



ISSUES FOR THE FUTURE OF MINING IN AUSTRALIA

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The Commodities Outlook Conference provides an opportunity to review the state of mining in Australia, which has a proud history, but which finds itself under pressure on a variety of fronts. The challenges are probably as significant as any since the industry began its journey to prominence with the gold discoveries of the mid 1800s.

As a result the mining industry is doing business differently. We have, for example, found we need to be more outward looking than we have ever been in the past. Resources and reserves, alone, are not sufficient to sustain our industry. Nor is our demonstrated skill and capacity to mine ores and produce mineral products effectively and cost efficiently.

In addition to managing through the cycles in the global economy, which we have always done, we now must also take account of heightened community expectations for the industry. As a result companies today are becoming more responsive to the issues of social responsibility, the environment, safety and the total impact in areas where we have operations.

Australia is a microcosm of the global mining industry and the broad issues for the future of mining here are not significantly different to the issues for the future of mining elsewhere in the world. But mining in Australia continues to provide great opportunities for those prepared to meet the challenges.

Degrees of differentiation occur between mineral producing countries that make one or another of them more or less attractive for exploration, development and production in the eyes of participants.

There are many factors to consider. In Australia our industry is built around a long history of mining, the expertise and experience of those who work in it, continuing prospectivity, the quality of our known assets and our capacity to harness innovation.

Features that will continue to work in our favour include low levels of sovereign risk, which is very attractive for mining development when measured against risk applying in less stable countries, and depreciation of the Australian currency which leaves our industry very cost competitive in a global context.

There are some negative factors too, which might make doing business in Australia less attractive to some – including, for example, issues around taxation, land access including Native Title and industrial relations. These ought to be manageable, but we need to work to resolve them, sometimes in liaison with Government and sometimes with other stakeholders, to ensure the regulatory framework encourages development in the interests of all Australians.

Critically the performance of the industry in Australia is influenced by global factors, importantly including the choice that is open to our customers around the world to select where they will source their requirements.

Advanced technology and improved communications have made the world a smaller place and the trends to globalisation have led to consolidation in our industry, as it has in other industries.

The industry is dominated globally by four major companies (BHP Billiton, Rio Tinto, Anglo American and Alcoa) with other levels of relatively smaller companies, many of them regional and local in structure.

Consolidation is a key influence on the shape of the mining industry today and the likely outcome is that the directions taken by the majors will increasingly set a pattern for future directions in the industry. This is already occurring.

There is a realisation that we need to work within a sustainable framework and to find the appropriate balance between economic, environmental and social management if we are to be successful in the future.

The industry has no choice but to manage the competitive issues brought by globalisation and it also has to meet the expectations stakeholders have for sustainable development. It must do this while a relatively small part of the global economy. The total market capitalisation of the global resources industry has been estimated at something less than US\$200 billion. To provide context, this is about half the market capitalisation of GE.

Even so our industry remains very important for the society we live in. We produce the essential products that allow us to live and work every day or our lives – the various forms of transport used to get us to today's conference, the delivery of power and light to this auditorium, and the hardware of the audio system through which I am talking.

It has become fashionable for many of our critics to describe mining as an “old industry”. But in recent years, while many hi-tech stocks and even larger modern companies, hailed as the way of the future, have hit the wall, mining has continued as a solid and stable industry providing quality products to enhance mankind's standard of living.

In the time available to me today I would like to discuss two issues impacting on our future

- the realisation that we need to be committed not only to business, managerial and technical excellence in all we do but to corporate social responsibility and sustainable development
- the critical need to educate, attract and retain high quality professionals to work in our industry

Issues for the Global Industry

The world has seen some fundamental changes since last year's ABARE conference. We live in a more uncertain world following the events of September 11 in the US and the war against terrorism. These events provide a stark reminder not only of our vulnerability to acts of terror, but just how quickly the world in which we live can be transformed.

Change is occurring in many areas. Social and economic differences throughout the world are bringing constant change and demands, not only for governments and global institutions, but also global companies.

A central issue in this is the extent to which we link our efforts to grow our businesses and maximise shareholder wealth on one hand while meeting broader community expectations and appropriate standards of environmental and social management. Successful companies are and will be those that manage both sides of this equation.

Our success in managing continuing change in the years ahead will impact significantly on the resource industry's contribution to the world we live in.

The CEO and Managing Director of BHP Billiton, Paul Anderson, at a mining conference in Canada last year spoke of the opportunity business has to take a leadership role on this issue, using self regulation, as well as the inherent forces in open and competitive international markets.

As he put it " It is simply the *right* thing to do, and the time for it is *now*".

The resource industry faces a number of specific challenges:

- Global capital markets are becoming increasingly selective, as national exchange limitations become less relevant. Shareholders, wherever they are, demand and deserve a fair return.
- Customers are consolidating and have become much more efficient themselves. In many cases they embrace the advantage of partnering with us by assuming equity positions in our operations.

- Employees are learning that increasingly a ‘suite’ of skills is necessary for promotion and job security as their once stable career paths become less assured in a changing industry.
- Governments and non-Government organisations (NGOs) are looking for more than historically responsible management and are asking what we contribute to society and how sustainable is that contribution. (The answers are not always easy and my own company’s experience at Ok Tedi underscores how reputation is affected when the balance between economic, social and environmental performance is disturbed.)
- Finally, there is pessimism abroad, about an uncertain economic environment with most of the major economies of the world facing a period of slow, or no, growth.

It is exactly this set of circumstances that has accelerated consolidation in the resource industry.

There is sound rationale for consolidation. In order to grow and prosper resource companies will need scope, diversity and financial strength.

With consolidation comes the opportunity to provide stability of cash-flow required to take long-term views on every aspect of our business, whether it be economic, environmental or social.

Furthermore diversified commodity portfolio positions within consolidated enterprises allow them to manage difficult and volatile operating environments and to deliver results for the stakeholders.

There is also enhanced capacity to serve customers with a wider scope of offerings leading to ‘win-win’ results. This is not a call for miners to concede on prices. We need to maintain appropriate margins.

The supply of raw materials at cheaper prices for steel makers, for example, would not resolve any structural issues that may exist in the steel industry. The likelihood is that savings would simply pass through to the steel consumers - not a bad thing in itself, but with little impact on improving the situation of the steel industry.

We cannot solve the structural issues our customers may have, much as we might like to see them disappear. But we can provide support and service that will assist efficiency and productivity for those who buy raw materials and minerals products from us.

These then are the broad-brush issues of consolidation stemming from globalisation.

A Sustainable Future

Another feature of this rapidly changing landscape is a capacity to improve sustainable performance in all that we do, including Health, Safety, Environment and Community areas.

It may be debateable, but historically it has been argued large resources companies have had a choice through size, scale and flexibility to avoid stringent management of environmental and social issues. Certainly this has been a perception that has grown in many areas in recent years.

But to the industry's credit, it has now chosen to take a deliberate and responsible path and to be an active part of the solution. This is reflected in the strong joint commitment to the Global Mining Initiative (GMI) and the creation of the International Council on Mining and Metals (ICMM).

ICMM will provide much needed advocacy for the broader industry at a global level and will be a focal point for the development of public policy for mining and metals.

It will also focus on the good practice already present in our industry and through discussion and debate about this in international conventions and other forums will seek to enhance our reputation and facilitate future development.

The initial work of ICMM is now well underway and this will be very important, particularly with the World Summit on Sustainable Development (WSSD) scheduled for Johannesburg later this year.

There is no doubt the mining and minerals industry is doing business in the emerging and current global environment differently, compared with a decade ago. We have been making steady progress. But the journey is far from over.

Implications for Australia: Training Professional Staff

One of the critical issues for the industry in Australia is employment and training. We must attract the right people with the right qualifications into our industry, particularly those with the technical, business and management skills required for exploration, mining, processing and exporting minerals and mining technology, services and equipment.

There is a clear trend in applications for University courses in Australia away from courses in engineering and science towards broader based humanities degrees and this may be based on a belief that humanities offer wider ranging job opportunities.

The risk for the minerals industry is a critical shortage in the years ahead of properly trained people to manage, in particular, the technical challenges of the industry. In fact the problem already exists.

In 1998 the minerals industry concluded, in a discussion paper called Back From The Brink, that the delivery of education in Australia's universities had to change if the industry was to maintain and grow its international competitiveness.

The following year the Minerals Council of Australia established the Minerals Tertiary Education Council (MTEC) to develop a partnership between the industry, government and the tertiary education sector. As a result we now have a framework to build a world-class tertiary learning environment for the education of professional staff for the industry.

MTEC is doing excellent work, but the responsibility for a solution should not be theirs alone. The broader industry has a bigger role to play if we're to meet our objective of guaranteeing enough professionals will be trained and available to sustain exploration, mining and processing in the years ahead.

We need to counter those who claim ours is a sunset industry and to explain that the disciplines associated with the earth sciences, mining development and operations, processing ores and metals and marketing offer a stimulating and challenging career for those who seek to work in it.

The industry is an attractive employer of professional people with global career opportunities and commensurate rewards for those who are successful. We need to do more to get this message out and understood.

The Minerals Council of Australia, through its National Education Program is already doing good work in this area targeting secondary and primary teachers and trainee teachers, as well as students.

But more needs to be done in tertiary education and one way the industry can build on the work of MTEC is to provide greater support for tertiary students working in the earth sciences, mining engineering and metallurgy, including company support for work experience programs.

Job security has been an issue as the industry has rationalised, consolidated and made better uses of new technologies. But as an industry, we still have an obligation to provide employment opportunities for highly trained professionals – our future depends on it.

Conclusion

In summary, the mining and metals industry continues to do well technically and operationally, and is striving to meet the economic and social challenges that confront it. Many individual businesses within the industry are doing well.

There has been some tremendous progress in moving from the rhetoric to action in the areas of corporate social responsibility and sustainable development. The Global Mining Initiative has brought many of these programs in different companies into a collective industry focus.

However much remains to be done. We need to keep pace with technological change to extract and deliver our products efficiently and effectively; we need to continue to understand and manage within the prevailing global and regional economy and the impact this has on our markets and our customers needs; and on the social and environmental front our next objective will be to raise the bar again for the entire industry and set standards that can be embraced by all of the mining industry throughout the world.

And we also need to do a better job in encouraging professionals to seek careers in mining exploration, production and processing to ensure a viable future for our industry, not only in Australia but globally.