

**SPEECH TO THE MELBOURNE MINING CLUB IN LONDON**  
**7 JULY 2016**  
**MMG CHIEF EXECUTIVE OFFICER**  
**MR ANDREW MICHELMORE**

**Introduction**

- Thank you Diana for that kind introduction.
- And thank you to the Melbourne Mining Club for your invitation to speak here this evening.
- It's wonderful to be here in London and present at what has become a highlight in our industry's calendar.
- I'd like to acknowledge the many distinguished peers and former colleagues in the audience tonight.
- I've also been around long enough to have a few former employees here tonight and some of those have even been past speakers at this event.
- This is esteemed company, and I feel very honoured to be asked to address you.
- I've spent a great deal of time in England, starting from the 70's when I went up to Oxford.
- Oxford was a revelation for me.
- It took me worlds away from Melbourne and a degree in chemical engineering to reading in politics and economics. I was tutored by some outstanding minds who taught me to really think – and think freely. And especially I was taught to stand in other people's shoes and to see the world from their perspective.
- While I enjoyed cricket – in whose hallowed home we meet tonight – I didn't have the eyes for it.
- So travelling backwards suited me well and it was rowing, as Diana mentioned earlier, that became a passion.
- It was a passion I followed for many years and it has borne a great many friendships and lessons in teamwork and motivation.
- And if rowing instils in you one clear trait – that is resilience.
- Anyone who has taken a racing eight on the Thames at dawn in London's mid-winter knows what I mean.
- And after a few decades in this business, it is a trait that has served me well.
- I intend to draw on the theme of resilience today in describing a sector that I love and that is facing a test of its own grit and determination.

## **“A view from the ground” and role of the mining industry**

- I also speak to you today wearing a couple of hats – as CEO of MMG, with the strong support of China Minmetals Corporation and as Chair of the International Council on Mining and Metals.
- The ICMM brings together 23 mining and metals companies and 34 national and regional mining associations. It addresses the key challenges in sustainable development and sets the standards for sustainability wherever we operate in the world.
- This is a unique collective – now in its fifteenth year – representing over 60% of the world’s mineral production and dedicated to being a catalyst for change.
- But tonight I would like to speak, not from the 30,000 foot view, but on behalf of places where miners live and work.
- We are not after all, an industry of suits and commerce – but one of boots, rocks and dust.
- And our people are resourceful and resilient – mostly local – with currently unfashionable but very practical skills in engineering, geology, technology and maintenance.
- In a world where there is a concerted shift to urban centres and the service economy – MMG has invested big in the remote jungle of Southern Laos, the savannahs of Southern Congo and the highlands of Peru – some of the most remote parts of the world.
- Many of the communities with whom we invest have borne the hardships of colonisation, foreign aggression and civil war and are often left out of the more recent benefits which have flowed through to their urban centres
- And – above all– we are an industry and a company that places the safety of our people before anything else.
- So I want to reflect on these themes in the context of the four regions in which MMG operates – Peru, Africa, Australia and Asia.

## **Contribution to Society – Peru**

- Beginning in the region of our most recent and significant expansion – I’d like to start with the Republic of Peru.
- Peru has been endowed with diverse and plentiful resources.
- Few countries on earth can point to a more sustained investment and growth in standards of living than Peru – with mining the key catalyst.
- In the Canon Minera, Peru has one of the most progressive redistribution mechanisms globally to return benefits to the region where the wealth was created.
- Their investment settings are about right, their regulatory regime balanced.
- In fact, more ICMM members operate in Peru than in any other country.
- Peru has the ability to transform its natural endowment into tangible wealth for its citizens. In this sense it has the ability to become another Canada, Chile or Australia.
- Yet it is a country where mining struggles for general acceptance.

- To many in Peru, we remain an industry they'd rather do without – but that's something we are committed to changing.
- Las Bambas, our newest asset in Peru, provides a catalyst for this change.
- It is the largest copper mine built for more than a decade – and perhaps for some years to come.
- It is a ten year, over \$10 billion investment into the future wealth of the comparatively poor region of Apurimac in the Southern Andes.
- It is low cost, high output and will deliver employment, development and shareholder and community wealth for decades to come.
- The challenges of altitude, isolation, ore body and transport logistics are significant – but we have overcome these and, just this morning announced we had achieved full commercial production.
- It is never easy keeping these huge operations working, and working safely, but they are challenges that miners relish.
- The challenges that keep me awake are the ones that good engineering, careful finance and operating discipline don't solve.
- They are the economic and social issues and the expectations of our communities.
- As an industry, we have for years pursued agreements, devised programs, resettled communities and sought a 'social license to operate'.
- We said that we were miners and social issues were not our bread and butter – but a role for governments.
- The sum result of that approach is that our role has changed.
- We now carry the obligations of a local government without any real accountability for our 'citizens'.
- We assume responsibilities for economic, social and health outcomes with neither the skills nor elected mandate to deliver.
- We are seen as an easy target for activists and rent seekers who dress themselves in the clothes of community – while seeking political, financial and often very personal benefit.
- The more we fund, administer and deliver to communities – the less society seems to acknowledge the contribution.
- The Las Bambas project stands out in the sheer size and scale of benefits provided to local communities.
- Social programs began before the first sod of dirt was turned on construction and continue to today.
- In excess of a billion US dollars has been spent on community infrastructure and social development projects before the first dollar has ever been earned.
- The relocated town of Nueva Fuerabamba is the most outstanding community built from scratch anywhere in the Andes – it would not look out of place on the outskirts of any first world major city.
- And over ten years of development, a dedicated workforce of up to 19,000 has worked in relative harmony with local communities.
- However, protests which escalated quickly in September last year turned violent as those from outside the direct impact of Las Bambas sought greater benefits.

- We are now back at dialogue tables involving government and community leaders and we are working towards balancing the benefits and mitigating the impacts as partners in development.
- We are working with, and within, local representative structures against pressures which continue to come from out of the region – and out of the country – players who would speak on their behalf.
- As I said – as miners we are a resilient bunch. We are committed to this direct process and I am confident that we are doing the right thing.
- We are taking an increasingly direct and active role in building local capability and working hand-in-hand with government to deliver development projects.
- And we are working with the Society of Mines and Energy in Peru to work out how we might build a more balanced discussion around the real contribution of mining.
- Peru is an example of a broader international disconnect between mining’s contribution and performance and the perceptions of community.
- It is a perception – as an industry and as individual companies – that we must address.

### **Building a nation – Democratic Republic of Congo**

- If I look to Africa, I see different but no less daunting challenges.
- Africa remains a highly prospective yet immensely challenging place in which to operate.
- But the opportunities are amazing.
- Africa will likely experience the greatest growth and shift in living standards of any continent in our generation.
- And the mining opportunities are some of the best.
- That’s why China is the world’s largest investor in the region and – if you travel around Africa – you will see the evidence on the ground.
- Everything from infrastructure programs – road, rail, power construction– to retail, residential and facilities development demonstrates a strong Chinese presence.
- In the same way that UK/US and then Japanese foreign direct investment shaped my home country of Australia; it is Chinese FDI that is shaping Africa from the ground up.
- And China is taking it seriously.
- In 2013 alone China invested over 24.5 billion<sup>1</sup> US dollars in Africa and in addition the China African Development Bank has invested over 2.8 billion US dollars to date.
- And while China doesn’t always come with the experience, it arrived in Africa without many of the preconceptions.
- It is getting on with business and learning fast.

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<sup>1</sup> [World Resources Institute, “China’s Overseas Investments, Explained in 10 Graphics” by Lihuan Zhou and Denise Leung, Jan 28 2015.](#)

- And yes, there are mistakes.
- But don't be surprised if, as we have seen in the Democratic Republic of Congo (DRC) recently, that the best ore bodies and future opportunities are becoming available to the 'early movers'.
- Those companies able to leverage state and private funds without the risk penalties which make much of western capital uncompetitive.
- I look to our own investment in the DRC as an example.
- We acquired our Kinsevere operation there in 2012.
- And, with capital support from China, we continue to work hard with local authorities to address the significant infrastructure deficits – most notably power and logistics– that can unlock the full potential of this region.
- We are part of the development of what could be the world's greatest copper address.
- And we do so with the knowledge – and careful management of political risk, as Africa continues to search for good governance.
- If the DRC (or any country in Africa) is to attract the capital investment justified by its resource riches – and is to attract the kind of international investors it seeks – it must send some clear messages.
- That the country is a stable place to invest, that the rule of law and the role of the state is respected and that ground rules for mining – tenement security, taxes and royalties – are predictable.
- It is a critical time for the DRC – indeed for many countries in Sub-Saharan Africa. And if good governance can overcome personal and sectional interest – the opportunities are huge.
- As I continue to travel the globe east to west, I'd like to touch on my home in Australia.

### **Mining's contribution – Australia**

- There is no country in the world that has had greater contribution from mining to its prosperity than Australia.
- Through 150 years of foreign investment in resources, the ingenuity and innovation of the Australian spirit and just good old fashioned hard work, Australians enjoy a standard of living amongst the best in the world.
- My own home of Melbourne, through the benefit of the gold rushes of the late 1800s and then the 'Collins house' companies of BHP/CRA and WMC, is regularly awarded the most liveable city – no offence to London on such a beautiful summer's evening!
- Yet, this long term contribution of the resource industry to Australia's prosperity remains woefully under-appreciated.
- As Chair of the Minerals Council of Australia for the last three years and a member for many more, I've seen these attitudes up close – in everything from public opinion research to our national leaders.
- The industry suffers from poor perceptions of social, economic, tax, revenue and employment contribution.
- The facts couldn't be more different.
- In the ten years to 2013 the mining investment boom had raised real per capita income by 13%, raised real wages by 6% and lowered the unemployment rate by 1.25%.

- The total tax ratio of corporate tax and royalties was 53%, equating to more than half of every dollar of profit in 2012 to 2013 being paid to governments.
- Indeed, in the middle of a significant downturn in global prices, the Australian mining industry still added an additional half a point of economic growth in the March quarter this year.
- Critically, this growth also occurs in the regional and remote areas of Australia that have been left behind by an increasingly services economy.
- As in Peru, and in most other resource dependent countries globally, Australia also struggles to demonstrate the social contribution of mining.
- And this bites us as much in a federal parliament looking for 'windfall tax' contributions as it does permitting a new mine in remote communities.

### **China and international investment**

- The last stop is Asia.
- And while many in the resources industry see this region as a late arrival – a new customer to the resources game – it is the opposite.
- With 13.5 million tonnes of Copper, Zinc and Nickel; 32 million tonnes of Aluminium; and 804 million tonnes of Steel produced from domestic and imported sources in 2015 – China is the world's largest producer, as well as consumer, of many metals.
- And this is where China Minmetals Corporation, known as Minmetals, comes in.
- Formed in 1950 by then Chairman Mao, Minmetals was created as the exclusive international commodities buyer on behalf of China – so unlike many of its peer group, it has always had an outward looking, globally focused perspective
- 66 years later, Minmetals is a diversified metals miner and trader, financial, property, construction and engineering business:
  - it employs over 140,000 people,
  - operates in 34 countries
  - produced 52 billion US dollars in revenue in 2015; and
  - ranks 198 on the Fortune Global 500<sup>2</sup>.
- When I visit Beijing and speak with Minmetals' management, I see a very different view – a long term view from a country that has been the world's largest economy for around 1,800 of the last 2,000 years.
- I see a dedicated commitment to lifting a further 500 million people out of poverty – even on the back of the extraordinary achievements of the last 30 years.
- I see programs such as the One belt – One road, The New Silk Road and the Asian Development Bank that will generate sustained development and demand for generations to come.
- I also see an openness to learn internationally and improve practices – to make mistakes but to see them in the context of a bigger picture.

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<sup>2</sup> Fortune.com

- Our association with Minmetals is through its majority shareholding in MMG.
- This investment reflects the evolving nature of Chinese investment in the resources industry.
- State Owned Enterprises (SOEs) are more open to hybrid ownership models, such as majority shareholdings, partial listings, joint ventures, and the like.
- MMG is an example of this – a new and interesting hybrid model – with stable, long term Chinese capital, and an experienced, western world management team.
- Now – as Chair of the ICMM and the only China controlled member – I know that China has some way to go on key sustainability performance measures.
- Larger Chinese SOEs are acutely aware and sensitive to global scrutiny across safety, environment, community and employee engagement metrics. That's because it not only impacts their reputation but also the reputation of China abroad.
- While many of us here look at the current state of our industry with fear, the Chinese regard this as an opportunity.
- China is acquiring, building and investing just at the time when the costs are low.
- Indeed, this is true of MMG. We are uniquely positioned to – and actively – investing in the down cycle. We have just completed construction and ramp up of the world's largest copper project and last week secured funding for a greenfields top 10 global scale zinc mine in Northern Australia.
- And this is not 'hairy-chested' growth for growth's sake.
- It is about long life assets with a good return on investment.
- And at MMG our future ability to grow is closely related to the effectiveness of our current performance – we earn the right to grow.
- Our shared ambition as MMG and Minmetals is to build a global mining major – standing shoulder to shoulder with the best in the industry.
- For MMG, that translates to an objective of being at the top of the mid-tiers by 2020 – and when combined with Minmetals, we are clearly much bigger.
- We are realistic enough to know that this will not occur by acquiring tier 1 assets in tier 1 locations where competition is high and opportunity is known.
- Our opportunity is investment in new locations, where the ore bodies, geography and social context are more challenging.
- Where regardless of the scale of operations, we adopt a mid-tier mindset – we keep testing our mettle (if you'll excuse the pun) – squeezing productivity to 'earn the right to grow'.

## Summary

- I'd like to conclude by drawing out three themes – and perhaps setting a challenge or two.

### Working together to raise living standards

- First, the global debate about the mining industry's social licence is an important but, in some ways, pointless one.
- That debate needs reframing.
- Metals and minerals are critical to everyday life – and a low carbon economy is dependent on their greater use.
- We must move into the roles and responsibilities we have as mining leaders, governments and local communities to build a new pact and ensure the benefits of our activities reach and are shared equitably with those impacted by our operations.
- One based on mutual obligation and respect – for the important role of wealth creation and the right of communities to play a meaningful role in their own destinies.
- There is a strong advantage in banding together – that is why the ICMM was formed.
- There is still much to do and I extend the hand of cooperation on behalf of the ICMM to those who want to join us on this journey.
- Our community relations must be a direct interaction, rather than one managed through third parties.
- Quoting GDP contribution benefits to a local farmer who has to uproot his family just won't work.
- But a direct contract, with full and informed consent, that shares the costs and benefits fairly, is where we must be.
- We let everyone down when we retreat behind our fences and let the activists, lawyers and middle men do our negotiation.
- That's as much about taking pride in our contribution as it is about acknowledging what I call the 'development dividend' we owe to communities.
- And if we have to take the role of government – adding health, education and infrastructure, we do so in partnership with a clear and quick path to handover to community or government management.
- That's not to say there is not a clear role for global NGOs. But I would much rather bring an expert in child health into a community as a partner and bring the best of each other for the communities' benefit.
- This is exactly what we have done with UNICEF in Southern Laos.
- And our door is always open to other development agencies who want to make a difference on the ground.
- There is also a clear role for the extractive sector to reach out to new conversations – the dialogue between the mining industry and inter-faith groups is an excellent example of this.
- We can imagine a different world when we learn to see through each other's eyes. It is not always an easy conversation, but it is certainly a rich one.



- Only when we start winning the hearts and minds of our local communities will we challenge a debate dominated by those who challenge the legitimacy of mining while advocating a society based on intense metals use.

### **Understanding foreign direct investment's role in raising living standards**

- Second, mining is a unique growth engine and one that occurs in the remote regions largely left behind by a services and lifestyle economy.
- Increasingly, the capital flows to these regions are Asian – and in particular Chinese.
- This is as much an investment in access to current and future opportunity as it is soft diplomacy – embedding capability within high growth regions that present the next horizon of regional growth.
- It is also an investment that breaks the “build in the boom, sell in the bust” sentiment that pervades our industry.
- MMG’s decision to build a new greenfields zinc mine at a time when input prices are low and contractors plentiful demonstrates just this.
- It is a clear example of the benefits of long term capital that flows from sovereign wealth and policy funds.
- We must also work closer with the providers of capital and infrastructure to build corridors of growth in those regions where commodity and manufacturing industries can flourish.
- This is good for investors, good for governments and good for society.
- We should look to how we can continue to balance sustained metals production and energy provision with the rise of alternate low emissions technologies while building the infrastructure for our children’s children.
- Whatever we model, minerals, metals and energy (and yes, even coal) will be a big part of our future world and we must acknowledge and value the industry’s contribution.

### **The resources industry takes a long term view – and it’s positive**

- Third, regardless of our current state in the commodity cycle – our industry is strong and resilient and its outlook is healthy.
- The demand from a growing Asian region with China (and a rising India) at its core is robust.
- As the infrastructure deficit across greater Asia and then Africa is met, and the economic dividend it creates, kicks in, we should be confident of future demand.
- And, we must acknowledge the grade, development and social constraints that continue to limit supply growth in many base metals.

## Closing

- My challenge to all of you tonight is this –
  - get involved;
  - change the conversation;
  - participate in the debate.
- Personally, I look to the future with great excitement.
- I am fortunate to be part of a unique story at MMG.
- Together, the combination of MMG and Minmetals has the ingredients to build a new global leader – China’s first international major mining company.
- While the outputs of mining are the stuff of every day – the cars we drive, the energy we consume, the machines we run and the technology we can’t seem to do without – there is nothing everyday about mining in most peoples’ lives.
- We can, and must do better to explain our world. As industry leaders – through unique groups like the ICMM and new partners like UNICEF, we will.
- I thank everyone in this room for your ongoing interest and support in this sector of which I am so very proud.
- I trust that with the benefit of 20:20 hindsight, this will be the “bottom of the cycle” 2016 address.
- Of course, that leaves next year’s speaker to tell the story of a resurgent base metals sector – and there are a number of you in the room who I know will jump at the opportunity.
- Thank you.

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