AFRICA – A CONTINENT OF OPPORTUNITY

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I am pleased to be able to speak at this conference coming as it does shortly before the World Economic Forum in New York and at a time when the political situation in some Southern African countries is under international scrutiny. I hope this conference will identify with the many opportunities and challenges we at Anglo American see in an emerging African continent.

Much has changed in the last decade for large South African corporations and I thought it would be worth reminding you of the major changes Anglo American has experienced. Whilst there are still challenges, we need to publicise our success stories more actively. This will have the important benefit of strengthening our will and confidence to keep tackling ongoing problems and challenges.

Prior to the watershed events in South Africa in 1990 (the unbanning of the ANC and PAC and the release of Nelson Mandela), Anglo American was a company fashioned by the history of the Southern African region and especially that of South Africa. Founded as the first South African based mining company in 1917, it expanded not just geographically throughout Southern Africa, but also across a range of metals and minerals and its diversity within South Africa was given an artificial boost by apartheid and the isolation it brought as well as tough domestic exchange controls. Though Anglo had long standing international interests via De Beers and Minorco these were considerably constrained by South Africa's growing political and economic isolation. Many parts of Africa were off limits to Anglo and other South African companies for political reasons, as were other significant regions of the world. Anglo American also suffered under domestic constraints: because of the group's opposition to apartheid under Harry Oppenheimer and Gavin Relly, the National Party Government ensured that Anglo failed to secure some large and attractive mineral projects.

As a consequence, Anglo was at an increasing competitive disadvantage to its global peers who had taken advantage of the forces of globalisation to restructure their operations and hone their strategy in the direction of becoming focussed global mining groups. It was also unable to participate freely in the international process of industry consolidation that began to become evident as the decade moved on. As a result its share price languished, casting a pall on its future prospects. Unable to deploy its capital efficiently on a globally competitive basis, the group did not perform competitively in terms of wealth creation for its shareholders, a large number of whom were South African institutions who were forced to be overweight holders of Anglo and other large SA companies because they too were bottled up in an isolated economy.

Having played a full role in helping steer South Africa towards a successful first democratic election in 1994, Anglo began to review its structure and strategy in earnest and in 1998, having taken some important preliminary steps, embarked on a complex series of transactions that culminated in its listing on the London Stock Exchange in May 1999 as Anglo American plc with a market capitalisation of some £13 billion. Further significant change has taken place since the listing**,** including the elimination of the crossholding between Anglo and De Beers in 2001**;** this crossholding had been a 'sacred cow' in the control structure since the 1930's and its elimination has resulted in Anglo American having a broad range of institutional and public shareholders.

From an Anglo perspective the goals of its restructuring process have been attained in large part. Anglo has focussed its businesses on mining and natural resources and sold virtually all its non core operations. It is now playing a part in the global consolidation process and in a sign of approval of the restructuring and its strategy, the share has significantly re-rated and today the group has a market capitalisation of £17 billion.

There has been concern, however, in some quarters that all of this has been achieved at the expense of South Africa as well as the African Continent, that there has been a withdrawal from or at least a diminution of our commitment to the region. I do not believe that is the case. I believe rather that**,** by positioning itself as a global company, listed in London and Johannesburg, but with a strong African heritage and very significant set of investments in the Continent from which it still derives the majority of its earnings, it continues to play an important role on the African Continent.

Firstly, the sale of its non core assets has settled the long held perception that one company was excessively dominant across too many fields in the South African economy, and it has done so in a way that has attracted foreign investments from leading global players in their fields (two examples being Ford and the Spanish steel group Acerinox) as well as promoting black economic empowerment in a number of multi-billion rand transactions.

Secondly, Anglo's restructuring process and particularly the De Beers deal have drawn large capital flows into South Africa: initially some $7,5 billion came into South Africa after the London listing as international shareholders replaced South African institutional shareholders who were re-balancing their portfolios and increasing their international investment exposures and last year a further $3 billion entered South Africa on the completion of the De Beers transaction with another $700 million to follow. All-in-all, the London listing process and the subsequent restructuring have brought a capital inflow totalling around $11,5 billion.

In South Africa recently there has been a measure of controversy relating to dividend flows resulting from the London listings of several South African companies and this has been exacerbated by misleading and inaccurate reporting. It is worth stating the fundamental point that trade and capital investment are necessarily two way flows, with investors seeking dividend returns from their initial investment as well as capital appreciation.

Speaking for Anglo, when we motivated the London listing to President Mbeki we made it clear that we were committed to expanding our interests, both in our traditional south and Southern African markets as well as internationally. We are still bound by exchange controls and are required to seek the usual approvals from the Reserve Bank for capital movements. We have certainly followed this agreement fully. Anglo's dividend payments from South Africa to London since our London listing have averaged about R2,1 billion per annum on a consolidated turnover, (mainly from exports), of R95 billion and on a capital investment in South Africa worth about R100 billion, a return of about 2%. These figures clearly put the debate into proper perspective.

The third benefit of the corporate and country moves to rejoin the world economy has been to open up other areas hitherto off limits to South African companies for trade and investment. Some African countries have been major beneficiaries with South African companies fanning out vigorously over the continent since 1994.

The Anglo group has played its part, finding and developing mines in a number of African countries like Mali and Tanzania where it had not been able to operate previously, as well as countries such as Namibia, Botswana, Zambia and Zimbabwe where it was already present and where new investments and commitments totalling $1,1 billion have been made. These investments have resulted in important infrastructural development, benefiting not only the local communities involved in mining, but also the host countries as a whole and have been accompanied by equally important contributions to social and health development. However, these investments, as elsewhere in the world, are not without commercial risk and not all of them will succeed. It is sad that our group's re-entry into the Zambian copper mines has been unsuccessful and the very weak copper price and declining world economic growth have rendered the Konkola Copper Mines uneconomic.

It is the nature of a market economy that for success to be possible, so too must failure. Africa will be no more exempt from the vagaries of commodity and economic cycles than any other part of the world. Just as the failure of one company in an individual sector in the US, is not seen as the failure of the sector itself, so too failed investments in Africa must not be seen as a failure of African investment, as a whole.

In South Africa, too, we have embarked on a number of important new natural resource projects with a value exceeding $3,2 billion. In total the Anglo group and its associates have spent or committed some $4,5 billion to new investment in the African Continent over a seven year period.

If the policy environment is conducive and successful liberalisation combines with a competitive currency as it has in South Africa, then traditional primary investments such as those in the platinum sector can be linked to important down-stream developments such as that provided by the development of a large catalytic converter industry in South Africa which uses the competitive advantage**s** of the availability of raw materials**,** low cost power, good infrastructure and other attractive cost factors of production.

This virtuous circle is exemplified by the dramatic development of the South African motor industry in recent years, where the seven major car manufacturers who in the early 1990's had either disinvested from the small South African domestic market or were reviewing its relevance and attractions now have seen the opportunities provided by South Africa as a competitive platform to be integrated into global manufacturing strategies. Since the new government was elected in 1994 motor companies have invested R10 billion directly into manufacturing while further important expansions have been announced.

This survey of company investment into Africa really has drawn us into the principles that underpin the New Partnership for African Development **(Nepad)**. Those companies already active in Africa strongly support the well-articulated vision of **Nepad**, which is to promote peace, security, democracy, good governance and regional co-operation on a continental basis in the interests of development and poverty alleviation. In essence, the initiative offers a pact between Africa**,** which undertakes to promote peace, security, democracy, good governance and regional co-operation, and the developed world which will undertake to respond by opening their own economies to African exports and to significantly increased investment and aid flows.

Nepad and its proponents are the core of Africa's reformist camp responsible for most of the modest progress registered by the continent in the goals articulated in the **Nepad** vision. They deserve to and must be supported because economic growth, development and poverty alleviation on a continent wide basis are key to the ability of African businesses to expand and grow throughout the continent. This New Partnership therefore represents an opportunity for business for the pursuit of enlightened self interest **-** the best form of interest since business in unlikely ever to be purely altruistic. But from a business perspective there is an urgent need to put flesh on the bones and to develop a real partnership.

Business does not expect or require perfection in terms of progress towards sound economic and political governance and is prepared to accommodate greater risk in proportion to the returns promised by any particular investment or set of investments. New or existing attractive mining codes which promise an acceptable level of confidence required by business in countries such as Mali, Tanzania, Botswana and Namibia have certainly played a considerable role in facilitating investment decisions by our group.

Although all of these countries have made important progress, Botswana remains the shining example of sound political and economic governance and large mining investment producing a virtuous circle which delivers considerable development gains for the country and its people. Zimbabwe, where governance**,** both political and economic**,** is such that Anglo American must direct all of its energies to trying to keep existing businesses running and protecting existing employees under near impossible conditions rather than investigating new investment. Intimidation of our employees, intervention in management and expropriation of assets are all symptomatic of a government unwilling and incapable of practising even the minimum acceptable levels of democratic political and economic governance.

Let me return to the issue of partnership in Africa. More needs to be done to deepen the level of engagement and make partnership real. In South Africa, for example it is clear that there is still a residual lack of trust between business and government and that both sides perceive the other as performing or contributing sub optimally. So, for example, business leaders often perceive government's definition of a partnership as one where government proposes and disposes on an issue and pauses merely to solicit funds from the private sector when it has concluded its preparations.

On the other side of the fence some sectors of government perceive business to be somewhat fragmented and distracted by global priorities, if not sometimes pessimistic and disinterested in the future of the country, the region and the continent. Nevertheless real progress has been made through business/government co-operation in regard to tourism promotion, combating malaria, literacy promotion and combating crime. In this last area, the introduction of state-of-the-art camera based public surveillance monitoring in the central business districts of both Cape Town and Johannesburg, has brought dramatic reductions in crime, of the order of 70% in these areas.

How does this relate to **Nepad**? Business would like to move quite rapidly to a few areas of focus and priority where there is already broad agreement between the public and private sectors. So, for example, one could start with the issues of market access in the developed world and improving investment flows through consolidating and deepening the improvement in the investment environment. To take the issue of market access first, Africa's experience with African Growth & Opportunity Act amply illustrates the very important point that improved access to the major developed country markets of North America and the EU has the capacity to yield benefits that are at least as large as those from improved investment and aid flows, and probably more quickly than the latter.

Much has already been done with strong South African government leadership to pursue the market access agenda and considerable success was consequently achieve at the WTO Qatar conference. However, business is tired of the protectionist barriers raised by developed market economies in precisely those areas where African countries are competitive, such as steel and agricultural goods of all kinds, is strongly supportive of the market access agenda and is willing to lend its weight to an even broader campaign to advance the interests of developing countries and, in the context of **Nepad**, specifically African ones. The statistic that subsidies for farming in developed countries at some $360 billion exceed the total GDP of Africa and total aid to developing nations by a factor of six, is widely cited but is worth repeating.

While market access is critical, Africa should avoid a "cargo cult" mentality where salvation is seen to come solely from without. Much can be achieved from expanding intra-continental trade and investment flows. Already trade and investment between South Africa and the rest of the continent has expanded rapidly in the period post 1994. More can be achieved. South Africa should move rapidly in reducing its trade barriers with the rest of the continent. If necessary this can be an asymmetrical process with South Africa reducing its tariffs more rapidly.

Secondly, turning to improving the investment environment, some progress has been made in a number of African countries but, as remarked earlier, there has equally been slippage in some other areas of political and economic governance not least parts of Southern Africa. As a fundamental point, it is important to remember that private investors are driven by return and confidence for which a broad vision, however acceptable in principle, can be no substitute.

Let me give you a salient example. In South Africa intense discussions have been held between the mining industry and the Department of Mineral and Energy Affairs on the serious concerns that the industry had with the early drafts of the proposed new Minerals Bill. Agreement has been reached on a number of key issues including security of tenure for existing and planned operations, but as always it remains to be seen whether these agreements are reflected in the final Bill which is likely to become law later this year. We are confident that the government is aware of the negative implications of persisting with legislation, which does not promote optimum development of the country's important mineral resources.

One of the key areas where **Nepad** is deficient and therefore not credible, however, is in recognising the profound challenge to all aspects of continental progress represented by the AIDS pandemic. In South Africa much time and energy has been wasted on esoteric debates. Surely it is time to draw our society together on the AIDS challenge, politicians, business, churches, NGO's and unions in a common policy stance. We all agree this is the greatest healthcare challenge we face; we also agree that behavioural change is the key to prevention; we should also agree to work together to develop the best possible treatment responses to AIDS sick citizens, within the inescapable constraints of our country's national resources. A shared attitude to AIDS will lay the foundation for co-operative action. South Africa should be well placed to do research and development on vaccines, treatment and prevention. We probably have much to learn in this regard from countries such as Thailand and Uganda.

Finally under the rubric of improving the investment environment and attracting greater investment I must again refer to the vexed issue of Zimbabwe. A key priority must be to ensure that the March

Presidential election is substantially free and fair. To this end surely bodies such as South African Development Community would do well to spell out some standards of measuring freeness and fairness now. The capacity of opposition parties to campaign freely should surely be one such standard. Their access to public media another. An unfettered administrative process of voter registration and nomination would be a third. The integrity of polling a fourth; and the similar integrity of vote counting a fifth. Such standards would make election monitoring meaningful and above partisan attack.

Let me conclude on a positive note. It is important for all of us to combat unwarranted Afro-pessimism. We all know what the challenges and problems are, but we often dwell immoderately on those and forget the successes or fail to see opportunities in adversity. Let me take a South African example. Much has been said about the sound macro-economic policy environment and the disciplined stewardship of our finances, but we have allowed an anomalous and certainly quite excessive decline in the value of the rand during 2001 to blind us from how strong the competitive position of the country has become. Here lies opportunity, and exploiting such opportunity with investment in key sectors**,** whether it be in mining, manufacturing, tourism or other areas**,** will enable South Africans as well as international observers and investors to achieve a more balanced perspective.