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Keynote Address

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Ministers, Excellencies, Sponsors of this Luncheon BHP Billiton, other distinguished guests…….

I am delighted to be here at this august event, in this delightful city, in this remarkable country, and privileged to be asked to address you – there are few greater compliments than to be asked for your opinion – I hope I can reciprocate the compliment.

You have asked me to provide a perspective of what business is looking for in a foreign jurisdiction to invest in the development of their resources sector – and in a about 20 or so minutes!

To do that any sort of justice requires me to give you what I think are key variables around the fundamental prerequisites to attracting and sustaining investment.

As has been my practice over two and a half decades in Australian and International public policy advocacy, I have no intention of telling you what you should be doing or worse still running a commentary on Africa for which I am evidently poorly equipped to do.

Rather, my objective here is to identify key success factors from my experiences and leave it up to you to judge how they might apply in the circumstances of your own countries here in Africa.

It all simply boils down to confidence – and once you go past the *prima facie* (or up front) geological and economic evaluations – sovereign risk becomes the primary determinant in a company's assessment of the confidence intervals to their net present value calculations of prospective long life producing minerals resource assets.

By sovereign risk, I take a broader definition than the traditional probability that a country may not pay its debts, to include a wider consideration of the combined effects of Governments' intervention in the market, such that a government may resort to altering any of its laws, or indeed failing to alter any of its laws where necessary, thereby causing or prospectively causing adverse losses to investors.

In the global village of today where capital, people, technology and information knows few boundaries; and where mining companies have long transcended the national patronage of their local origins as globally integrated and diversified entities – miners capital will be deployed where it will be most strategically utilized.

There is no shortage of opportunities for miners to strategically deploy highly mobile capital across an ever increasing pool of resource rich nations.

The emerging resources rich economies, including on this continent, are adopting economic, social and political reforms that are materially reducing the sovereign risk of doing business in their jurisdiction.

And the global pool of available FDI is substantial and changing in its sources and deployment…. UNCTAD state that 2014 FDI will reach US$1.6 T, US$1.7 T in 2015 and US$1.8 T 2016; SOEs make up 11 per cent, even though only 1 per cent of TNCs.

Developed Asia is the largest FDI recipient at US$400B+/US$300B.

The African continent attracted $57B in 2014 – of which the top 6 countries representing just a third of the continent's population (South Africa, Nigeria, Mozambique, Morocco, Ghana, Sudan—in that order) accounted for US$28B which was the same amount for the remaining 48 countries of the African continent.

Quite simply, a country's demonstrated or prospective natural endowment in minerals resources will attract attention, even considered scrutiny, but will invariably stay as dirt in the ground unless jurisdictions' public policies and attitude or disposition to mining establishes a socio-economic climate conducive to investment in the legitimate exploitation of that resource – turning natural resources into shared societal capital.

To state the rather "bleeding obvious" **natural endowment does not automatically translate into competitive advantage.**

As you'd expect in such a globalised environment the market is sorting it out.

Companies are voting with their feet in differentiating between nations even jurisdictions within nations – and not just a north-south divide but also within the broader categorisation of developed and emerging economies.

You only have to look to their behaviours in the global market to identify what attracts them to invest in prospective resource rich nations – not just here in Africa, but as I said at the outset, globally – what signs they look for for longer term confidence, and what turns them right off….

I'll address each of these.

Firstly, what attracts them is invariably a combination of positive common differentiators:

- the embrace of pro-competitive open market economic policies principally trade, investment (finance), and labour arrangements, with capacity to access foreign capital, forex markets, export markets, and to be able to expatriate profits
- stability in democratic and institutional governance including at the local level – an ability to lead and to get things done -- and a clear separation of powers between the judiciary, politics and the Church
- transparency and accountability in observance of property rights – security of tenure is paramount with capacity to transfer ownership – and the rule of law
- adoption of international covenants particularly on trade and investment – particularly multi-lateral and bi-lateral investment treaties which are a critical defence (risk mitigation) against a Nation's legal right under UN Charter to nationalise, expropriate or transfer foreign ownership without appropriate/proper compensation
- sound macro-economic management and fiscal stability, and particularly levels of public and private indebtedness relative to GDP
- progressive stable taxation regimes – that enable investors to pre-determine tax liabilities
- stable, predictable, efficient and effective regulatory arrangements founded in market failure – excess intervention and uncertainty in being able to pre-determine environmental, land access, community, and infrastructure obligations are real killers:

    - uncertainty concerning the administration, interpretation and enforcement of existing regulations; including environmental regulations;
    - regulatory duplication and inconsistencies (including federal/provincial or federal/state and interdepartmental overlap);
    - uncertainty concerning disputed land claims;
    - uncertainty concerning which areas will be protected as wilderness, parks or archaeological sites;
- access to a geological database (including quality and scale of maps and ease of access to information)
- the adequacy and quality of infrastructure – the veins to the life blood of a mining operation – energy and water utilities, transport, social amenities, communications
- effective security measures – physical (personnel and property); and anti-corruption and bribery policies and practice—to make corruption either impossible or obvious
- a culture of innovation and skills development and the requisite intellectual and technological infrastructure — and not just in operations but capacity building in regulatory institutions and educational development through the entire education system to vocational training in technical trades and professional disciplines, and
- a commitment to sustainable development and intergenerational equity – building a capacity for future generations prosperity, not compromising it for today's benefits.

The Canadian based Fraser Institute's Annual Survey of Mining Companies provides a very good quantifier of these indicators annually surveying 400 odd mining Senior Executives operating across 50 plus jurisdictions – what Executives are looking for in how they rate regions respective combination of a nation's inherent mineral wealth and public policies.

This is a very good ready reckoner for Governments.

Some African countries have clearly made headway and are internationally competitive in the investment attractiveness rankings.

In the 2013 survey, out of 112 regions, the best of the Africans is Botswana (24), Ghana (33), Namibia (34) and Zambia (41), followed by South Africa (at 53)

To provide some perspective:

- Botswana ranks just shy of Queensland, and in the company of Norway, and Canada's North West Territories.
- Ghana is marginally ahead in rankings of Peru, NSW, Tasmania, and Victoria.
- South Africa is in the company of California, Brazil and Portugal.

And the proof as always lies in the market.

In 2014, there were 220 ASX-listed companies operating more than 1,100 projects across 38 African countries.

And the resources sector in Africa has been one of the best performing sectors in terms of attracting foreign direct investment (FDI) over the past decade.

In the 2007-2013 sectoral rankings for FDI in Africa, mining and metals ranked first at 21.2 per cent in terms of job creation and third at 14.5 per cent in terms of value; and coal, oil & natural gas ranked fifth at 5.3 per cent in terms of job creation and first at 31.8 per cent in terms of value.

I am not an economist. But as a former private sector public policy advocate and now more involved in the "coal face" of business, experience tells me **what's good policy for a nation is good policy for mining, even if you might think I would say it the other way round.**

And not just because the twin forces of urbanisation and industrialisation are sponsoring extraordinary economic growth and consumer purchasing power translating into demand for our products, but because it builds confidence for us to invest and reinforce the nations growth trajectory and socio economic development momentum.

The evidence clearly indicates that the benefits of attracting mining investment are more than reciprocated in national and community benefits.

Few seriously contest that the mining industry has a long and constructive history in contributing to the social and economic growth of resource rich economies and more generally the globe.

…and even more so today as the industry gives effect to its vastly improved operational practices in pursuit of the global commitment to sustainable development.

Other than agriculture, few other industries can claim to have such a sustained and material impact on societies' progress than mining – whatever measure you take – contribution to growth in GDP, jobs, incomes, per capita purchasing power, individual's quality of life including alleviation of poverty and inequality….

Any number of studies reach this conclusion, principal among them the International Council on Mining and Metals' (ICMM) Resource Endowment Project – conducting 5 comprehensive case studies in Tanzania and Ghana in Africa, Chile and Peru in South America, and Laos in South East Asia.

This comprehensive study reached the inescapable conclusion that with a good policy framework mining had demonstrably improved the economic and social circumstances of the host nations – which put to the sword the misconception of the so-called "resource curse", and that mining is somehow old economy condemned to waste rock……

And just recently some new research by the International Council on Mining and Metals on the importance of mining - ranked 214 economies.

Of the top 70 countries in the list, 63 are low-income countries. In low and middle-income countries mining can account for up to 90 per cent of foreign investment and up to 60 per cent of exports.

So…. if I leave you with only one take home message today – it is – that the set of public policy criteria I just outlined are not just our wish list they should be every countries wish list that has the welfare of its people as its pre-eminent sovereign responsibility.

The 3 tear drops of inequality, poverty, and unemployment, as described by South Africa's former Minister of Resources, can only be addressed, in any economy and particularly emerging economies, by economic growth that facilitates investment, creates job opportunities, and fosters social progressiveness.

This can only be delivered by structural reforms that are enduring – and not at the whim of changing political persuasions and volatile capital, product and services markets.

The sign posts are pretty clear.

The underlying differentiators globally between the economies that are growing and those that are struggling is the progressive structural transformation to more open market economies from what were rigid, tightly controlled, poorly governed and administered where Government intervention was a key feature of markets and society.

These economies are more open and outward looking, innovative and technologically progressive, with stronger governance, legal and regulatory arrangements and supporting institutions

– able to compete for human and financial resources and custom in a dynamic and increasingly integrated global trade and commerce

– confidently attracting foreign direct investment even transcending the traditional sources of global capital supply from the West, to the East and Middle East, and to sovereign wealth funds, state owned enterprises and private equity.

Look to the underlying structural reforms in the BRICs economies – indeed it was China's accession to the WTO that kicked off the "mining boom" of this millennium, and it has been the positive contagion to other emerging economies – Latin America, South East Asia, Africa, and increasingly Mexico, Turkey, Central Europe and even Russia if it accedes to the WTO and gets its regional house in order.

Their governments, generally, are playing the game of economic catch up to the West, gradually adopting policies and practices that had transformed the West – and are now driving the greatest global secular structural adjustment since the industrial revolution of the 19th century

……… to the point that these emerging economies account for well over three-quarters of global growth today and are expected to account for around 80 per cent of global economic activity by 2050.

Here in Africa the economic and social development is hailed by many as a remarkable transformation, even if qualified by the sheer potential still on the table.

Over the decade, the continent has enjoyed economic growth in excess of five per cent a year. Seven out of the top ten of the world's fastest growing economies are in Africa, albeit off a low base.

Even a distant observer like me can see that South Africa alone has provided essential housing, water and electricity infrastructure, such that a vast proportion of the population now have access to the basic necessities of life.

And by 2050 Africa's population will double to 2.4 billion – with sub-Saharan Africa's population increasing by more than a billion people.

By contrast look to the economies, particularly the developed economies of the OECD, that are struggling, principal among them the Eurozone, or were struggling such as the USA and are now finding a "road to Damascus" – rediscovering the enlightened journey in reinvigorating their economy.

The USA has capitalised its incredible track record in technological innovation and labour and capital productivity to unleash vast natural reserves of low cost energy to the point where I am still (a rather controversial prognosis I made more than 5 years ago!!) of the view that they will be energy independent by the turn of this decade, and they are on the cusp of a new age industrial revolution.

Their consumers have endured a difficult process of shedding debt and learning to live within their means.

The US has always recognised the limits of Central Banks to drive growth, but clearly understand the effects of integrating monetary policy with wider economic reforms and structural adjustments.

They cleverly executed quantitative easing to artificially depress their currency as they moved through a revitalisation of their manufacturing base aided by flexible workforce arrangements, internationally competitive wage rates, global leaders in productivity, strong private company balance sheets, and a fierce political, at least at State/local level, determination to drive a revitalisation in manufacturing.

Contrast this with the culture of Europe's economic circumstances… as some 24 per cent of the global economy – the EU hangs like deadweight over the global economy and are arguably the prime factor in the apparent bi-polarisation of the global economy between the emerging and developed nations.

Europe's sovereign debt crisis is systemic – Europe is deeply founded in a culture of state dependency and social entitlements.

Public sector spending accounts on average, for nearly 50 per cent of GDP. Taxation and borrowings are at historical highs.

The entrepreneurial impulse in Europe remains burdened by overwhelming bureaucracy and in many cases State control.

Energy, agriculture, fishing, labour arrangements, health and safety are all under State control.

Massive government subsidies are paid via State appointed agencies whose regulations are enforced outside the principle of national law.

Changes needed are not just cyclical deleveraging, but structural fiscal discipline and economic reforms, yet systemic reform is problematic to say the least. To deleverage their economies means less spending, less credit, higher levels of taxation and greater savings.

Negative credit growth is the root cause of political instability – it exposes systemic problems that were hidden by credit, and requires unpopular austerity measures and job losses to remedy – as the Greece crisis is making only too evident.

Public and private debt levels well in excess of 250 per cent of a country's GDP become deadweight to its economic growth in eroding investment confidence, stifling credit availability, in turn severely constraining the economic cycle.

This then becomes a root cause of political instability – Governments are reluctant to move, even terrified, as one commentator put it, and opposition parties are political opportunists.

Structural reform is a very transient process, replete with political hurdles throughout.

– structural reform has a lag phase to the benefits which invariably means the pain is felt clearly and materially before the gain.

In a global environment of peoples increasing distrust of their governments this is a difficult path for democratic governments (as those with centrally planned market economies are want to point out at times),

…. but clearly not impossible—history tells us this….

Our experiences in Australia provide a telling insight…..

When the Hawke-Keating "labour" Government came to power in the early 1980's, Australia was an inflexible, rigid economy, mired in regulatory control, enterprise stifled by bureaucracy, replete with state owned enterprises, a culture of state dependency and entitlement, and an antipathy towards business and economic development—strong parallels with the EU of today!!!

Australia was recession prone, with high unemployment, high interest rates and high inflation, inward looking and yet increasingly exposed to the competitive rigours of the global market where comparative advantage in natural endowment (in agriculture and mining commodities) and protection of inefficient industries, would clearly not suffice for competitive strength.

The imperative for reform was utterly compelling, though not universally appreciated. It took the political courage and unstinting commitment of the newly elected Hawke-Keating Government to stare down the rather aggressive opposition of the respective vested interests of their traditional constituency.

This imperative for cultural change and the challenges of resistance to it similarly confronted the subsequent Howard-Costello "conservative" Government.

Quite simply, both governments had to change the Australian nation's culture.

And they did – significantly.

Public policy development and outcomes shifted from a divisive and confrontationist platform (of 'them and us') towards a commitment to inclusiveness and engagement (a consensus of 'us') based on national rather than sectional interests.

Australia's socio-economic orientation shifted profoundly to open markets and to individual enterprise and initiative, both in culture and structure.

Australians, generally, embraced the opportunities and disciplines of a dynamic market economy, and self-determination and responsibility, shunning the old, collectivist model of the "tripartite state" – government controlled, union dominated and industry protected culture of entitlement and paternalism (in the generic) of an era passed.

These open market reforms underpinned a quarter of a century of consecutive years economic growth.

They proved critical to Australia's resilience in the face of external shocks from the Asian and global financial crises.

They were the essence to the sustainable distribution across the country of economic opportunity and development – most notably, the benefits of this 2002- 2012 mining boom translated into economy wide benefits and specifically a massive increase in household incomes nation-wide.

Since the 2007 election – Australia is losing its appetite for necessary structural reform for want of the necessary political leadership evident in the 3 decades of reform I referred to, and we will be much the poorer for it -- not only today but assuredly for future generations – which undermines the fundamental tenet of sustainable development – intergenerational equity.

Business is not ignorant of the competing tension of longer term enduring structural adjustment and the reality of shorter term political imperatives facing Governments, nor intolerant, indeed supportive, of progressive reforms.

Evolution is always more likely enduring and sustainable than revolution – an evolutionary or transitional phase of reform that takes the wider community along the journey is far more palatable, predictable and likely enduring.

Policy revolution usually confronts society and fosters uncertainty in a dramatic period of change, and ultimately rejection at the ballot box, sponsored more by fear than any real rejection of the policy platform, even though political warring factions might have you believe otherwise.

And of course it invokes a swinging pendulum of counter weights which is very disruptive to business confidence, not least the community at large and the political system.

The public policy climate is naturally bi-polar — today's policies are self-evident, but tomorrow's policy climate can only really be judged by the culture of the country's governing bodies.

What Companies look for in this sense is the signs of a government's continuing commitment or at least disposition to key structural economic and social reforms… and in our case, and I'm sure other sectors, we look to the government's attitude towards our sector.

Attitude begets behaviour – and this is a two-way deal – a culture of shared responsibility is vital if there is to truly be a mutual benefit to what is a virtual joint venture between the State as the proprietary owner of the minerals and the company that brings the where with all to legitimately develop the natural resource.

Principal among these signs is a commitment to engage business on a platform of mutual respect with a clear objective to work collaboratively and cohesively to mutual objectives.

This clearly entails reciprocal obligations on mining companies to step up to the plate, so to speak.

Mining companies, indeed business generically, needs to optimise its performance across the 3 planks of social, environmental and financial dividends to their operations

– for unless business delivers on the wealth creation opportunities, including, in our case, beyond life of mine, scarce political capital will be squandered and the promise of structural reforms illusory, and the politician's and public's confidence in the policy path seriously undermined.

In this, mining companies want to be considered as real partners, as a valued part of the community— not merely tolerated or begrudgingly accepted as an essential part of the economy.

Being able to earn and maintain a social license to operate is also a critical determinant of investment, particularly if there already exists a climate of government antipathy and community activism toward mining.

The key to a social license is community empathy – to which equity is a vital ingredient – if not direct equity in the way capital markets look at it, but equity in job opportunities, commercial opportunities in local content provision, community benefits in the development and construction of social and physical infrastructure, and a real and tangible take on what intergenerational benefits means for their children and beyond—and even if it is "just a say" in what's going on.

….. if the relationship is adversarial and our miners are a convenient whipping boy when the political climate of populist opportunism presents, the chances of this developing are greatly diminished, if not lost at least in the short term.

As put to me by one of my close friends over here, who has a long and distinguished history in the South African struggle – governments must stop looking upon mining as if it is apartheid capital— and its business as economic apartheid.

If I had but one constant refrain from companies who get it in this respect, it is that governments and community leaders, including responsible NGO's, are either loathe to promote or ignorant of the incredible contribution their companies make to the economic and social development of their host communities—in the form of schools, education and training often unrelated to the activities of the mine, hospitals and health facilities, day care, sporting and recreational facilities, water and sanitation, energy and communications

– and worse still without any offsets to their taxes and royalty obligations which invariably go to Government's consolidated revenues without any tangible or transparent returns to the local communities in the form of improved facilities.

And if I have learned nothing else in my time it is the folly of any industry accepting that it is judged by the lowest common denominator.

Just as the capital and product markets and increasingly prospective host communities are differentiating responsible miners from the not so responsible companies – so too might

governments be more discerning, not just in the filter of regulatory licences, but also in the manner of their relationships with companies.

This is no sanctimonious pitch on my behalf – there are very strong case studies to underscore my point – globally there are few better examples than key parts of the minerals industry's embrace of the global pursuit of sustainable development and key parts of the industry's rather stunning improvement over the past decade in the stewardship of the social and environmental assets under its care.

And in Australia, the turnaround in our relationship with our indigenous peoples over land rights from confrontation and divisiveness to mutual regard, trust and respect and ultimately to mutual benefit, is quite remarkable.

Today, Indigenous leaders praise the mining industry for having made an unprecedented contribution to improving the quality of life for their peoples through economic opportunities and social development.

Lastly, in my structure of what companies look for – let me identify what are key "turn offs" for companies looking to invest – and I underscore that these are global criteria not just applicable to Africa.

Companies are seriously diverted by the extent to which Governments around the world are engaged, or are disposed to, unwarranted intervention in the market, principle among them:

- **the creeping cancer of "resource nationalism**" where governments seek to gain a higher rent from the exploitation of their natural mineral resources at the expense of the private company

  – to either subsume, control, transfer ownership, or redefine the taxation terms upon which the original investment was agreed

  – this might well be born of a necessity for a greater fiscal take to boost or repair fiscal positions, and/or to drive socio-economic development, but it significantly increase the risk of doing business in that country.

  Recently in Australia such attempted policies were also justified in the politics of envy. The so-called super profits tax drew worldwide attention. The proposal was poor economic policy with even dubious short lived economic benefits, and if you subscribe to the adage that good policy is good politics, then it proved to be bad politics indeed.

- **an unhealthy emphasis in economic policy on the redistributive than the productive side of the economy** – this draws its origins from the socialisation of wealth creation and at times, the politics of envy – but, carving up an ever diminishing pie is not just bad economics it too is poor short term politics—the accent has to be on growing the pie to a mutual benefit sharing

- **increasing requirements on companies for socio-economic agreements beyond that which are founded in commercial legitimacy including earning a social license**, to the point of mandated regulatory licence conditions, that stipulates local content requirements, beneficiation or

downstream value adding requirements, and the provision of social and physical infrastructure which would normally be the purvey of governments citizenship responsibilities – and often without offsetting taxation or royalty concessions, and worse still without regard to their contribution where that is voluntarily provided in earning and maintaining a social license to operate

- **the lack of, and no clear plan for capacity building, in social and physical infrastructure –** education and training, health and social welfare, export corridors, IT and communications, and water and energy utilities

- **the mandating of aspects of corporate social responsibility, again that go beyond a mutually beneficial partnership, and that add materially to the costs of a project with no or little demonstrable tangible social or economic dividend**, eg. Dodd-Frank Act focus on transparency and sourcing of so called “conflict minerals,” is stigmatising minerals sourced from the DRC on a platform of arbitrary determination; and mandating “Publish what you Pay” diminishes the legitimacy of the Extractive Industries Transparency Initiative and removes the onus of responsibility on recipient Governments to declare revenues received

- **emerging protectionist sentiment, notably in restrictive workplace arrangements**, soft regulation in the form of local content rules, which is tantamount to another form of beyond borders protectionism, and persistent if not increasing tariff protection and subsidies assistance to select industries, and a counter-productive antipathy toward foreign direct investment, foreign skilled workers, and foreign enterprise

- where **excessive and/or unnecessary regulation**, notably in environmental project approvals, increases costs and delays without any tangible environmental or social dividend; and

- **fragile governance and inadequate institutional capacity**, and the real or perceived presence of corruption and a lack of adherence to the rule of law.

So in summary……………..

- mining’s businesses look to countries with a combination of resource endowment committed to structural reforms for enduring stable pro-competitive open market economies—they know what they like, what they won’t accept and they will vote with their feet. While the inherent resource may not be upwardly mobile all of the factor market deliverables to its development are more mobile than since Marco Polo turned open trade into an art form

- what’s good policy for a nations growth and socio-economic development is good for mining, in turn mining has proved it has the potential to be a major catalyst for sustained socio economic growth and improved prosperity

- a social license to operate particularly in host or surrounding communities to our operations is as compelling as a regulatory license and invariably of a more enduring mutual benefit to the community and the company

- mining has gone through a remarkable transformation over the past decade or more in the stewardship of the social and environmental assets under its care in its pursuit of sustainable development and intergenerational equity. Modern day mining operations define the dividends to their development of natural resources endowment in terms of social, environmental and financial dividends; and

- the culture of the government is a highly valued indicator of investment attractiveness for long lived assets – a culture of structural progressive market reform, of engagement with the community and business, a strong disposition to enter into a real partnership with the resources sector akin to a joint venture where each is a valued partner built on mutual respect and trust, to the shared benefit of community, labour, government, and mining companies.

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