- Señor Ministro de Minería, Don Alfonso Dulanto
- Excelentísimos Señores Embajadores
- Honorables Señores Senadores y Diputados
- Señor Subsecretario de Minería, Don Patricio Morales
- Señoras y Señores

It is an honor to have been asked to speak tonight at the 2003 CESCO dinner. CESCO week has clearly become the most important week on the copper calendar and all involved should be congratulated for this success. It is the right forum – all the relevant stakeholders are present, at the right time (any excuse to get away from the northern hemisphere winter) and most importantly,- the right location. Without doubt Chile is the most important country today in the copper value chain. LME week covers all the traded metals – CESCO week on the other hand is just for the RED METAL.

CESCO is a truly international event. A chance for miners, smelters, consumers, traders, financiers, analysts and journalists to get together with the ultimate aim of supporting the use of copper. In addition to BHP Billiton's own activities this year concentrated around the official opening of the Escondida Phase 4 project, there are numerous other events that are of enormous value to industry participants. These include;

- The presentations at the CRU Conference and the LME Seminar,
- The form al meetings of the ICA Executive Committee and Board,
- The many informal meetings and opportunities for networking and, finally
- The chance to see representatives from the marketing departments of different organizations attempt to prove that sleep is only for the weak, elderly and mine production personnel

As a culmination of a full week, this dinner is a final chance to relax amongst friends and colleagues and prepare ourselves for what shocks the markets will deliver us in the months ahead.

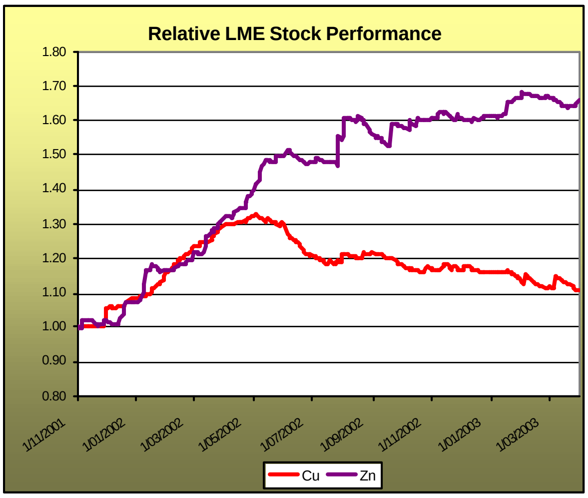
The excellent food and wine tonight certainly makes the first part of tonight's objective simple. To assist in the more difficult task of preparing for the future I would like to briefly cover some key lessons I believe we, as an industry, need to understand. I will close with a clip from a Hollywood movie that I believe summarises the issues perfectly. I hope to challenge and surprise a little with the rest of this speech.

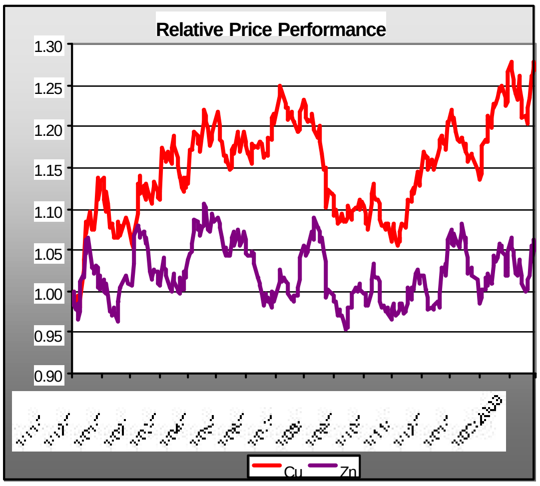
The first issue is to recognize that globalization and industry consolidation have fundamentally changed the dynamics of our industry. As individual companies we have grown to the point where we need to recognize that our individual self interest is no longer served by just pursuing low cost growth without regard to the impact on the total world supply of copper metal available to the market place.

How do we re-adjust our strategies, away from a single-minded pursuit of growth, to individual strategies that have a greater ability to match supply and demand utilizing flexible production? At this time last year, I presented a paper at the CRU conference that covered this very issue. One key topic of that paper was a discussion about why BHP Billiton Base Metals voluntarily cut copper production; which we called Project Apollo, on November 8, 2001. I have continued to preach, sometimes to the converted, that we need to move the industry mindset from dig and deliver to one that is focussed on supplying metal only when there is real demand. We have twice extended our production cuts – imaginatively called Apollo 2 and 3 – as we “walked the talk”.

At BHP Billiton we are firmly of the view this has been a value creating strategy for our shareholders. While others have high-graded their mines, we have mined lower grade material. We are thus in a position to increase production when there is real market demand.

I believe the two graphs illustrate the issues perfectly.





Compare the performance of zinc and copper. The Graph on the left shows LME stocks indexed to the levels of November 1, 2001, before we announced the Apollo 1 cuts. The data shows that the impact of the various cutbacks took a number of months to work their way through the value chain, with LME copper stocks peaking on May 2, 2002 at 980,000 tonnes. By the end of March, 2003 stocks have slowly been eroded to around 815,000 tonnes, only 10% higher than November 2001.

Zinc on the other hand is the poster child of the dig and deliver mentality. Every producer points its finger at every other producer but of course fails to do anything, itself. Over the same period as the graphs above, the

CEO’s of 2 of the 5 largest zinc producers have spoken at zinc conferences urging production constraint but those same two companies have increased their zinc production chasing lower marginal costs. The result is that zinc stocks are now 65% higher than they were in November 2001. The corollary is that the zinc price is the same as in November 2001 while the copper price is 17% higher.

One could argue that without the flexible production exhibited by Cu producers to date, the copper price today would be the same as in November 2001, or 61c/lb.

This is not just a phenomenon of these two metals over this time period. We see it in all commodities, whether metals or crops, paper or air conditioners. When supply exceeds demand, stocks go up and prices fall. The more rapidly a producer realizes his or her self interest exists inside of that supply/demand imbalance and acts to curtails excess production, the more rapidly price equilibrium is restored.

Let’s move on and look at the state of the copper market today. Although we have moved from the fear that gripped the market caused by the shadow of the September terrorist attacks, we have not returned to the consumption growth rates of the 1990s. We are all anxiously awaiting the world’s economic response to the end of the Iraqi war. Will we return to a more robust growth path or will we still be in the grips of massive overcapacity, little new business investment outside of China, and a much slower world growth rate?

Most of the focus today is on the draw down in stocks this year. However we need to understand exactly what the data is telling us. As of the end of February the draw down in copper stocks across the three exchanges is in the order of 50,000 tonnes. This does not mean that demand is now ahead of supply. Over that same period Codelco has set aside an almost identical amount in a warehouse in Chile. The metal is there; there is no market signal for increased production beyond what is currently being commissioned .

How will BHP Billiton Base Metals respond? We have already extended our production cutbacks through to mid this year when we will re-evaluate market conditions. I am not going hazard a guess now on what our decision will be at that time. Whatever we do it will be unlikely to add any metal units to production in this calendar year.

We do believe however that lower cost production should come back to full capacity before any restart of higher cost production.

What then is the case for new supply? By that I mean supply that needs increased demand to absorb it rather than see it add to warehouse stocks? That is the issue we face with Spence. I would argue that Spence is the most robust green field copper project in the world today. With cash costs of around 35c/lb and a real rate of return of around 20% at modest copper prices, it is the next logical green field development in the world in our view. We have been thinking seriously about the timing for Spence since the middle of last year.

We have held off making a development decision because we know there is currently no real demand for it, but what about 3 years from now when its metal will be available for the market? At this stage, based on our current view of the market, that a low growth scenario is more likely than a high growth one we are cautiously optimistic that we will start construction by mid calendar 2004 and that would not see metal enter the market before calendar 2006. We have gained most of the requisite approvals from the relevant authorities and we are productively spending our time completing substantial value added engineering on the project.

If we followed the traditional growth of production strategy, today we would be producing from, Tintaya, running Escondida at capacity, building Spence and restarting Pinto Valley and Robinson for good measure. All would be cash positive in the current price environment; however I don't think the current price environment would last very long in the face of such a production onslaught. Thus I do not believe that such a strategy would be in our shareholders long-term interest.

Instead we focus on the real demand for metal rather than on the simple ability to get financial buyers to fund our working capital via warehouse warrants. I have challenged our marketers to avoid selling copper into the LME warehouse system, regardless of premium capture, as the warehouse does not represent a real customer (sorry Simon) and we should only sell copper to real customers. This is the first step, in my view, to understanding the nature of true demand and becoming a customer focused business.

There is a third point I would like to cover tonight because again I think this is the perfect forum. I have always found John Kennedy's immortal words inspiring

> "Don't ask what my country can do for me, ask what I can do for my country."

The beauty of the phrase is that it can be used in any country, at any time and in so many circumstances. It brings in sharp relief the difference between what is best for the observer versus the common good. In this respect I believe it is a legitimate question to ask with respect to the copper industry and Chile. While Chile has done a lot for the copper industry over the last decade to make Chile a very attractive investment climate, there is a lot that the copper industry has already done and will need to continue to do for Chile.

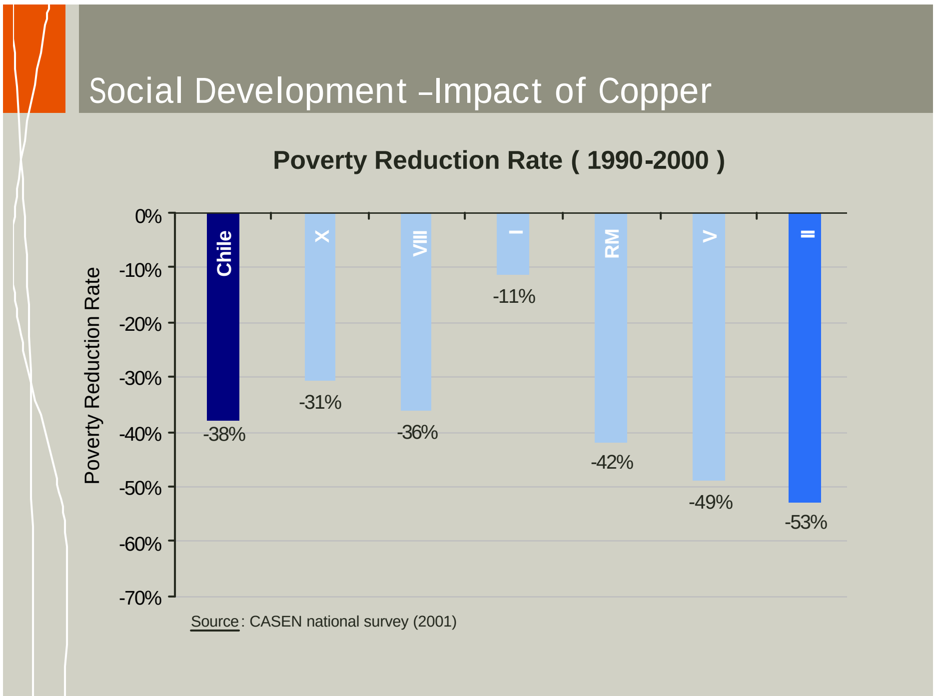
Investment in the mining and processing of copper resources is a capital intensive, long term, high -risk proposition. In the past 20 years, the average return on investment in the international copper mining industry has been less than 10%. For the past three years of depressed copper prices and today, there is not a single mining company in Chile that is recovering its cost of capital. Illustrating the risk mentioned, Minera Escondida, for example, spent a billion dollars over a 14-year period before it received its first revenue. After 13 years of operation, a total of $4 billion has been invested in the mining venture and $1.7 billion in taxes has been paid to the government of Chile. As mining companies in Chile recover their large capital investments, the value of total taxes paid will increase significantly.

Notwithstanding current and future tax commitments, major mining companies in Chile have made large annual investments in their respective communities and regions to support their existing operations. Escondida spends US $475 million annually in Chile for the purchase of goods and services, mostly in Antofagasta and the Second Region. Cerro Colorado spends $85 million, largely in Iquique and the First Region. This is our direct spending before considering all the secondary jobs created and business taxes that are paid.

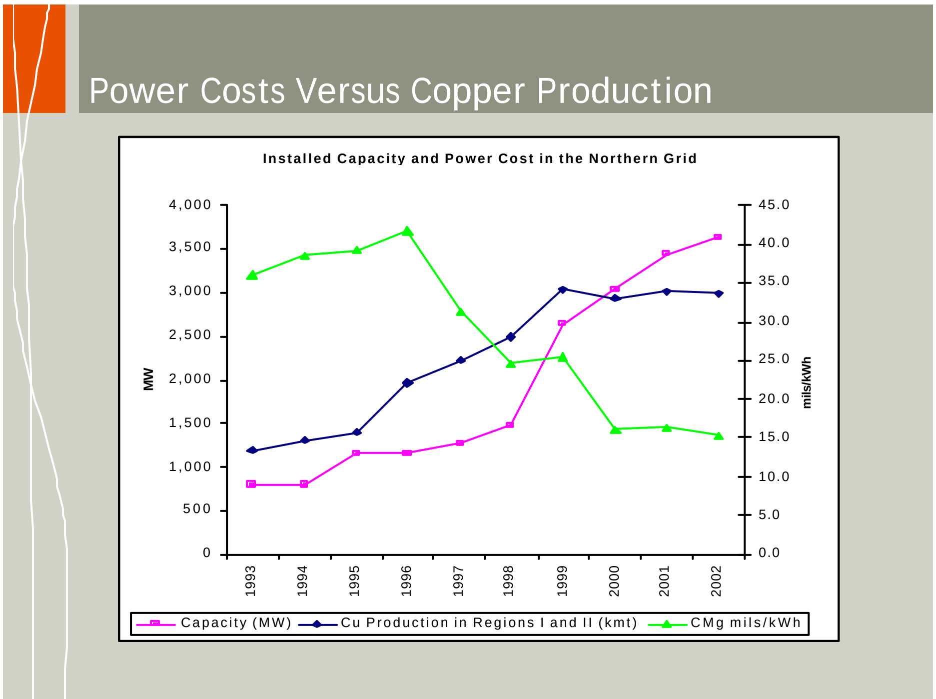
In addition to this, significant participation is made by most of the major mining companies to support health, education and other initiatives in the local communities. BHP Billiton, for example has a policy to spend 1% of its Earnings before interest and taxes (EBIT) in direct support of its host communities sustainable development. As part of this, the Escondida

Foundation has spent $13 million in the past six years in well-planned social programmes, principally in the Second Region.

While Chile has done a very good job in alleviating poverty in recent years, it may not be well understood what contribution the mining industry has made in this area. The graph here makes a real impression on me. While Chile reduced poverty by 38% in the last decade, the 2nd Region – whose GPD is 65% mining – reduced it by 53%, the best performer in Chile. This is more than just coincidence.



Further, in the early 90's the government of the same 2nd Region, the driest area in the world, identified 2 strategic barriers for its future growth: lack of water and expensive power. This next graph shows that it was the mining industry that successfully attracted the necessary energy investment, and the subsequent building of two gas pipelines and a power transmission line from Argentina. This development, has resulted in a significant reduction in power costs for **all** consumers, not just the mining industry. Further, the existence of lower cost power has made feasible large-scale seawater desalinization, thereby also helping overcome the second strategic barrier to economic development in Northern Chile.



The world's copper mining companies should be proud of our role in Chile's development but we should also ensure we continue to deliver real tangible benefits to the communities in which we operate.

As I said at the outset, this speech was meant to challenge. I assume it has. Just as I see benefit in reflecting on Kennedy's words, I believe the following message encapsulates everything I have said so far. It is a short clip from the Hollywood movie " A Beautiful Mind". I am sure many of you have seen it and most would be aware it is the story of John Nash, the brilliant Princeton mathematician who broke new ground on non-cooperative game theory.

Like all good movies it glossed over many issues and condensed many real life complexities into a simple 90-minute story line. The scene we are about to show dramatises Nash's thinking on game theory that in less than four minutes encapsulates all of my views on copper industry competition and the relationships between the world's mining companies and the country of Chile. The issue for you to consider as you watch this clip is who might be who in the game as it relates to our industry.

Thank you and goodnight