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Mining matters: creating a shared purpose

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Mining Indaba Speech

One of the world's best-kept secrets is that while our sector disturbs less than 1% of the earth's surface, we contribute towards more than 40 per cent of its economic activity. [Pause]

To say this is an impressive or remarkable feat is an understatement, especially when you consider that minerals and metals are key to so many of the services and so much of the infrastructure that is used by contemporary society.

So whether we realise it or not - mining is essential and links to every aspect of our daily lives. But if our industry is so critical to the development of the modern world, why then is mining constantly under siege and seen as a threat? Given our contribution, why is it that so many do not trust our industry; we continually feel under siege because the positive and essential contribution that we bring is not fully recognised.

I want to address this issue - of mining's poor reputation. We have to do better... far better, in eliminating the things we do that damage our reputation. But we also need to do far better at ensuring all our stakeholders – and society as a whole – realise the relevance of what we do and the positive contribution we make.

Mining – for centuries – has been indispensable to our world. And that has never been more so than in the current era, where rapid economic growth in China, India and Africa, which together account for more than half the world's population, is increasing demand for infrastructure, energy, and more and better quality consumer goods, food and housing.

The materials the mining sector produces are essential for the world's on-going development, including the minerals necessary to preserve the world's environment – such as the role of

PGMs in producing auto-catalysts to limit carbon emissions from the growing number of motor vehicles, particularly in the developing world, and in fuel cells.

The work we do is an indispensable part of the world economy from another angle too. It is estimated, mining directly represents around 11 per cent of the world's economic activity. Payments to service and support industries account for another 10.5 per cent. If we then count the contribution our products make to the productive capacity of other industries – including fertilisers for agriculture, fuel for energy and transportation, carbon and iron for steel and manufacturing and other products for construction – we find that mining is at the root of more than 40 per cent of the world economy.

It is wrong, too, to describe our industry as merely an “extractives” industry. Yes, our business is extracting minerals, but it is also about so much more. We provide jobs; we build all manner of physical and social infrastructure - roads, railways, harbours and power; and also health and education. And we, or our partners and customers, where it makes financial sense, add value to the minerals we mine in the countries we mine – beneficiation, as we call it. In some countries our work has kick-started economic development, making a significant – even dominant – contribution to the fiscus and to foreign-exchange earnings.

We operate according to stringent environmental and social laws, supplemented, in the case of most of the larger companies, by our own progressive policies. We know that we have no right to do harm to our stakeholders. And we know that they are entitled to benefit from our success. As we say at Anglo American:

- Shareholders own the business... and are entitled to attractive returns reflecting the risks they take in funding the business;
- Employees are the business... and must be treated with care and respect and compensated fairly for their work; and that goes for contractors, too – who are entitled to the same standards as permanent employees, especially when it comes to safety;
- Our other stakeholders too – communities, governments, suppliers and the like - are partners in the business... they are fundamental to sustainability, and are entitled to fair compensation for their contribution to business success.

And yet mining has a poor reputation. For many people, it means environmental degradation and/or plunderer of the resources of defenceless, poor countries. The industry is often accused of extracting resources, sending the minerals elsewhere for processing - and further profits - and leaving little behind other than polluted water, dust, worn-out infrastructure, a hole in the ground – and an unemployed - and often unemployable - community of former employees.

There are many campaigning NGOs that proudly carry the mantle of “anti-mining”. There are many other civil society groups that monitor and, whenever feasible, “expose” the alleged evil that mining does.

There are various sources of our “reputational degradation”.

In the first place, we need to acknowledge that mining has left many unwelcome environmental and health legacies for many communities and employees – admittedly, in the main, from the years when regulation was less rigorous, and when we all knew far less than we do today. In addition, if we are honest with ourselves, there are mining companies out there that, today, still operate with less care than they should. And we also need to acknowledge that, even for those of us that do operate with the best of intentions, we don’t always get it right.

We may not always feel comfortable acknowledging these things. It is difficult for me to be saying it here today. But we need to engage honestly and openly if we are to be credible in the eyes of our critics and society at large. We need to be seen as being credible if we are to be an effective part of the dialogue that shapes the industry’s reputation.

And we need that credibility if we are to be believed when we tell the other aspects of the story, such as the developmental role of mining. When we talk about the centrality of mining to continued human progress. When we talk about its positive impact on society. And when we try to convince our critics of the seriousness with which most of us take our social and environmental responsibilities, both to do no harm and to contribute to good.

We have a positive story. We need this story to be told. And not only by us. Crucially, we need independent thinkers outside the industry to be telling the story. We also need to work towards a situation where even our adversaries, and those who have set themselves up as watchdogs over our industry, begin to moderate their negative critiques with some balanced acknowledgement of the positives.

If we don’t do our utmost to achieve this, we are failing in our duty to earn the reputation we deserve. A tarnished reputation affects regulatory and tax regimes, our ability to develop new mines, and our ability to attract the very best talent. It also affects, directly and indirectly, the ability of mining companies to attract capital and investment.

And let’s be honest, there is hardly a more critical time than now to be making progress in this work. We are living in an era when so many challenges affecting mining are making success more difficult to achieve.

We are seeing:

- Greater depths and more remote locations
- Declining ore grades and waning ore deposits
- Declining productivity and skills gaps
- Operating models years behind other industries'
- Rapidly rising costs of energy, water, fuel and machinery
- More rigorous permitting/licensing requirements for new projects
- Rising taxes and royalties as governments everywhere seek a bigger share of the mining pie; and
- Our ability to meet long-term demand needing to be rebalanced against returns to shareholders

And our other stakeholders are demanding more from us too – in how we are addressing climate change; in what ways mining should be contributing to countries' economies; and also how we should be interacting with host communities to improve their livelihoods.

We understand the desire of governments, particularly governments of developing countries, to use their natural resource base as a platform for development beyond primary industry. Indeed, we, too, believe mining can and should be a platform for broader national economic development. But building a processing plant, or smelter or factory is no simple matter.

When we are forced to do so, our investors feel they are being punished. It increases uncertainty. This can damage mining investment. And it offers no guarantees that it would lead to development of secondary industry.

However, how can we sit back and watch all of us fail? We do need to offer positive ideas, and perhaps most importantly, a partnership, about alternative ways of achieving these goals that we all desire.

In South Africa, we already have the right starting point for that partnership – the National Development Plan. Be assured, the mining industry will play its part in implementing the NDP.

But it is not only external factors that stand in our way of our industry's progress. It may be that we get our relationships with government, host communities and other stakeholders right. But we also need to look at ourselves. Even under optimal external conditions, we won't be able to meet the commodity-demand challenge of the future if we try to carry on doing business as usual, with old-fashioned ideas, processes, equipment and business models.

It is a telling statistic – perhaps a damning one – that only 0.3% of mining revenues are spent on Research and Development. Compare that with the petroleum sector which spends five

times more. There are many areas of mining operations that have not changed significantly in decades. Here, in South Africa, for instance, thousands of miners still work underground equipped with only hand-held drills to do battle with some of the hardest rock in the world.

Furthermore, within the industry, we haven't shared knowledge and collaborated as we should have done. The more each of us works within our own R&D silo, the less technological progress we will make as an industry.

At Anglo American, in three important areas – collision avoidance, automation and underground cutting – we are working in an open and collaborative way by connecting with our peers in order to help each other in safety and productivity.

Although there are many areas of excellence in our individual companies, we could all do so much more if we were able to make a step-change by co-operating in mining technology.

Turning to South Africa, where Anglo American put its roots down almost a century ago, and which is still the country where we have more than a third of our asset base, and where mining remains the backbone of the economy.

Anglo American is the largest mining company in southern Africa, with over 95,000 employees and contractors. We generated export revenues of 103 billion Rand in 2012. We are one of the largest contributors to the South African fiscus – in 2012, our South African companies generated direct and indirect taxes of over 14 billion Rand to help address the evil triplets of poverty, inequality and unemployment.

In addition, in 2012 alone, Anglo American's South African business units spent 777 million Rand directly on mine community initiatives, covering healthcare, education and infrastructure development. Between 2008 and 2012 the total was 2.6 billion Rand.

It is a matter of pride that we are now less than three months away from the 20th anniversary of the advent of our democracy, two decades which have seen the country's mining industry able to grow from an isolated, inward-looking sector to a truly globalised one, And in this context, we have seen the benefits of mining being spread far more widely, if not always more equitably, to the entire South African population.

Yet we know that, 10 years after the implementation of the mining charter that was devised in consultation between government, business and organised labour, we still have some way to go before we can say that we have dealt adequately with our country's tragic legacy.

And South African mining is not immune to the challenges and trends already discussed. They are all at play here. And we have a range of other challenges besides.

These include:

- complex developments in the labour relations sphere including inter-union competition and conflict;
- a judicial inquiry into the tax system that must inevitably look at mining taxation specifically in its work;
- And poor productivity, which we know is the responsibility of management to address.

One positive feature of mining in South Africa is the quality of engagement between the industry and government. Invariably we find mutually satisfactory solutions to seemingly intractable problems.

Throughout the world, we at Anglo American are determined to play our role by demonstrating to our host governments and communities that we are a worthy partner. We know that our success as a company requires better relationships with communities; changing long- and widely-held perceptions that mines over-promise and under-deliver.

The partnership starts with the benefits we bring to society through providing jobs and paying taxes. In addition, we contribute through local procurement and enterprise development to broader economic development. We mine responsibly and aspire to zero harm to our employees, communities and to the physical environment. And we seek to stand out in the corporate social investment sphere.

Today, all of us are only too keenly aware of the pressures that concerned communities and labour unrest can exert on the mining sector – and what that means for our social licence to operate. I have no doubt that, increasingly, it will be the companies that get things right in terms of their approach to sustainability that will create the most value, and be the most successful.

In conclusion, we need to come to terms with the fact that our external environment has taken charge. If we want to survive and be a profitable, meaningful industry in the long term, 'business as usual' is not an option. Wholesale change is essential: in how we operate our mines day to day; how we think about ourselves and our role in society; in how we manage our reputation in the battle for 'hearts and minds'; and how we build shared growth with and for our myriad of stakeholders – how we go about delivering value for all.

Convincing the world of the necessity of mining in creating a sustainable future is probably a far greater challenge than any mining project. So let's get out there and earn the reputation that we deserve!