Anglo American has long been a corporate supporter of Transparency International both in the UK and at an international level and we are proud to be associated with you in the fight against corruption.

TI's advocacy programmes have produced remarkable results. Your work has helped to fundamentally change the terms of debate. You have campaigned successfully for United Nations and OECD Conventions against corruption. Around the world TI chapters are courageous, consistent and effective advocates for transparency and reform; almost always presenting their case in a balanced and well-researched manner.

Your work has made a difference. As recently as ten years ago, the consensus was that corruption was an inevitable dimension of doing business in some parts of the world. Indeed, shockingly, in some Western countries foreign bribes were even tax deductible! TI broke into that culture of passive acceptance and questioned whether the ready supply of bribes from Western companies was, in itself, a key driver of corruption? The United States was an exception in not accepting bribery as a legitimate means of doing business. The Foreign Corrupt Practices Act gave companies a real incentive to resist corruption - even if some just became more creative in how they did their bribing. The FCPA remains the benchmark legislation in the field and is the most actively enforced statute of its kind.

I think that the progress made by TI is neatly summed-up by the UN Global Compact. When it was established seven years ago, it had nine principles covering the environment, human rights and labour rights. With very little controversy, five years later it had developed a tenth principle – anti-corruption.

Agenda and Introduction to Anglo American

In my remarks this evening, I will speak briefly about Anglo American; talk about some personal perspectives and about how Anglo seeks to prevent corruption. I will finish with some observations about transparency and the extractive sector.

Anglo American was founded in South Africa in 1917 – with half of the start-up capital coming from Britain and half from the US, hence our name. In many ways in our ninetieth year we have come full circle. The company started life as a mining company. In the intervening years it grew to be Africa's biggest company but it also became a conglomerate with interests ranging from newspapers to car dealerships. After almost a decade of divestments, culminating in the separation of our paper and packaging company, Mondi, earlier this year, we returned to our origins as a focussed mining company. We moved our primary listing and Head Office to London in 1999, although our roots in Africa remain strong. We operate or explore in up to 40 countries and provide jobs for some 150,000 employees and permanent contractors – principally in Southern Africa and South American.

For much of its history, Anglo American was dominated by the Oppenheimer family who gave the company a strong moral compass in opposing the apartheid system. Although Anglo has never been family-owned, it was for much of its history, a family-led company and this has contributed to it having a strong set of values. This is one of the reasons why I was so pleased to be asked to lead it. Anglo has a very strong sense of business' potential to 'make a difference' and to play a constructive role in the societies in which we work. This includes having taken a consistent and strong line against corruption.

Mining and corruption

As a mining company, Anglo works to long investment horizons. It may be more than a decade between discovering a deposit and bringing a mine into production. We may then be present in an area for more than 50 years. Our assets are immobile and we have to live with our choices. Thus, we have a strong interest in the stability and prosperity of the countries where we operate. We are, however, largely hostage to accidents of geology since we can only establish mines where there are economically viable mineral deposits. Given that most developed countries have depleted their own natural resources, this often involves us in having to make tough judgements about doing business in difficult geographies. This involves complex judgements about political risk and about in which countries we can do business whilst respecting our core business principles within our zone of influence. Considerations such as the potential for conflict, corruption, human rights, the

independence of the judiciary, property rights and the rule of law all have to be weighed in the balance.

As a long-term investor, we have a strong interest in defeating corruption. It increases political instability and makes the process of doing business less predictable. Moreover, corruption erodes trust and, in our business, having a government that people trust to protect their interests is of crucial importance on issues such as permitting, tax and the enforcement of environmental standards.

Corruption may encourage people to pursue political or administrative office in order to seek rents rather than for public service – and to maintain their hold on office through patronage. It corrodes the investment climate and increases the costs and unpredictability of doing business. Corruption diverts resources from the poor, from key services like health and education and from development needs. It makes it more difficult for people to effect change through the democratic process and political means. In short, corruption is the enemy of good business and of sustainable development.

Anglo American's opposition to corruption

Since it typically involves the generation of significant government revenues and the exercise of discretionary judgements by public authorities, mining ranks relatively high amongst those industries where there is a risk of corruption. Despite this, I believe that the leading companies in the sector are now amongst the most committed to taking a lead in resisting corruption. Moreover, the structure of mining, where opaque production sharing agreements are rare, where there is generally a smaller role for State-controlled companies and fewer auctions for deposits, makes it less at risk of corruption than some other industries.

Anglo has a long-established policy on corruption – just say ‘no’ – or, in the words of our ‘Good Citizenship’ Business Principles; ‘we are **implacably** opposed to corruption. We will not offer, pay or accept bribes or condone anti-competitive practices’. This commitment is supported by a Letter of Assurance process at the top level; induction and training; internal audit processes and a ‘whistle-blowing’ facility available on a confidential basis to employees and external stakeholders. We also prohibit the giving of political donations and have recently updated our guidance to our operations on ensuring that their social investment activities are not misused by

local politicians to fund schemes for which they then claim credit. Our due diligence processes also seek to ensure that our would-be business partners observe the same basic standards.

We believe that taking the firm stand of saying that any manager paying bribes will face dismissal is the best support that they can have in the field in resisting corruption. The difficulty would come if, at any time, they or others, detected equivocation. This would, indeed, expose them to increased pressure. The payment of even one bribe invites multiple demands since the goalposts are thereby shifted from being a matter of principle to one of pragmatism. The increasing network of extraterritorial laws bearing on corrupt behaviour is also useful in reinforcing the importance of the issues involved.

Resisting corruption must ultimately mean a willingness to walk out of a country, to take matters up at a high political level with the host government; either directly or through using the British or South African Governments or donor agencies to make representations on our behalf.

We are currently reviewing the text of our Business Principles – recognising that we don't expect the thrust of what we have to say on corruption to change significantly. The values and ways of doing business which an organisation communicates to its employees are hugely important and should be the bedrock of any anti-corruption programme. We are also looking to develop a more sophisticated set of guidelines and a targeted training module to help managers in high risk postings to understand more about the sort of situations which may face them. Companies must ensure that when we put our managers into higher-risk environments they are properly prepared for the challenges they may encounter.

Although these events happened before I joined the company, I am aware of at least two countries where we have stopped exploration and withdrawn because we came to the conclusion that we could not operate honestly in those countries and I would have no reservations about doing this in other countries going forward. To an extent, a company is at its most vulnerable in those countries where it does not have an established presence or good networks to whom to appeal if pressure is brought to behave corruptly. I can also identify one recent investment decision where concern about corruption was an important factor in our decision not to proceed and an

exploration joint venture where we pulled out because we lacked confidence in the conduct and ethics of our partners.

Stakeholder expectations about the boundaries of corporate responsibility have shifted significantly in recent years. The bar has been raised. Thus, at one stage, a company would have been thought to be behaving responsibly if they paid their correct taxes. Now, most stakeholders would also expect us to show an intelligent interest in where our payments go. We may not be responsible for what our host governments do with the revenues which we generate for them each year – which worldwide amounted to some \$4.4 billion in 2006 – but we are seen by many as complicit if we do nothing to prevent those revenues from being siphoned into private pockets rather than public coffers. Given this, it is important that we take a constructive interest in governance issues in the countries where we work.

Extractive Industries Transparency Initiative

That is why we were in the front rank of companies which endorsed the Extractive Industries Transparency Initiative – the EITI. We have been the only mining company to have served on both the International Advisory Group and, since it was formed last year, the Board. I know that TI has been closely involved in EITI and that Peter Eigen, the Chairman of the Board, was also one of your founders. For those of you not familiar with the concept, it involves oil, gas and mining companies declaring in resource rich countries what they have paid by way of taxes, royalties and other payments to government or government bodies and the host government, separately declaring their receipts from the sector. Thus, by showing both sides of the ledger, it is possible to reduce the opportunities for embezzlement. A country will also only be recognised as implementing EITI if it has an oversight group, involving civil society organisations, where the revenues can be scrutinised and the use to which they are put can be debated.

At the international level, the Secretariat is now hosted by the Norwegian Government. The process is governed by a coalition of implementing governments, supporting governments, oil, gas and mining companies, investors and NGOs. This coalition sets the rules and oversees the validation process through which all countries which claim to be implementing EITI must go. Although the initial focus was on the oil sector – starting with Azerbaijan and Nigeria – mining countries are

now also making progress with Ghana, Peru, Guinea and Mongolia prominent amongst them. Currently, between 16 and 20 countries have been recognised as 'candidate countries' and will undergo validation as 'compliant' implementers over the next 12 to 18 months.

The EITI is amongst the most successful multi-stakeholder initiatives – alongside, for example, the Kimberley Process and the Voluntary Principles on Security and Human Rights. It is something of a hybrid as between voluntary and mandatory approaches. Participation is voluntary at an international level – and in Anglo American's case involves not only advocacy activities but also publishing annually our tax payments in our ten most important countries of operation. However, once a country decides to implement EITI and supports this with legislation, participation becomes mandatory for all resource companies operating in that territory.

I think that both business and NGOs are too fixated upon voluntary versus mandatory approaches. Companies should certainly not have a reflex reaction of resisting all regulatory solutions. Regulation may, in some circumstances, clamp down on poor performance, provide a more level 'playing field' and be needed to address emerging public policy challenges. Business badly needs, for example, governments to define the post-Kyoto framework for tackling climate change if we are to make the necessary investment in things like clean coal technologies and fuel cells. Equally, voluntary initiatives can bring to bear the combined energies of governments, business and civil society in a much more timely, nimble and innovative way. They can also pilot approaches which may subsequently find their way into law.

EITI, for example, has created a voluntary international coalition with real momentum. It has generated a number of country-owned processes and is delivering results now when mandatory approaches would probably have taken many times longer to deliver.

There is more work to be done too. It would be good, for example, to see developed country governments being more active in tracking down and returning the assets stolen by corrupt groups from some resource rich countries and hidden away in bank accounts in London and Zurich. We have also worked with a number of NGOs to extend EITI-style transparency to sub-national resource revenues flows. For the mining sector this is particularly important since in many countries local legislation

provides for a proportion of resource revenues to be recycled. But, without transparency, it is difficult for local people to know whether we ever paid our taxes, whether they arrived in the capital, how much was sent back and how it was used.

Tackling corruption is also a part in a wider initiative being taken within the mining sector to look at governance issues and how best to prevent the so-called 'resource curse' – a term which describes the phenomenon whereby a proportion of resource rich countries have had worse development outcomes than those without such an endowment. There are complex macro-economic challenges involved in managing the economic impacts of volatile commodity prices and in preventing a dominant commodity from 'crowding-out' other exports through causing an artificially high exchange rate. But, the fundamental reason for poor outcomes relates to poor governance. Thus, through a partnership with the World Bank, UN institutions, governments and NGOs, the International Council on Mining and Metals has been running a project designed to distil the key learnings from those countries which have made a success of developing their resource base. We hope that this 'Resource Endowment' project will lead more countries to follow the path taken by countries like Botswana, Chile and Ghana – rather than that followed by those countries who have wasted their natural resources and impoverished their people in the process. Effective measures against corruption are, of course, a key part of the equation in pursuing better development outcomes.

Conclusion

So, in conclusion, thank you for inviting me to join you this evening. Corruption is a major pull on the ability of multinational companies to contribute to the sustainable development of some of the countries where we work. But sector by sector and country by country, I believe that there is a way ahead which brings key players together – from governments, companies and civil society - in favour of reform. A great deal of progress has been made in creating extra-territorial legal sanctions and in changing the climate of opinion towards corruption. TI deserves a lot of credit for this – but so too do those companies who are clear and consistent in refusing to pay bribes and who support good governance. There is common ground here which initiatives like EITI are building upon.

To this end, I strongly believe in the ability of business to make a difference. We both know the damage which corruption does to the fibre of societies and to basic

considerations of human rights and fairness. I hope that we can work together on this issue to bring about change.

Thank you.