Companies, Development and Accountability

Speech by Cynthia Carroll, Chief Executive, Anglo American plc, Chatham House, 18 June 2008

Ladies and Gentlemen

It is a privilege to speak at Chatham House given the pivotal role that this institution has played for more than 80 years in shaping thinking about trends in international affairs. And to be addressing you this evening on **'*Companies, development and accountability*'**, a subject with particular urgency in the context of the global economic shift from west to east.

Little more than a decade ago, I suspect it would have seemed strange to invite a chief executive from the business world to speak about topics traditionally left to statesmen, diplomats and academics. But in our increasingly globalised world, companies are major economic actors who can play a significant role in areas like poverty alleviation, climate change, trade liberalisation, supporting good governance, technology transfer and capacity-building. Indeed, without the involvement of the private sector it is difficult to see progress on many of these fronts.

As a leading global mining company, and one that seeks to play a leadership role on a number of public-policy issues, Anglo American is well placed to observe and respond to these huge changes in the global economy.

Especially as the shift in economic power has resulted in a sustained boom in demand for mineral resources such as iron ore, copper and coal, as well as oil and primary agricultural commodities.

We find that our business today is being profoundly affected by geo-political factors. Principal among these is increasing resource nationalism – accompanied by the global scramble for control of resources, especially in Africa and South America. In addition, we are having to contend with the social consequences of rising food prices; the imperative of making progress towards the Millennium Development Goals; the issue of energy security and the need to be more energy-efficient; and the impact of shortages of electricity and water in a growing number of countries.

So, tonight, I would like to offer you a particular view, through the prism of a modern global mining company, about the unprecedented shifts occurring in the world economy and how these are manifested in the resource sector, as well as the role of companies in governance and public-policy debates.

I will also say something about how we at Anglo American are seeking to contribute to the sustainable development of the countries and communities where we work; and discuss the importance of accountability for an international mining company.

The shift in the balance of power that has occurred in the global economy over the past 20 years is unprecedented in its scale in peacetime. China is set on a trajectory which is expected to place it as the world's largest economy within the next 30 years.

And if commodity prices, especially oil and minerals, are maintained at anything like levels today, we are likely to see further escalation in the transfer of wealth to emerging-market and commodity-producing economies – as reflected in part in the growth of sovereign wealth funds. Goldman Sachs, for example, referred recently to an amount of 1.8 trillion dollars a year moving from the oil consumers to the oil producers.

And never in such a short period have so many people been lifted out of poverty, or moved from rural to urban environments, or joined the ranks of the middle class.

In 2007, it is estimated that, for the very first time, the world's urban population overtook that of people living outside cities. The prospects are that in the two decades up to 2020, some

600 million people will move to cities in China and India alone – double the current urban populations of the US and Japan combined. That is hard to imagine.

As examples of the profound changes occurring in the global economy, the following facts from the commodity markets are indeed illuminating. China now consumes half the world's cement, a third of its steel and a quarter of its aluminium.

The International Energy Agency thinks that by 2030, China will consume over 16 million barrels of oil every day, of which some 13 million barrels will have to be imported – more than the current output of Saudi Arabia. Down on the streets, Chongqing – a little-known city, but with a population in the league of Shanghai or Beijing – produces about half the world's motor cycles.

The development needs of China, India and the other BRIC countries, Russia and Brazil, are the principal force behind this huge surge in demand for commodities. Goldman Sachs' Jim O'Neill has pointed out that the BRICs collectively look on track to overtake the combined economic power of the G6 countries by the middle of the century.

Relating all this to our own Group, if we take just one of the minerals that Anglo American mines – copper, as an example – 55 per cent of the global increase in consumption in the last ten years has come from China, while demand for the metal, mainly driven by growth in the emerging economies, is set to double over the next 25 years.

People want better IT and telecommunication systems, they want more computers and mobile phones and an ever-wider array of electronic goods, better home-heating systems or air conditioning; more international travel; all these require copper.

The average car, according to the International Copper Association, contains 20 kilograms of copper.

Each day, 1,200 more cars pour on to the streets of Beijing – and, highlighting the fact that another giant is stirring in China's wake – the figure for Delhi is not far behind.

That amounts to a lot of copper and, over the next decade, we estimate that almost 10 million tons of additional production will be needed – which represents about 60 per cent of current annual mined output.

In terms of the mining industry's capacity to deliver, <u>we are going to need around 20 mines as big as our joint venture, Collahuasi in Chile</u> – one of the world's largest, with production of around 450,000 tons of copper a year. And there are only four copper mines of this scale or larger today.

The sheer scale of China's resurgence has perhaps tended to mask a number of other developments that are impacting our industry. The nature of the competition, for instance, is changing rapidly.

The industry's ongoing consolidation is seeing gigantic tussles as Russia's new metal magnates battle for control of the country's key resources and extend their reach beyond the country's borders.

China, of course, is making major offshore investments in resources, particularly in Africa, Australia and South America. Indian companies are also increasingly moving abroad – <u>so our largest markets are also becoming our global competitors</u>.

One symptom of this trend is the growth of sovereign wealth funds. The IMF estimates that these funds represent between two and three trillion dollars, roughly the equivalent of the entire GDP of Germany. On current projections, these funds will reach 13 trillion dollars within a decade.

While this figure is still relatively small compared with the global pool of investment funds, it is the strategic use of these funds that is especially interesting. The sovereign wealth funds of countries like China, India, Russia, the Gulf states, Brazil and Singapore are changing the Rules of the Game.

Today, the traditional players in natural resources not only have to weigh up each other, but have to be constantly looking over their shoulders at these powerful new or potential entrants to the business. These funds, which often complement national champions such as Gazprom or Chinalco, have huge state capital behind them as they strike out from their domestic base. And they are already acquiring significant stakes in the world mining business.

Because for many years it has been the most rapidly developing major economy by some measure, China remains in a league of its own as a market and in its penetration of other markets.

In many developing countries, Chinese enterprises, backed by a 200 billion-dollar sovereign wealth fund that has as much as 90 billion dollars to spend on assets abroad, are seeking to improve the security of supply enjoyed by their domestic industries.

The strategic intent of such investments can be seen through the close supporting role played by the Chinese government in funding vital infrastructure – each year the country installs an additional 80,000 megawatts of electricity-generating capacity, some 10 per cent more than the UK's entire national grid – while China could become a major source of development aid, too.

For a company like Anglo American, the emergence of China as a leading player in global markets means not only greater demand, but also more competition and new opportunities to strike mutually beneficial partnerships.

The Memorandum of Understanding that we reached with the China Development Bank earlier this year, for instance, to establish a strategic relationship to identify and develop a pipeline of mining projects, particularly in Africa as well as in China, can help new Chinese entrants to gain greater experience of operating internationally.

The Memorandum is symptomatic of Anglo American's intentions to forge areas of mutual interest with China, with both sides learning from each other. We feel that, from the Anglo American side, we can bring to the table a reputation for running our operations according to world-class standards – whether in project management, operational practice, safety, health, the environment or people training and development.

From the Chinese side, there is China's universally acknowledged 'fast-track' expertise in the provision of infrastructure, especially in the areas of transportation and energy. In a nutshell, the Memorandum is about the potential for both sides to mutually leverage their positions.

Partnerships such as this one may assist in the process of China's moving away from the kinds of labour and environmental practices that have caused them reputational damage; of depoliticising issues around the control of resources; and of offering Western countries access to markets.

Western criticism of China and its environmental and safety record, however, should be seen in the context of the West's own imperfect history in these areas. What really matters is raising standards as quickly as possible. So I reject the approach of puttting up barriers, and I support engaging with China and major Chinese companies.

I now want to turn to one of the broader challenges we face as a London-based mining company: the emergence of resource nationalism and its impact on our business and on development.

This is changing the Rules of the Game still further – and the business models of multinational natural-resource companies.

Countries as diverse as Venezuela, the Democratic Republic of Congo and Russia are becoming increasingly protectionist towards their natural resources.

When one considers that the world's energy needs are expected to be around 50 per cent higher in 2030 than they are now, it is hardly surprising that the use of mineral resources and energy as tools for securing political outcomes is on the rise in several mineral and energy exporters. In more and more cases, countries are seeking control of mining developments – not just in the sense of having a majority stake, but in the demands they are making of the extractives industry. The days when companies could go into a country and merely extract a raw material and ship it out are long gone.

In the ongoing commodities boom, naturally enough, those countries fortunate to have a rich mineral endowment increasingly appreciate its worth, especially where other resources are absent. They see minerals in the ground as the foundation-stone on which to build their countries' upliftment, and their governments are able to drive hard bargains with those seeking to develop such resources.

Furthermore, as mining companies increasingly are having to seek resources in less-developed areas of the world, there is now a greater need for them to step up to the plate in the development of infrastructure – of roads, railways, housing, electricity, water, sanitation etc.

Indeed, the expectations often go beyond infrastructure and extend to greater expectations concerning the downstream refining of the raw product and job creation – so that the communities surrounding mining operations have a sound and sustainable future long after a mine has closed down.

Turning to Anglo American, we have a long history of involvement in the developing world. Our roots were planted in South Africa more than 90 years ago and <u>we remain the biggest mining company in South Africa, and all of Africa</u>. We have operations in 45 countries, and conduct exploration in 25 countries, most of them emerging nations. And we employ around 150,000 people.

In addition, I think our track record in the developing world demonstrates that <u>Anglo American has been less risk-averse in respect of these regions than many of our peers</u> – evidenced by that, between them, and in roughly similar proportions, Africa and South America, account for around 90 per cent of the Anglo American Group's assets. Moreover, <u>our project pipeline, combining projects that have been approved and those still at various stages of feasibility, now exceeds 40 billion dollars</u> – and is largely based in these two continents.

<u>And I believe that at Anglo American we know a great deal about the rigours of the development agenda</u> and that companies like ourselves should continue to play a positive role in improving the lives of those in whose countries we operate.

This belief, which is core to our values, is an enduring one and, I am proud to say, is widely shared by my colleagues.

Key to all this ‘social’ investment is the need to have an enabling environment in which mining companies can realise an equitable return on investment. This is particularly pertinent, given that there is probably broad agreement in the industry that most of the easily accessible, high-grade surface and near-surface deposits have already been discovered and developed.

Also, as miners, we have a restricted choice about where we operate: geological history determines where in the earth’s surface the minerals lie.

Thus, mining companies are having to look further afield, to outlying regions and new countries, in climatically challenging areas in difficult terrain, in order to meet the demand for the commodities we mine.

Also, when mining majors like ourselves decide to go ahead with a project, it is a commitment for the very, very long term – for generations. A mine can take up to a decade, and billions of up-front dollars, to reach full output – while some mines remain in production for over a century.

At various levels of government, the mining industry also needs the assurance of stability and predictability; along with clear laws, consistently enforced.

We also want communities to feel represented by their governments, with revenue distribution arrangements that enable them to share in the benefits of our activities. After all, we are hugely dependent on sustainable local support – for energy and infrastructure, skills and supplies – all of which continue to be subject to substantial price rises and shortages in the current commodities boom.

Thus, we need to ensure that our local impacts are strongly positive. To achieve this, we are working ever more closely with host governments, aid agencies and NGOs to find local solutions to development challenges.

At this stage, I would just like to refer to a couple of examples from Anglo American's own experience.

Creating sustainable jobs is a core development challenge. Where we are on the ground and active, the mining industry can play a hugely positive role. In South Africa, we have championed an enterprise-development model named Anglo Zimele – a Zulu word meaning 'to be independent'.

This business uses a combination of equity participation, loans, mentoring and opportunities to compete for contracts. Using these tools, it helps entrepreneurs establish viable and sustainable businesses, leveraging the mine-supply chain.

Through this initiative, thousands of jobs and dozens of companies have been created. The large majority of these have stood the test of time and are prospering in a big way. Indeed, the survival rate of these small businesses is exceptionally high. Right now, Anglo Zimele is supporting 46 thriving companies, giving direct employment to more than 4,000 people.

This year we are rolling out 11 new small-business hubs, which we hope will reach down into the communities around our mines and generate many more – perhaps 300 a year – new small businesses.

And this is a model which, adapted to local circumstances, we are already exporting successfully to other countries such as Brazil and Chile. What we are doing is creating real jobs through the creation of real opportunities in the real economy.

Another challenge is managing the impacts of change and development. Anglo American has been a leading innovator through the development of our socio-economic assessment toolbox, SEAT.

This provides user-friendly methodology for managers to identify the social and economic impacts of our business on local communities, and to develop plans to mitigate the negative effects and enhance the positive attributes surrounding mining development.

The sort of initiatives that have flowed from the implementation of SEAT include changes to our purchasing procedures to give greater access to local suppliers; the launch of enterprise-development programmes in Chile; donation of land to a local municipality to aid the expansion of housing; a new wetlands project; and improved training arrangements.

Comprehensive stakeholder consultation is core to the success of SEAT so as to embrace traditionally marginalised groups like women, the youth and indigenous groups.

I believe development is about collaboration: thus we are keen to share what independent commentators have hailed as industry best practice, with SEAT being available on our website and already being used by other institutions and companies around the world.

One of the most critical issues for our industry and the geographies where it operates is about benefit sharing.

It is about ensuring an equitable return for the countries and people whose natural resources we are turning from potential to real wealth. This issue is at the heart of much historical conflict around resources and many development challenges.

There is not time to do it full justice this evening, but I would like to share some brief perspectives on this. Broadly, it is clear that the benefits of economic growth are not being shared across the board. We are not on track to meet the Millennium Development Goals as we should be. Private and public must work together to address this, and I was glad to be one of the initial group of 23 chief executives of multinational firms to sign the MDGs' Call to Action.

In the extractives industry in particular, the question of what constitutes equitable benefit sharing is one of the most crucial questions we face.

Failure to address it satisfactorily results in protectionism; as I have mentioned, we can see today a resurgence of resource nationalism in many countries and in all sorts of guises. Failure can also manifest itself through communities becoming disaffected as a result of instability or violence.

There is no simple answer to this challenge. But it is one that we must face. Indeed, our industry has begun to take a lead.

The International Council on Mining & Metals has, through its Resource Endowment Initiative, been working with governments to identify success factors for transforming natural-resource wealth into sustainable economic growth.

This is about learning from the successes of mineral-rich countries such as Chile and Botswana, and understanding the macro-economic policies and governance frameworks needed.

The real and potential economic benefits for development from the global mining industry are indeed significant. A glance at the distribution of economic benefit from our own Group shows how, through our supply chain and employees as much as through corporate taxes and royalties, we can be an engine for development.

But we need to harness this potential more and go further and go faster, and work collaboratively to help put the right frameworks into practice.

Effective redistribution of revenues to a local level is vital; but so too is the creation of capacity at a local level to manage and administer what can be relatively large capital flows.

Public and private, donor and host countries need to work together to accelerate the development of models of best practice in benefit sharing which can be drawn on by governments and business to deliver the stable, secure growth their people rightly demand.

The third part of my topic this evening is accountability. And the reality is that our industry is more accountable than ever before.

A combination of strong regulatory oversight and ever-increasing scrutiny by civil society – facilitated by instant global communication – means that we need to stand up and be counted.

I welcome this scrutiny. I believe that such transparency is really good for the industry. The emergence of ever-more professional and extensive reporting around sustainability and sustainable development is just one example of how the industry is responding. A company like Anglo American will always have more to learn, and more to do, but I believe we have a good story to tell and – through publications like our highly regarded *Report to Society*, we are glad to share it.

In the name of transparency and ensuring that resource revenues are used for development, we are one of the leading companies in supporting the Extractives Industry Transparency Initiative, in which companies publish the amount they pay to government in royalties and taxes, and host governments publish the revenues they receive. Progress with EITI has been slower than we had hoped, but there are now 23 countries embarked upon implementation – which, given that this coincides with the current surge in revenues in many resource-rich countries, offers some hope that governance is moving in a positive direction, to the benefit of development and poverty alleviation.

At Anglo American, we want to see EITI spread faster and further. Its progress is a tribute to the multi-stakeholder processes which have been able to move the debate and good practice much more quickly than would have been possible through a regulatory approach. The critical point is that private and public interests need to be closely aligned, and trusting each other, in finding collaborative solutions.

In this respect, I would like to note the positive outcome that has been achieved in a contentious area of the diamond business. Anglo American, as a major shareholder in De Beers, is actively involved in the Kimberley Process – a stakeholder diamond-certification regime.

This has played a remarkably positive part in tackling so-called ‘conflict diamonds’. In 2000, six diamond-producing states in Africa were trapped in civil wars; by 2006, none was.

Internally, Anglo American applies the Voluntary Principles on Security and Human Rights – a public/private/NGO collaborative venture which seeks to ensure that the security needs of oil, gas and mining installations do not impact adversely on local people. This is leading to innovative initiatives such as the example of our working in partnership with local NGOs to provide human-rights training to army units, the local police and other stakeholders in places like Colombia.

The Voluntary Principles have been building consensus in an area which had previously been fraught with controversy and legal jeopardy.

Finally, I would just like to comment on two issues critical to development. We depend on reliable energy and water supplies for our business. Mineral deposits are often in arid regions. And the climate-change imperative means we have to seek out cleaner energy solutions.

As an example of the things we are doing to make our operations cleaner, our coal mines in Australia have begun capturing methane from underground seams that would simply have been released to the atmosphere in the past, and are selling it on to the gas and power grids. A project at one of the mines has achieved greenhouse gas savings equivalent to taking 375,000 cars off the road – and we have just launched another project of similar proportions.

The mining industry is investing ever more heavily in energy- and water-efficiency. For our own part, Anglo American has many projects under way in these areas as we seek to realise our goals of improving our energy and water-use efficiency by 15% and 10%, respectively, by 2014, while reducing the intensity of our greenhouse-gas emissions by 10% over the period.

In conclusion, I have touched on a wide range of development challenges. We have, I hope, much to be proud of. We have common challenges to face. We are part of the development community, and it is through transparent collaboration that we will be best placed to tackle them.

Leveraging our strengths, being honest about where and what we can do better, shining a light on the industry so that those who do not match up to the right standards are held accountable – industry leaders like Anglo American are partners for development.

Thank you.