

MINING'S ROLE IN SOCIETY**MINERALS COUNCIL OF AUSTRALIA, CANBERRA****26 JUNE 2013****MARK CUTIFANI**

Distinguished guests,

Colleagues of the Minerals Council of Australia,

Ladies and gentlemen.

Good morning. Thank you for that introduction Mitch and for the opportunity to speak here today.

Now, some of you may be wondering about the photo behind me [see image below]. Before I explain, let me set a little bit of context.



Without Phosphate fertiliser

With Phosphate fertiliser

Mining – In Our Global Context

In 2010 the global mining industry, including the quarrying and petroleum sectors, represented 11.5% of the world's GDP, as measured by revenues from products sold. Based on experiences in mining jurisdictions, if we include payments to service and support industries, mining's direct contribution to global economic activity is estimated to be around 21%. But we need to think about mining in a much broader context. We produce products that make the world work. Fuel for energy generation, products that support construction and industrial processes and most other value creating activities, are simple examples of how we literally make the world go around. So, let me get back to that photo showing two cornfields, one using phosphate fertilisers and one without. Since the turn of the last century it is estimated that the products of mining have supported a more than 100% increase in agricultural production per area unit under cultivation.

So when I include the direct revenues from mining, the payments made to service sectors and the contribution we make to the world's economies, we arguably drive more than 45% of the world's measured economic activity.

In Australia, the resource economy (mining, oil and gas) accounted for around 18% of gross value added in 2011-2012, which is double its share of the economy in 2003-2004 – we employ 1.1 million people directly and indirectly. If I then extend my phosphates example to the productivity improvements we drive in other sectors across the country – well, you do the maths.

But there's more. So, while I contend we are the world's most important industrial activity we are also have one of its smallest environmental footprints. We take up less than 1% of the earth's surface, we generate less than 3% of the earth's carbon gases and we produce the products that clean the air we breathe and the water we drink.

The simple truth for us as an industry – we are not telling our story in a way that people can see, or more importantly, feel.

Beyond that simple observation, comes a sense that our relationship with our political leaders is even more disconnected. When dealing with the facts of our contribution to the Australian economy, and the world at large, either our political leadership didn't care, or didn't understand. In my simple world, I can find no other way to explain the policy uncertainty that has impacted the Australian mining industry over the last few years. While I can forgive ignorance, I cannot forgive the class warfare tactics that were used to split communities as the facts were lost in a sea of rhetoric focused on a few high profile individuals.

The purpose of my discussion today is not to pour more fuel on the destructive debate that has consumed us over the last few years, but to reflect and propose a pathway that may chart a way towards helping Australia revive its most important industry. At the same time, I am looking to set out how I think we can help be part of a much broader solution for Australia's development, in a more challenging and complex world.

Our New Reality

As the global mining boom of the last decade tapers off on the back of a structural slowdown in China, the reality and policy disconnects within the Euro Zone and the broader economic realignments that are taking place the mining industry has also faced many challenges:

- Access to ground for exploration is being constrained;
- Resource developments are being strangled by duplicated bureaucratic processes and red tape;
- Capital and operating costs are soaring while new taxes in a range of new forms skin whatever margin may be left to developers; and
- Local communities are being deprived of a reasonable slice of a new, low fat pie that they helped create.

Based on where we are today we can see a world that, in of itself not short of resources, edging towards future commodity and infrastructure shortages through dint of short sighted and opportunistic public policy. This is a position that most cannot see – except for those with many years of experience in the industry. For those that can see it – we need to speak up and make sure our voice is heard.

Like most other mining countries, the Australian economy is adjusting to this relatively short term slowdown in demand for commodities and associated lower prices.

At the same time, shareholders rightly expect us to generate better returns and to focus on improving productivities and managing costs to improve margins while repairing exposed balance sheets.

The Bureau of Resource and Energy Economics (BREE) claims that resource projects to the tune of \$150 billion have been delayed or cancelled in the past year.

All that said, Australia is still well positioned to take advantage of China's on-going development, but we are in an increasingly crowded space.

Competition for market share from countries such as Colombia, South Africa and Indonesia is growing at a faster rate.

And now the US and Canada, which were formerly high cost producers compared to Australia, have emerged as aggressive cost competitors.

As Australian mining productivities and costs have borne the brunt of regressive industrial and tax policies, these competitors have been applying technologies and cooperative industrial policy structures to rebuild their competitive positions.

Unless Australia gets back to building a competitive industry, we risk irretrievably falling behind countries like Canada whose political leadership understands mining's foundation role and its

contribution to broader society. To demonstrate a sobering point let me reflect on Australia's thermal coal industry.

In 2009, Australia was second only to South Africa as having the lowest seaborne unit cost – \$43/t compared to South Africa's \$39/t.

By 2012 Australia had slipped to 10th, just in front of Canada, having the second highest seaborne cost – \$77/t compared to South Africa on \$59/t and Colombia \$53/t.

And just to reinforce the point - South Africa's thermal coal exports to India are just about to overtake Australia's export tonnes. It was interesting to note that I was recently criticised by "Dryblower" – suggesting I was pandering to my colleagues in South Africa in suggesting South Africa had a more consistent policy regime than Australia.

As most know my comments were taken out of context as I was reflecting on radical shifts in policy in Australia and how they were directionally heading us towards a development dead-end. This being my only comment since that article was published – I will simply let the facts do the talking!!!

Further, with shale and coal seam gas replacing coal as a fuel source in the US, millions of tonnes of previously uncompetitive coal are finding their way to the world market and that's not good news for Australia.

The people feeling the effects of that jump in supply are the good folk of Central Queensland and the Hunter Valley.

Once profitable mines are now struggling with lower prices and in some cases, closing.

The sobering fact for policy makers is that in the past 12 months alone, close to 9,000 mining jobs have been lost in NSW and Queensland. Based on current press coverage, those numbers look like they are about to rapidly increase.

Compete or Close

As an economy, Australia has done well over the past 30 years, but I believe this remarkable record may not be sustained. Three years ago I warned of complacency in this very venue.

Today I have to simply confirm the fears expressed three years ago, we are reaping what we have sowed.

We have more than wasted a commodities boom – we have undermined its very foundations by creating uncertainty and doubt in the minds of long term investors. No country can afford to be so cavalier.

In recent years the Australian mining industry's competitive mantle has been slipping in the face of:

1. Higher mining costs which are up 14% (cumulative) over the past three years;
2. Declining productivity – more than 30% over the last 7 years;
3. Increasing royalties;
4. Taxes and charges (carbon tax, mining tax, income tax on salaries, superannuation, council rates, State taxes on licences and payroll tax);
5. Complex planning laws and processes causing extended permitting delays; and
6. A strong Australian dollar.

Take carbon emissions. This is an area where government should be working in partnership with the coal industry to make it easier to invest in new technologies instead of imposing a tax that becomes a deadweight cost.

The carbon tax and other taxes and royalties have destroyed more than 75% of the value of our coal business in Queensland. Now, as a global miner we have a natural capacity to deal with shifting policy positions – we allocate more of our investments to South Africa and Colombia. However, that is not what we want to do – we are committed to our business and our people in Australia, for the long term.

The greater tragedy is we are damaging our emerging coal industry players, which is equivalent to exporting jobs and the collective futures of our children.

Last year the industry paid more than \$20 billion in company taxes and royalties – a fourfold increase on the \$4 billion to \$5 billion paid at the start of the mining boom a decade ago.

We now have a mining tax that was expected to raise billions, instead raising \$126 million in its first six months and expecting to raise \$200 million by the end of the year. The simple fact is – as a country we got it badly wrong, and we have created substantial uncertainty and investment barriers that were not here 10 years ago.

Policy stability and predictability are key requisites for our long-term investment decisions.

The system of taxes and royalties needs to provide for a fair and appropriate sharing of risk and reward.

The planning and approval processes should have clear rules and no shifting of the goalposts part way through the game.

But we have shown permit approval processes at state and federal level that needlessly delay projects, cost companies millions and threaten job losses.

A case in point is NSW, where I believe we are at a crucial decision point as to whether the State Government wants to have a continuing coal mining industry in the Hunter Valley or not.

A recent decision by that Government to suspend an approval process is delaying one of our projects by six months, putting added pressure on us to decide whether to go ahead with a \$500 million investment in the region that would safeguard 500 existing jobs.

This unexpected delay comes after 25 rounds of consultation over a four year period to design a mine that all local stakeholders would support.

If the project doesn't go ahead the towns of Scone, Singleton and Muswellbrook will lose \$70 million in local procurement each year and \$86 million in direct and indirect household income each year.

The NSW Government will receive \$35 million less in royalties each year.

I know other companies are in a similar situation.

A balance needs to be struck between governments listening to communities or other industries' concerns on the one hand, and stalling major investments in endless consultation on the other.

Making Australia more competitive shouldn't be left to a falling dollar.

It requires concerted action on each of these key points to make the country an even more attractive place to invest and export products at competitive prices.

Let me be very clear, the Australian coal industry is at a tipping point for future growth and will only survive if governments want the sector to invest in the country and grow.

The Lucky Country...

Australia should be miles ahead of every other mining country given our history, our know-how and our close links with Asia.

Mining forged and powered Australia – from the gold rushes in Victoria in the 19th century, to the iron ore, gas and coal booms of the past decade in Western Australia and Queensland.

Along the way Australia has been transformed from a protected post war economy to a dynamic, export oriented solutions provider.

We've had an unprecedented 21 years of uninterrupted growth to this day, and we side stepped the worst global recession since the Great Depression

Australians are wealthier, healthier and better educated than at any time in our history.

The lucky country of the 1960s Donald Horne wrote about, tongue in cheek, turned out to be pretty smart.

The shift of world economic power to China, and Asia more broadly, in the past 20 years has played in Australia's favour.

We are in the right place at the right time.

The Australia of the 1960s and 1970s with its wall of import tariffs, fixed exchange rate, rigid industrial laws and eyes fixed on Europe and US – would not have done so well.

For those of my generation, or older, the turning point for the country came 30 years ago this year when federal, state and local governments; big and small employers; trade unions; churches and welfare organisations came together in Canberra to map a way forward for country.

Australia was at a crossroads with high inflation, high unemployment and high interest rates – it could not compete.

To the credit of Bob Hawke, Paul Keating and the then Liberal-Country Party Coalition, the National Economic Summit gave key stakeholders a say on the country's future direction, and built momentum and legitimacy around a blueprint for opening up the economy.

Mining and agriculture, once considered somewhat of a curse on Australia's development, became the foundations of an open, diversified, high tech, export oriented economy.

Skills and technology transfers, as well as access to billions of dollar in new port, rail and road infrastructure built by governments and mining companies delivered a logistics revolution that benefited the whole economy.

Today more than half of the world's mining software is from Australia, worth about \$2 billion per year in exports income.

It is through partnerships across industries such as mining and agriculture that we can build the next phase of Australia's prosperity, along the way working together to address some of the challenges that pit us against each other from time to time.

Mining's Role in Society

This brings me to the role of mining our society.

The simple fact is that in today's world, if we don't bring people with us and the majority of those living in host communities don't benefit from our presence, we won't be allowed to mine.

The perennial challenge we face as an industry is how to reconcile the greater good we create with the inevitable local disruptions mining sometimes brings.

We all see it here in Australia and it's happening also in Brazil, Peru, Chile, Mongolia, South Africa and other places.

The lifetime of a mine should be a window for community and infrastructure development so that our legacy amounts to more than just a hole in the ground.

What we have failed to do is convince people, particularly the young that mining companies are agents for good.

The fact is that the resources boom "lifted all ships" across the Australian community, with an estimated \$130 billion finding its way into the Treasury's coffers in the form of mining company taxes and royalties over the past decade.

Let's give credit where credit is due.

Over the past 15 years our industry has made huge strides towards improving its performance on safety, health, the environment and community development.

You only need to look at the work done by the ICMM over the past 10 years or so to realise the extent of change in our industry.

We've been defining what best performance looks like working with the UN, the World Bank and other international bodies on a diverse range of global issues such as protecting biodiversity, materials stewardship and chemical safety, community development, transparency and human rights.

All this and more has enabled us to contribute to international debates with credibility – a position unthinkable in the late 1990s.

While there are few household brands in our sector, reputation does matter. It is for this reason that we will place Anglo American at the centre of the debate on mining and its role in developing new possibilities in society.

As an industry we must reflect on the challenges we face such as:

- Local community intolerance of harm and negative impacts of our activities.
- A greater desire by host countries and communities to share in the benefits generated by mining, particularly where large foreign companies are concerned.
- A growing global consensus that corruption in all of its forms or a disregard for human rights, are unacceptable, damaging and must be eradicated.
- A demand for greater transparency in business practices. This was one of the key themes at the recent G8 Summit.
- A desire by a social media savvy civil society to lift the bar on the standards we operate to.

These are the big social trends reshaping the business environment we and other sectors operate in.

We as companies and as an industry need to ensure we are engaging a wide range of stakeholders to understand both their concerns.

As leaders we need to continue to step up to the plate and engage with as broad a range of stakeholders as necessary, and develop partnerships to address these challenges. We need to be partners in a shared future.

We are not government, and should not pretend to be, and we cannot do it all on our own.

It's about engaging with stakeholders who can bring expertise and valuable insights to the table, and have all put some skin in the game.

Back to agriculture as an example – around the world agriculture and mining are often in disagreement over land use, access to water and environmental impacts.

In Australia, we argue about the encroachment of mining on farming land or...horse breeding activities as we have in the Hunter.

The reality for all of us is agriculture, livestock and mining are fundamental to Australia's future prosperity.

We should be working together to leverage the billions spent by the mining industry on roads, rail, ports, dams and water management to transport agricultural produce to market more efficiently, to improve soil fertility and water use. We need each other and so we must learn how to accommodate each other in the broadest sense.

So the conversation needs to move away from what mining shouldn't do - but to what mining and others can do together.

In wrapping this point, I should acknowledge the good work of the Minerals Council of Australia. It has been at the vanguard of community education around the mining industry.

Most other international jurisdictions quote the Council as a great example of how our story can be told. It is therefore very sobering to reflect that 70% of Australian's still see the Government as the prime creators of wealth in Australia. In many ways that defines the on-going challenge we have – to explain where and how wealth is generated in society and the need for governments to create

the conditions for businesses to be successful, to help distribute wealth in a way that nurtures the needy, while not undermining the key sources of that wealth.

A Way Forward

This brings me back to what happened in Canberra 30 years ago.

We were at a crossroads then.

We could have gone down the path of business as usual, with high tariffs and low growth – and become another Argentina...or we could aim for something better by unshackling the economy and unleashing Australia's entrepreneurial skills in partnership with our key stakeholders.

I contend that we are at a similar crossroads again today and suggest that, once again, Australians should have a conversation about what we need to do for the country to regain its competitive edge regarded as a land of opportunity.

A National Development Summit modelled on the clear, well-structured and substantive approach taken in 1983, should be given consideration by the next government, as a way of building consensus around a plan for economic reform.

There are four key areas I think need to be addressed from an industry perspective:

1. Re-establishing a planning and regulatory environment that supports investment.
2. End the turf wars between Federal, State and local governments.

We can no longer handle having three levels of government telling us what to do or demanding things from us by way of federal taxes that devalue Australia's mineral assets or regulatory regimes that suffocate investment.

A State permit is no longer enough to start mining – we now also need Federal government approvals and local government consents.

We all need to get our individual and collective houses in order so that we can dedicate our time to operating mines safely, designing future projects and working with local communities to ensure they are more visible beneficiaries from our activities.

3. Reduce in delays to the provision of infrastructure, whether government or private.

Our industry responds to price signals set internationally so our ability to get production to customers without delay is critical.

4. Help us get to a point where Australians value the role of mining in society...a view that is reflected though the actions of our elected representatives.

Conclusion

We must put behind us the bruising battles of recent times and demonstrate to the community that ours is an industry that can make a positive and lasting difference to the countries in which we operate.

Our objective as an industry has to be changing people's out-dated and negative perceptions of what mining is about and build understanding of the positive and essential contribution we can make to Australia's future prosperity.

It's up to us to make it happen.

Four years ago, President Obama promised to "reset" the relationship with Russia and he despatched US Secretary of State Hillary Clinton to Moscow.

Clinton presented her counterpart, Sergei Lavrov, with a symbolic "reset" button. In many ways, our industry needs to reset its relationship with government and society – and I think a National Development Summit would certainly be a good start.

Thank you.