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The Joburg Indaba

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Keynote address: Rebuilding Trust: Evaluating a new and sustainable approach for producers, providers of capital and all stakeholders with Mark Cutifani, Chief Executive, Anglo American

Bernard, thanks very much for the introduction, and certainly ladies and gentlemen, it is a great pleasure and a privilege to be here with you today. It's always good to be here because the one great thing about South Africa is that the country has learned to debate the big issues with great passion.

Today we're talking about issues that are critical, obviously for our industry, but probably even more critical for the country. And so for me, very important to be here, very important to be part of the debate. I must congratulate Bernard and the organisers for doing a wonderful job with this event. As Anglo American, we're proud to be here and I know Chris Griffith would love to be here as well. He sends his apologies. He's at the South Africa Tomorrow Conference, in New York, making sure that we continue to promote the country as an investment destination.

Now given the great passion in debate that I've experienced in my time here, I will try and speak constructively, but more importantly directly about our industry and where we see the issues, and what we would like to see on a go-forward basis. It's great to see representation from the ANC, from the government and I felt the Minister spoke well and constructively this morning. We need everybody involved in creating and plotting a path for the future.

So firstly, let me make three observations that I would call tough truths that I think most people know, but they do need to be said and I think they need to be touch points for us as an industry and as a country. Firstly, the reality is that the world bought into the Rainbow Nation and most countries, most thinking countries, most feeling countries, supported the change that we saw some 20 years ago. The tough message today is that most parties outside of South Africa are not vested in our forward-looking success...or certainly they're not vested above their own interests in terms of our success.

They're not vested in our success above and beyond the success of their own countries. So in reality, we have to make our own future, because we can't rely on anyone else. That's not to say we can't collaborate or we can't work with others but at the end of the day, it's up to us.

Today, the unfortunate truth, and it's a hard truth, is we're ranked outside the top 50 mining jurisdictions in the world. In spite of having, by Citibank estimates, the largest minerals inventory in the world. Now the difference between the resources and the reserves are a very important point to make, and that speaks for our competitive position. But there's something wrong, and it's something that we have to look inside ourselves to understand why that ranking still prevails on the Fraser Index, or in other indices, we're not doing anywhere near as well as we should do.

And the third point, and I think this is a point that is emerging and could ultimately be a positive, and certainly the thing I was very encouraged to hear this morning in terms of the practical application and the pragmatism of the Minister, is that uncertainties around our current policy conversations will continue to stifle investment growth. I think we've come a long way in the last two years on the policy debates. I think many tough issues have been resolved, but there are still three or four that we have to get through, and I would hope that if

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we can get through those during the balance of this year, the world will look very differently at South Africa, particularly in the context of the mining industry. So, there are still things that we have to cover. We have to talk honestly, directly, but constructively at this stage. And we have to have those debates now because we have to make sure that we get beyond those debates as quickly as we can.

I would also like to acknowledge the Minister from what I heard this morning...he is trying to be as constructive as possible; he sent a very clear message to all of us that we should consult with him as early and as practically as we can...so that he can support us. In the half a dozen conversations I've had with the Minister since he took the chair, what I've seen so far, is a very committed, practical, looking for solutions type of guy that wants us to engage so he can understand how to best support us. He's also one that is very open to direct and tough feedback and, for me, that was certainly a very encouraging sign. He is also prepared to give me and others some hard words and, quite frankly, that doesn't hurt any of us during the course of the work we do.

In setting context, again I want to make probably an unfair observation but I think I have to make it a little unfair, to make the point as strongly as I can. The period 2004 to 2014 in our industry, should be regarded as a lost decade. We have the single largest measured minerals inventory in the world, yet in the course of the years 2007 to 2012 alone, real values in terms of the prices for our companies listed on the JSE, have declined 30%...and I'm talking about real terms.

At the same time, the rest of the JSE has performed exceptionally well...and I have to say that's a great credit to South Africa, the frameworks, its positioning in Africa, but for some reason, in the mining industry, we're not in that conversation. And we've been saying it for some time...we have to do something about it. We have to do that together. We have the country's most important industry. You know the numbers, 18% impact on GDP (direct and indirect) ...1.3 million direct and indirect employees associated with our industry. Thirteen million people relying on the value we create as an industry in terms of their own lives.

We facilitate and build infrastructure that supports other industry opportunities. We don't do enough in terms of collaboration, but that's something that we've got to work with the government on, and I think the NDP is a good place for those conversations, and certainly it puts the right context around those conversations.

So what happened in those years? Destroying more than 30% of value in terms of the stocks listed. Yes, in recent times commodity prices have been tough. But other industries have suffered slowdowns and all sorts of other problems.

In our case, I think we have three critical issues to resolve once and for all, so we can move forward. Firstly, let's make sure we deal with the development pricing conversation constructively and resign it to where it belongs. If we talk about supporting South Africa to be successful, there's always a conversation around commodities in terms of negotiated pricing. But in terms of expecting the industry to take an additional risk, above and beyond the global market prices of commodities, is a risk that most global investors will not take. In our case in South Africa, for example, we have contracts in thermal coal that we've entered into on a negotiated basis and we're fully committed to those.

But to talk about the principle of development pricing scares the world, it scares the rating agencies because you're adding another layer of risk that we, as people in this industry, are not comfortable with. The problem is none of us knows what comes in the future and that's why it's such a big issue for free market industry participants. It is such a frightening concept. We just have to make sure that it is put where it should belong, and that the people

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in the industry do not feel threatened and the markets understand we're not talking about that type of mechanism that will impact our ability to compete.

Secondly, changing to the Mining Charter targets...there is absolutely no doubt that transformation is required and we as an industry have to continue and do much better than we've done. But having said that, we've made a lot of progress, we continue to make progress and certainly the people...90% of the people in this industry that I meet, want to do the right thing. So let's keep going together. Where we see gaps that will come out of the processes that will be publicised in the next 12 months, we have to keep working and make sure we close those gaps. But again, the uncertainty is what isn't said about what may occur, in terms of ownership targets in the future. Anything above and beyond where we are today is considered by the international markets as creeping expropriation.

Now the good news is, people understand the issue of transformation generally, and are very supportive, and shareholders are very supportive. But let's make sure people understand where it fits and where it fits in the future, and that's an ongoing piece of work...and a very important piece of work.

Finally increasing cost pressures. We're in a competitive industry...the cost of labour, the cost of energy, cost of transport...and there are two different conversations. First thing is how do we improve the efficiency of every one of those structures, whether it be labour structures, whether it be energy and improving the costs of providing power to all of our industries, and third, transport. How do we make sure that those institutions, whether they are public or privately owned...how do we make sure that they're competitive and not operating as a monopoly and not being cognisant of competitive forces that we all deal with out there in the market. That's the important piece, and that for me, is the important part of the conversation around the NDP.

No one in this room can afford to stand by and let the next 10 years be a lost generation for the mining industry. We can't let that occur, and at the end of the day if we continue where we are, then every one of us has to stand up and look in the mirror and ask ourselves, what have we done to make a difference?

They are tough conversations, they're honest conversations and have got to be constructive conversations. That's where we have to go.

So I'm quite often asked, why does the world matter in relation to South Africa, and in particular our mining industry? Why don't we just hunker down and just worry about what we have to deal with and not worry about the world. Well...the world determines ultimately whether we get money to invest in the future of the country. Because unfortunately, we're not generating enough revenue internally to grow the country. We're not generating enough revenue to create jobs. We need support...we don't need charity. And by that, if someone invests, they need to see a return and again, I know I'm speaking to most people who understand that story. What we haven't done well is explain that to the population in a way that's meaningful and at the same time, talk about how we can help improve their lives as well. And we have to be in both conversations.

We see three core constituencies in our industry. Firstly, shareholders...shareholders are becoming more demanding, as they should. The industry in the last 10 years...a \$600 billion capital spending image, negative returns, value destruction. We need to create policy certainty to compete with other jurisdictions to deliver reasonable returns to our shareholders.

Every shareholder I've spoken to has told me they deserve exceptional returns because they are risking every dollar that's in their fund, on our company. In many cases they're investing

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on your behalf, you are the owners of the South African mining industry. They are protecting your dollars. That's something that we don't confront as clearly and openly as we should. Anybody that talks about industry returns and where we should be as a country must understand that most peoples' pensions are in those industries. So our shareholders deserve to be listened to, and our job is to deliver those returns.

Employees...employees want more. I know that's not unreasonable in today's world particularly if we and they, together, talk about new ways of operating. We have to restructure and modernise this industry. There is no future, there will be no jobs if we continue the older, labour intensive operations that still dominate our landscape. There are no stronger, more noble individuals in this industry than the workers that go down underground in the deep mines in gold, platinum and other parts of the industry. But that can't be our future. We have to come together and work out how to navigate, over the next 10 years, the establishment of a modern South African industry.

In terms of technology, we have some of the best technologists and best technologies in the world, yet we're still 20 to 30 years behind in terms of our operating structures, our labour relations structures, and other facets that we have to take responsibility for in terms of innovation. Having said that, up until the last couple of years, I've always seen South Africa's industrial relations as being pretty constructive. But somewhere, we lost it. I think we have to take accountability for losing the trust of our employees. At the end of the day a five month strike, you've got to stand up to the mirror and say what did I do wrong, what did I miss, how did we end up in a five month strike. We all have to take accountability and understand what we need to do better. But at the same time, change has to occur and our union representatives, our employees are to understand what needs to be done. The question is how do we navigate that future together.

Third, stakeholders. Stakeholders also want a bigger slice of the pie and quite frankly, if you're a local community and you think about the world of mining...we disturb less than 1% of the earth's surface in doing what we do. Now there are certain groups in the world that make it sound like we're disturbing 99% of the earth's surface. But it's actually less than 1%. And we actually touch, in terms of our local communities, something less than 2% of the global community. But to be frank, are we being fair, as society, in what we do with those local communities in terms of their share of the pie.

I think it's reasonable...to rethink how we share that pie with our local communities. And I think that's a very important issue that we have to address together...as an industry, as government and as society in general. And I think it's a very important issue for us, if we are going to deliver what we can in future.

Today, I would say that I'm aligned with the Minister in what he said today. We have to improve production and growth, we have to improve our relationships, we have to improve our relationship with the government. We have to do all of these things and deliver on expectations up to a point, where we can. But we have to make sure that we keep those relationships in balance.

I want to say that we are committed to South Africa in terms of investment and developing and improving our operations. We see South Africa as critical to our future...it represents more than 30% of our investments across the globe. And in terms of earnings, more than 50%...you're punching above your weight in terms of our portfolio. Now that will balance off a bit as other investments start to take hold and deliver, but South Africa remains core, it remains part of our DNA.

We have to build mutual trust, and we have to start with our employees. A five month strike is a reflection of our relationship with our employees; we have to start again and try and

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engage again in a new conversation. That's where we have to start as a company and I think as an industry; that's critical in terms of us building a future. We have to be clear about where we are. We have to be clear about what we see over the next 10 years in terms of change and modernisation and we have to bring everyone with us. And I think that's a key opportunity for us as a company over the next 12 months, and certainly if you look at the way Chris and the team engaged with the workforce in coming back to work after the platinum strike, that's actually a good model as a starting point...we've got a long way to go. And, from our point of view, we believe we have to take accountability for that new start.

Local communities...if I go to employees, and if you think about employees in our case, 100,000 people work for Anglo American either in a direct relationship or through with contractors. What do you think our relationship and our reputation in the country would be like if every employee went home and said, what a wonderful company to work for...100,000 employees, 10 dependants each, that's one million people speaking well of the things we do with employees, the things we do in our local communities. That's a great place to start in building a relationship, particularly in local communities...but I don't think we've got the starting point right, and that's where we're focusing. With that, we want to support employees, help educate our communities in what we're doing, but even more important than that, help us understand what we're missing in our local communities. For us, if we can get that starting point right with our employees, connect with our local communities, then we think we can change the dialogue across the country, and ultimately, in sitting with government we create a much lower stressed environment for us to have a very constructive conversation about the future. Because if the local communities are on board, then in many cases the biggest stress points that we've all experienced are being dealt with. It's the only way we will turn this around.

I've got to say, there have been some great examples of guys changing the game, changing the nature of the relationship, changing the conversations...we think that's a big part of what we've got to do to go forward.

NGOs making sure that they understand why, when we look at our industry, we drive 45% of the world's economies, take up less than 1% of the world's surface, we are absolutely critical to everyone's way of life and the future. How do we make sure we engage in a constructive way and take into account their thoughts on what they believe we can do better. Because in society there's always got to be balances. So we do not question the legitimacy of any work. What we try and understand is how we can work together and chart a path for the future.

We are engaging and recognise that we've got a long way to go. In terms of the path forward, in a world of policy certainty, we will invest. And we are investing. Incremental expansions...at Kumba (Kolomela and Sishen), at De Beers (Venetia)...we're modernising our platinum business. We're thinking through the process of rebuilding our thermal coal business. We're here for the long term, we believe in the future, we're in one of the great mineral endowments of the world with one of the great populations of the world...we want to be in South Africa.

Disposals of assets, I've been asked...what does that mean? What we said is that there are assets that we have struggled to deliver the margins that we see possible. We have other opportunities in our portfolio that align better with the skillsets we have so you're faced with a decision. Do you move towards closure, or creeping closure over time, or do you offer those assets for someone else to take them forward...as has been done in the past quite successfully. If you wait too long, you don't give the next owner the opportunity to create value, to create a future. That's why we've made the decision now, to work through the process of disposal of our platinum assets. It's not because we don't believe in the future of the platinum. We do but we think we've got assets that we think we can apply our skills to and do extremely well for our shareholders and we think there are other assets that others

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could probably do better than we can in the next 10 years. And there are many good examples. What we have to do is make sure that those assets are delivered in the right type of hands that will firstly obviously...there is always commercial compensation, but social commitments, making sure employees have the best opportunities in terms of the future and that all the other commitments that come with that transformation are properly catered for.

We see as an organisation our Zimele programme, where we have actually helped incubate 1,500 businesses which have created ultimately, 30,000 jobs. That's the sort of thing that we think we do well. There's more we can do and we're trying to understand how we might look at new models to continue that growth and to work with the government in terms of that model. The Enterprise Development Programme is, I think, is a banner example of what can be done, and many people all over the world are coming to look at what we've done in that programme to see how they can apply something similar in their businesses. We must continue to support transformation objectives, both in terms of Zimele but on a broader basis within the business. And again, I reinforce our commitment to transformation in all its facets and all its manifestations.

As a major business, I think there's something we can bring to the table that will support the country achieve its objectives. And if I can quote Sir Paul Collier, he is the director for the Centre of the Study of African Economics from Oxford University and the book I think has been widely read...I've been asked by a few people in South Africa about the concepts, but I think he's given us a great quote: *"Business' biggest asset is that they are effective organisations – some more effective than others. Corporates have generally cracked the big challenges of management. If those capabilities were to spread to the delivery of public services, Africa would become a much better place to live."*

In the end, business is caught; if we offer, we're lecturing; if we don't, we don't care. All we can say is whatever we can do to support the country achieve its objectives, we'll be there. Whether it's through the Chamber, Mike Teke and the team, whether its individual corporations, or whether it's through the contacts of the experiences or the skills we can access, we'll be there, because at the end of the day if South Africa is able to chart that successful course in terms of the country, the mining industry must have been successful because we won't get there if we're not. We will be there in whatever form it takes to help the country go forward.

Today we'd like to propose a pathway that we see as something that could be considered; not that it's absolutely the right template, but it's a series of thoughts that we believe should be considered.

Firstly, land and minerals tenure must be stable, with government providing clear policy direction to support certainty. Our conversation in this area must become one of partnership and facilitation. I think that the conversation that we're talking about around the MPRDA...that will go a long way. Those areas that still remain contentious are probably then going to be second order issues. There's an ongoing dialogue, but I think getting that resolved quickly is an imperative. And I was very pleased to hear the Minister committed to that focus.

Productivity must change from a conversation about shedding jobs to one of effectiveness to one of efficiency. In the end, when people talk about productivity, I've always been told, be very careful...don't say the 'P' word. If you said to me, what's your most important issue...safety will always be first. And you can't have productivity without safety. But when I think about the future of the country, the 'P' word is not important. It's actually the most and in fact the only conversation. We will not, any of us, be able to pay better wages if we're not able to produce more products with what we have. That doesn't always mean less people. But unfortunately it's usually a balance.

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How do we modernise, how do we transition from a relatively low productivity country to Africa's finest productivity destination, and in fact competitive with anyone in the world? If we don't achieve that objective in the next 10 years, we will not be successful, we will not grow the country, there will be no future. We have to address this in a constructive way. So if we don't like the word, let's change the word, but let's deal with the issue. Absolutely critical.

We must work to create opportunities through investments in infrastructure. I hear about beneficiation, but I also understand that in our industry, certainly with agriculture, mining and other primary industries, having the right infrastructure is actually far more critical than beneficiation. Now beneficiation is important...absolutely. But if we don't get our infrastructure right, we won't have the power to actually build beneficiation jobs. Our infrastructure has got to be the first priority and beneficiation remains important in the conversation. I'm not downgrading it. What I'm saying is infrastructure has to be the first conversation, the second conversation and the third conversation. Then we can talk about beneficiation.

If we can get those individuals who are preaching beneficiation, to preach infrastructure and beneficiation, I think we'll change the dialogue and will certainly help us through the pathway for the next five years in particular.

We must work with government to find an equitable fiscal redistribution and socio-economic empowerment approach. We have to find the right balance. But we have to lift people out of poverty and into jobs that are meaningful. It always worries me when there's this debate about salaries because you can never win a debate about salaries. But the answer is to lift people up. That's what Nelson Mandela said and I recall that speech about lifting the whole country to a brighter future. Let's stay true to that principle and at the same time encourage all people to be part of the mix and again, I think that conversation is important.

When I talk about the union movement, it's always a little unfair and a little bit difficult because it's too broad. If the representatives of organised labour and industry leadership come together in a true dialogue to address the issues of our industry, together – I think the former Deputy President, the Mines Minister and others, have tried to take that pathway forward – can we keep pushing down that road that bring us together in a collaborative conversation and see how we can come together to support the NDP.

If we are to create a real gateway to investment in South Africa we have to behave as a true investment gateway. We must deregulate and open up our economy to the world...and we have come a long way. But let's not be timid, let's be brave. South Africa is at a crossroads. We can continue to change incrementally ...but for me, that road is treacherous and risks incremental failure. We have to be bold and step out. The world will not support us...we have to give them the reasons to support us.

Finally, the mining industry has to stand up and be accountable and argue the points in an honest, open and constructive way. There are a number of challenges; if we don't step up now, we will be swamped by our friends and competitors.

If we don't stand up and demonstrate to the world that we are the gateway to Africa and we are supporting our colleagues on the continent in creating their future, then we won't deserve the title of leaders.

South Africa has the opportunity to demonstrate its leadership, both in terms of the way it structures the country for business, but more importantly, the way it structures the country for growth and to look after every citizen. In my view, the industry...the mining industry... has an opportunity to be the leader in that debate. In fact, given what we represent to the country, we must stand up and argue and debate and collaborate.

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The future is ours to create...no one else will do it for us. Now is the moment we all have to take that opportunity, seize the day and make this the South Africa that everybody dreams it can be.

Thank you.