

International Mining for Development Centre

The Case for Socially Responsible Mining

Lessons from Australia

Ready for Take Off Conference

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17 September 2013



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Abbot embraces free trade and foreign investment

Tony Abbot has put investment and free trade at the centre of the Coalition's agenda to reignite economic growth.

The Australian, 17 September 2013



Hon Tony Abbot MP, Prime Minister of Australia - designate

Boost foreigners' profits, says Robb

The minister designated "Australia's ambassador for jobs", Andrew Robb, wants to boost the profits of foreign investors as a key to striking much-delayed free trade deals...and tapping into \$150 billion of potential foreign investment.

Australian Financial Review 17 September 2013



Hon Andrew Robb MP, Minister for Trade and Investment - designate

Attracting international investment is key to boosting economic growth in sectors such as resources, manufacturing and agriculture

The Australian, 17 September 2013

Overview

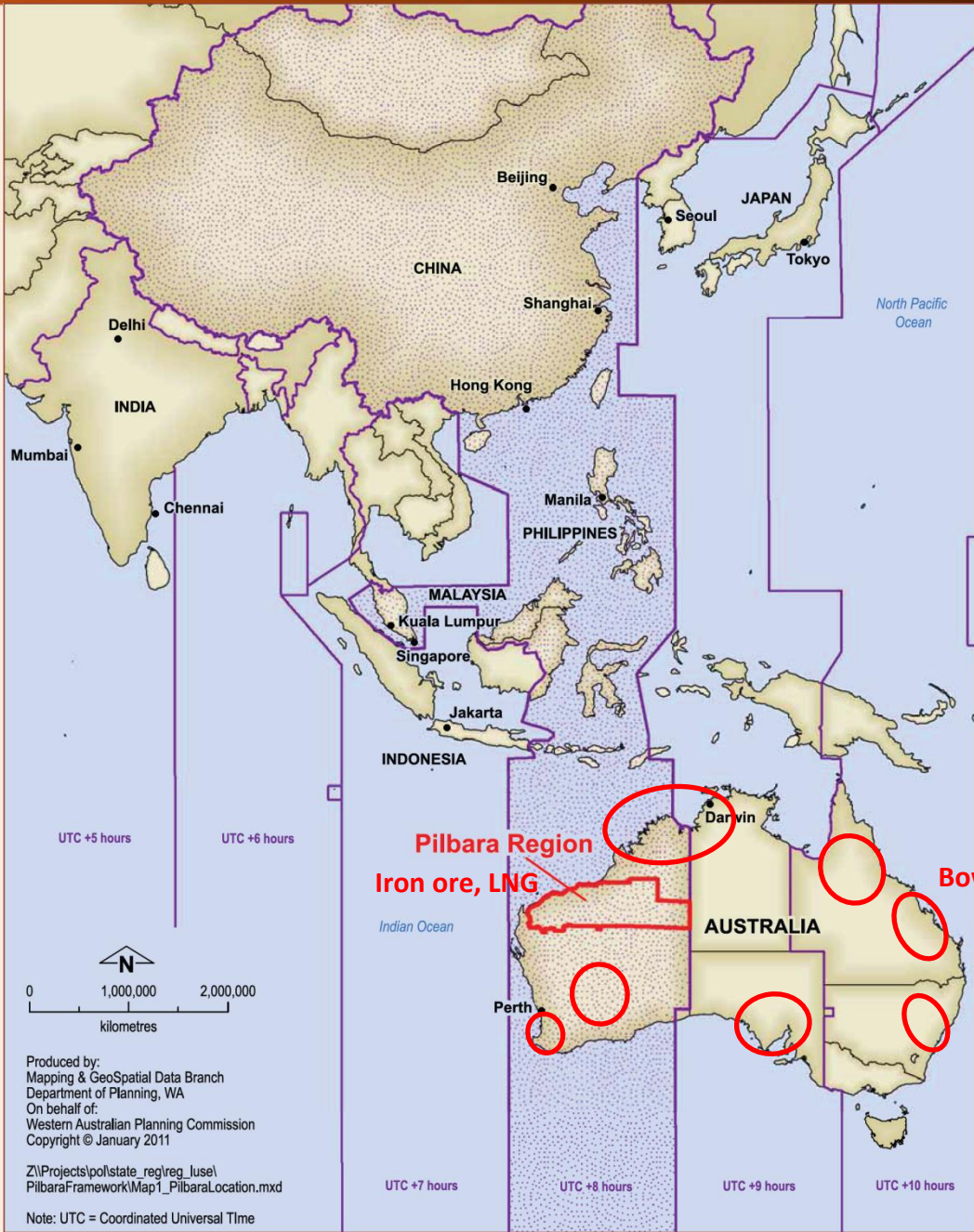
- 150 years of mining experience
- Australia has done well from mining
- We've made mistakes...
- ...but we have learned much
- “Grow the pie” strategies
- Economic reform and infrastructure partnerships
- Investment attraction, efficient approvals, certain fiscal regime
- Partnerships approaches, delivery of returns for all
- Using mining to facilitate broad-based economic growth
- Generating strong social licence to operate



What is socially responsible mining?

Corporate social responsibility 'plus'
+
Good governance
(government, industry & community)
+
Sustainable, broad-based returns

So is Kenya!



Australia is well located to supply Asia with mineral and energy products

Pilbara Region
Iron ore, LNG

Bowen Basin region
coal, LNG

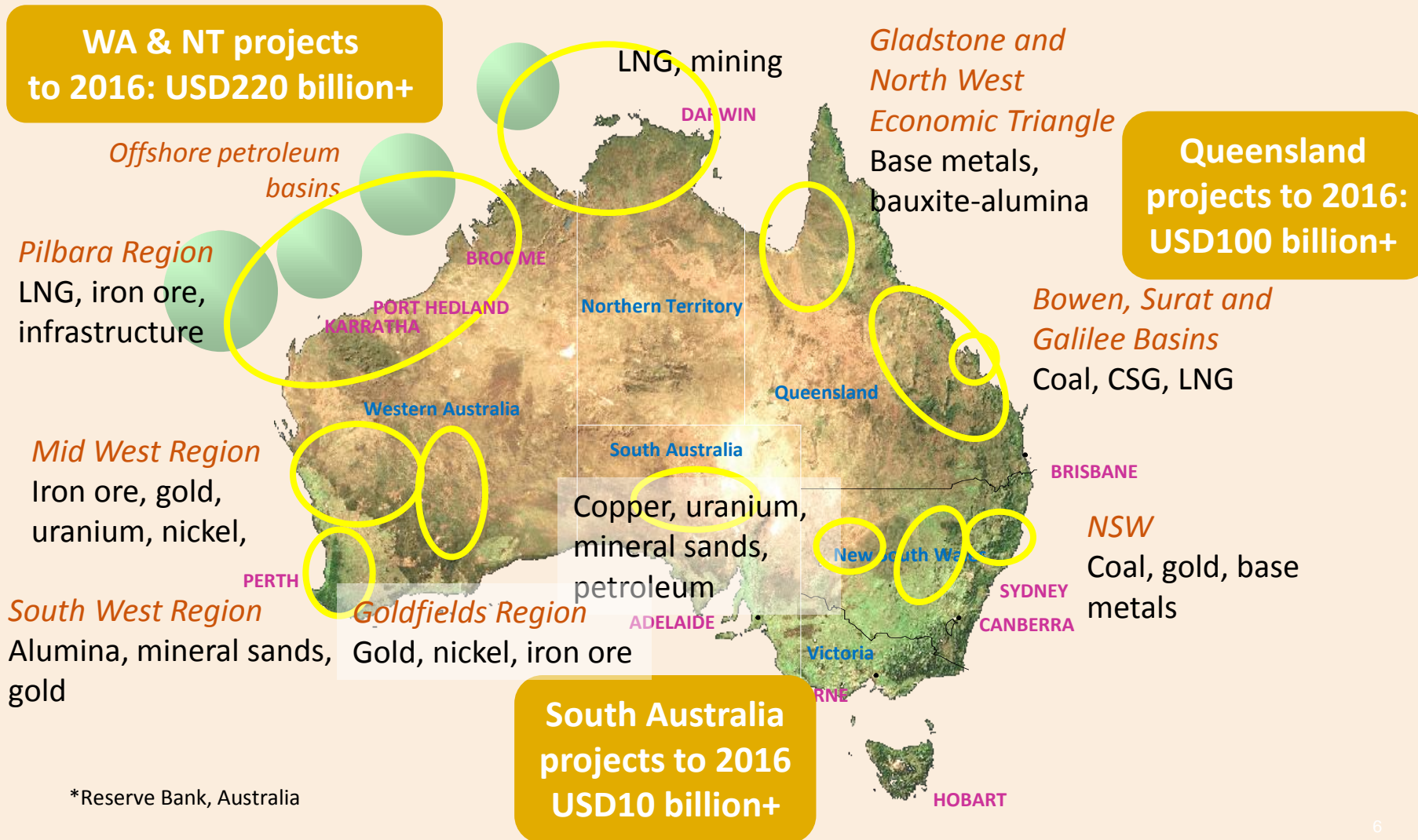
Hunter region
coal

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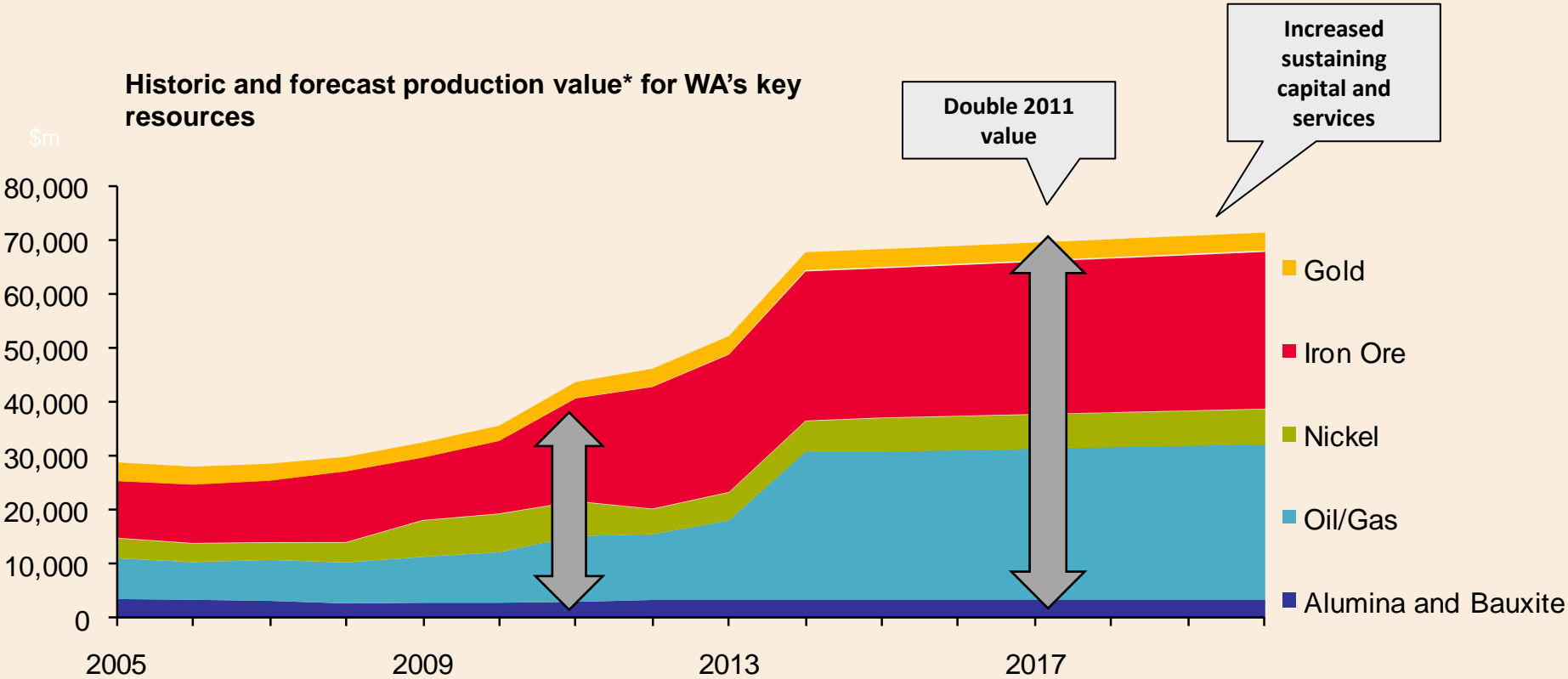
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PilbaraFramework\Map1_PilbaraLocation.mxd

Note: UTC = Coordinated Universal Time

Australia's engineering and construction challenge – the largest investment wave since the 1800s gold rushes*



Western Australia case: investment will result in decades of increased production with lower volatility



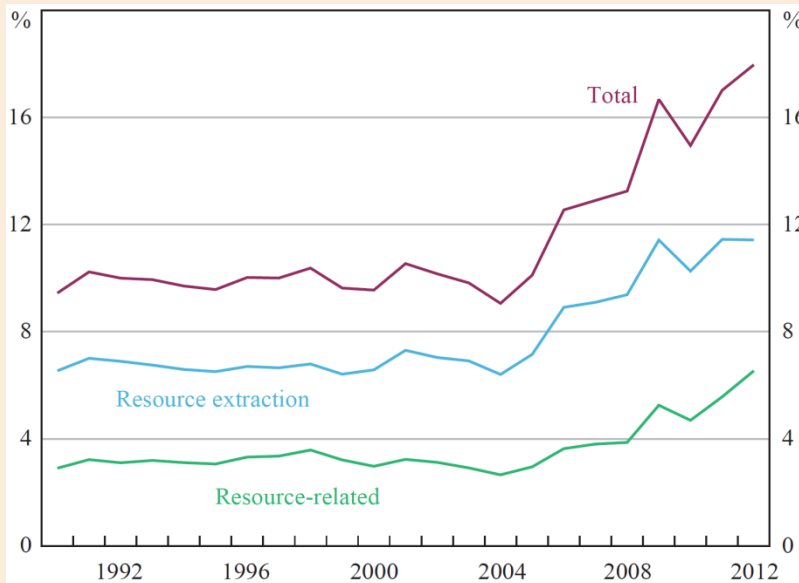
Source: ACIL Tasman analysis

* At ten year average prices

Mining and *related sectors* in Australia are bigger than most people realise

Gross Value Added – resource economy 2011-12

Share of nominal GVA, financial year
(has more than doubled in past 10 years)

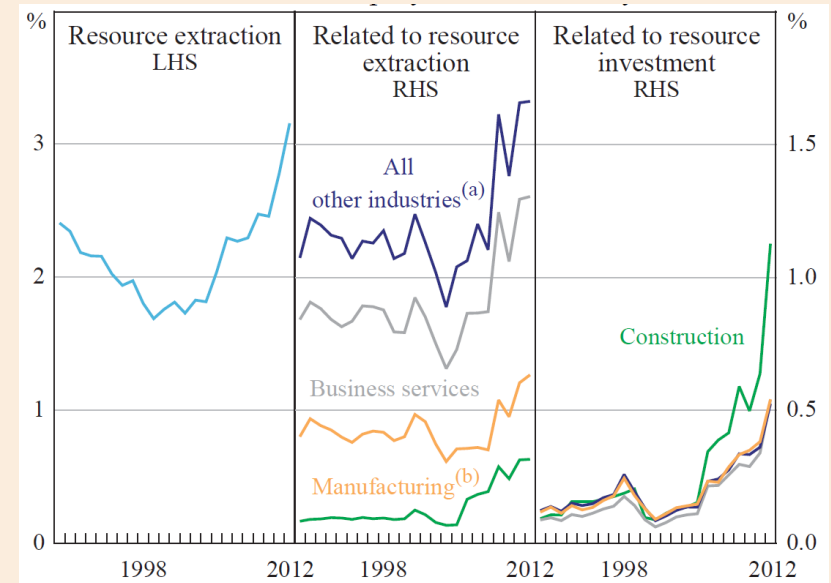


Resource economy accounts for **18% of GVA**

- **11.5% directly** from extraction and processing
- **6.5% from other sectors** providing inputs

Resource employment by industry 2011-12

Share of total employment, financial year



Resource economy accounts for **10% of employment**

- **3.25% directly** from extraction and processing
- **6.75% from other sectors** providing inputs

It's not only about mining: other growth drivers

1 Corporate shift to Australia



2 Service and technology hub



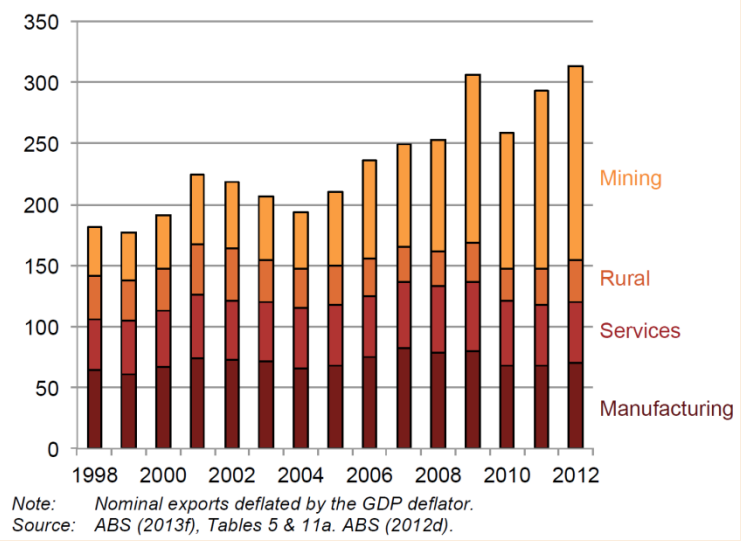
3 Trade & foreign investment



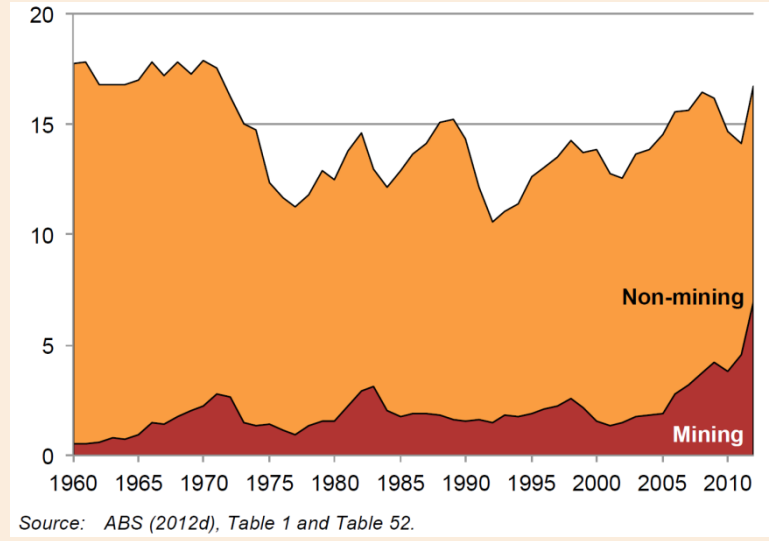
4 Agriculture and food sector growth



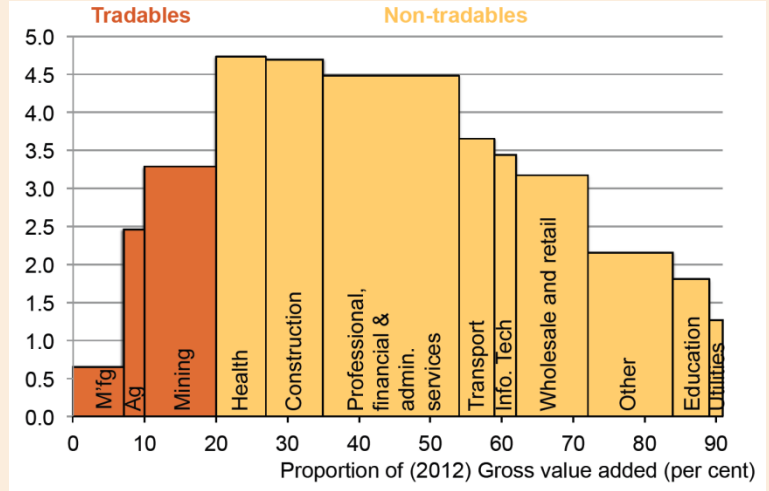
Growing mining is important, but so is growing other sectors



Australian exports 1998 – 2012



Investment in Australia 1960 – 2010

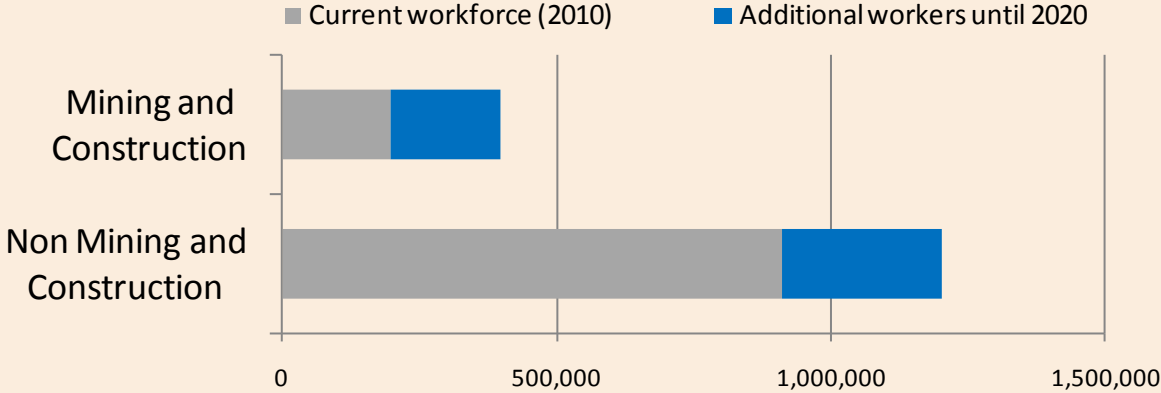


Note: Tourism (tradable) split across multiple categories.
Source: ABS (2012d), Table 5.

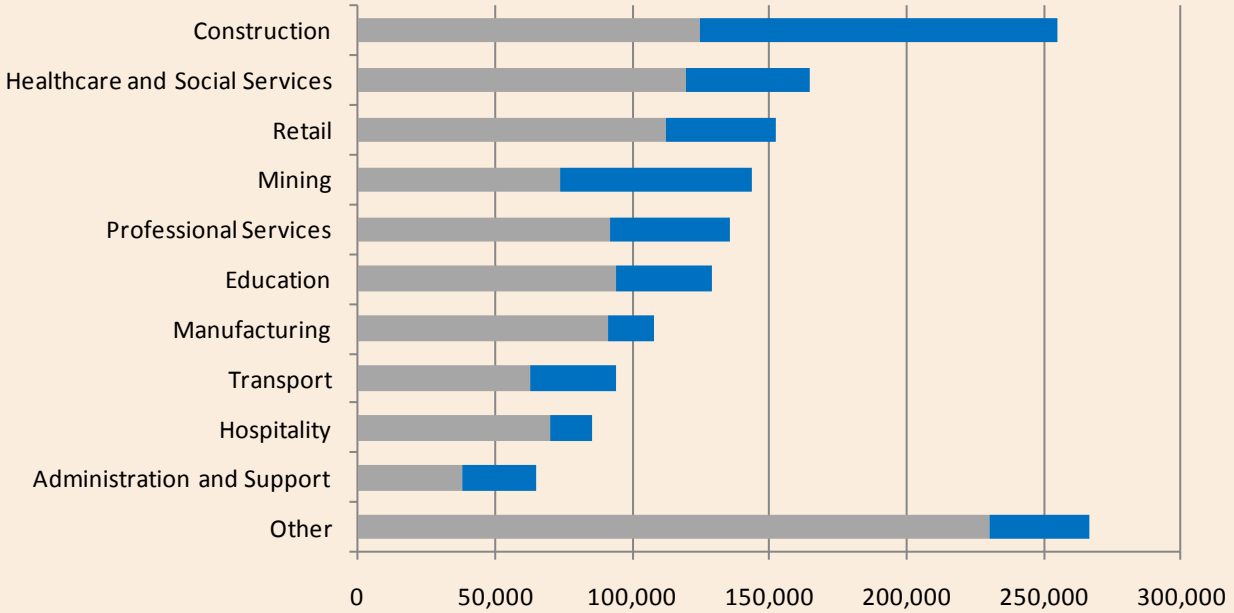
Growth in real value-added by sector, 2000-2012 (%)

Western Australia case: Employment growth – more than just mining jobs

Employment growth by industry sector 2010-2020



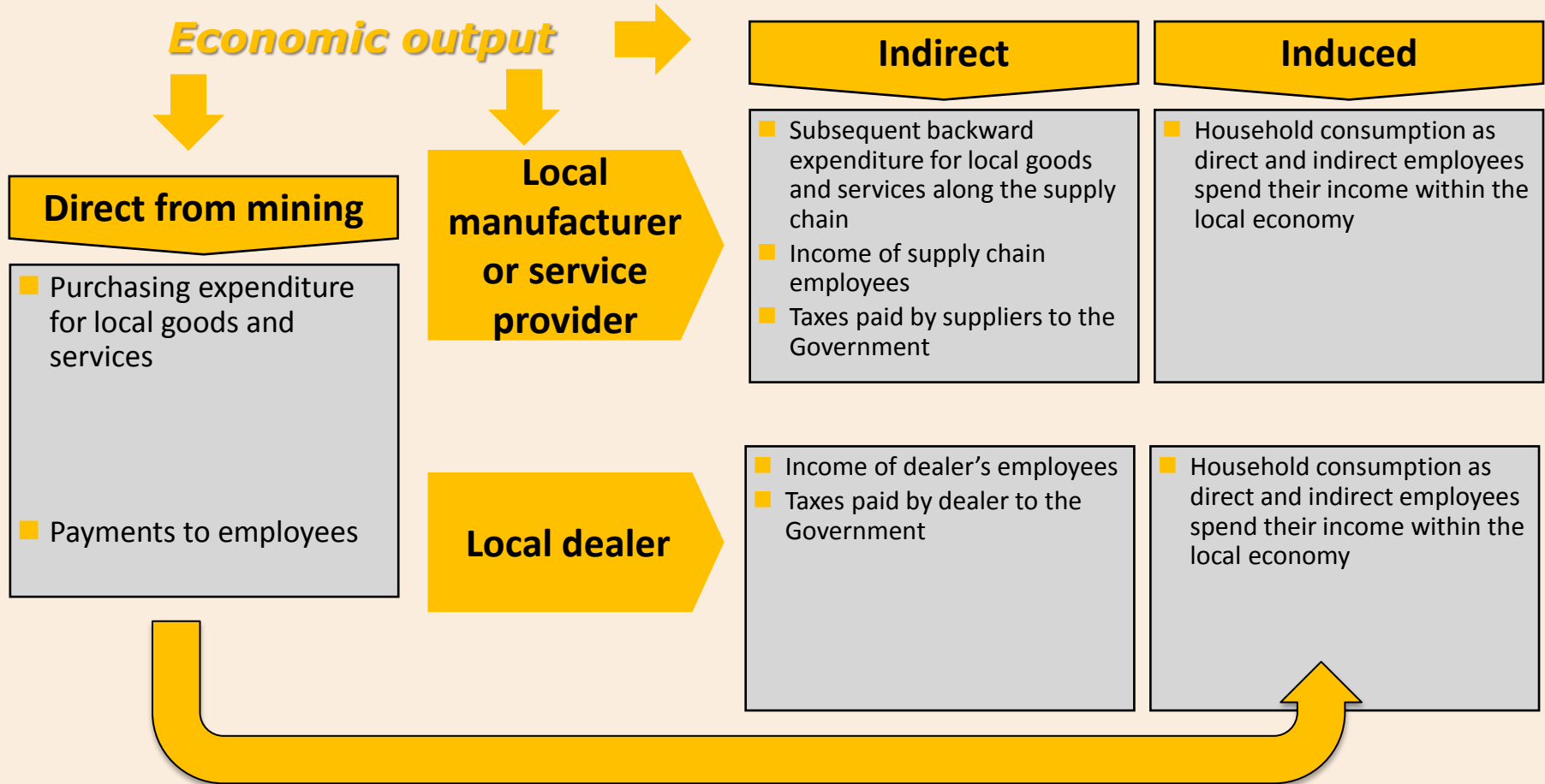
Australian mining employment multiplier is 3 – 4



Major focus is on education and training

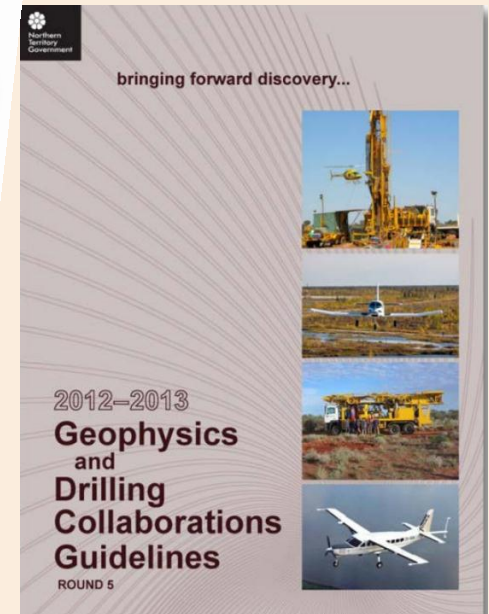
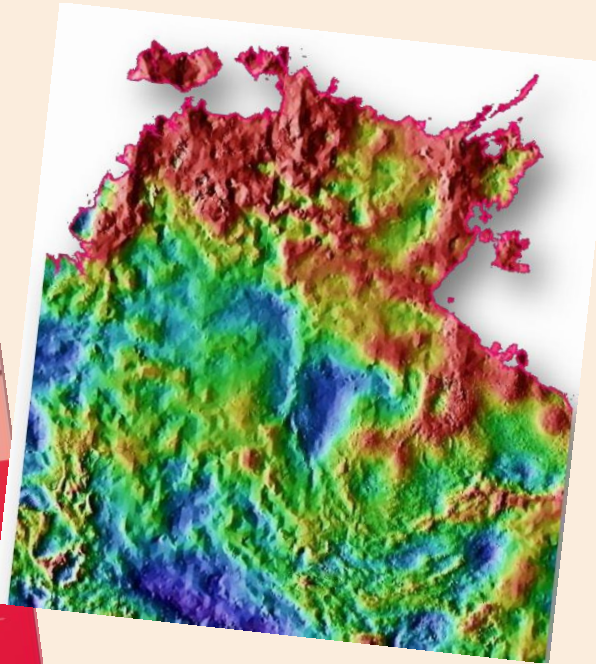
Source: CCIWA: Building Western Australia’s Workforce for Tomorrow, June 2010

Taking a broad view: indirect and induced benefits from mining

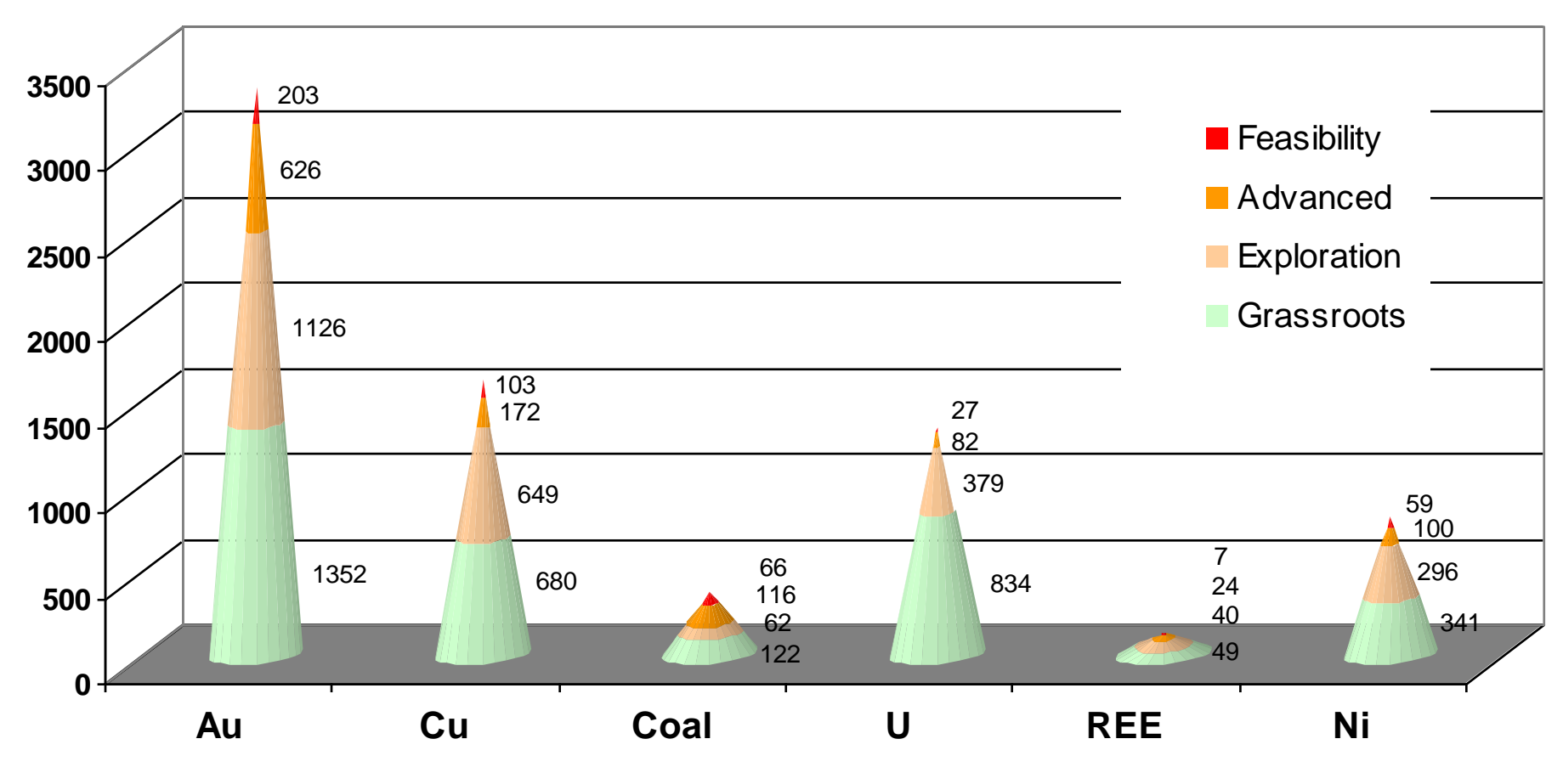


In Australia, for every \$1 of mining revenue, 40¢ is spent on goods and services: Reserve Bank

Strong pre-competitive geoscience underpinnings



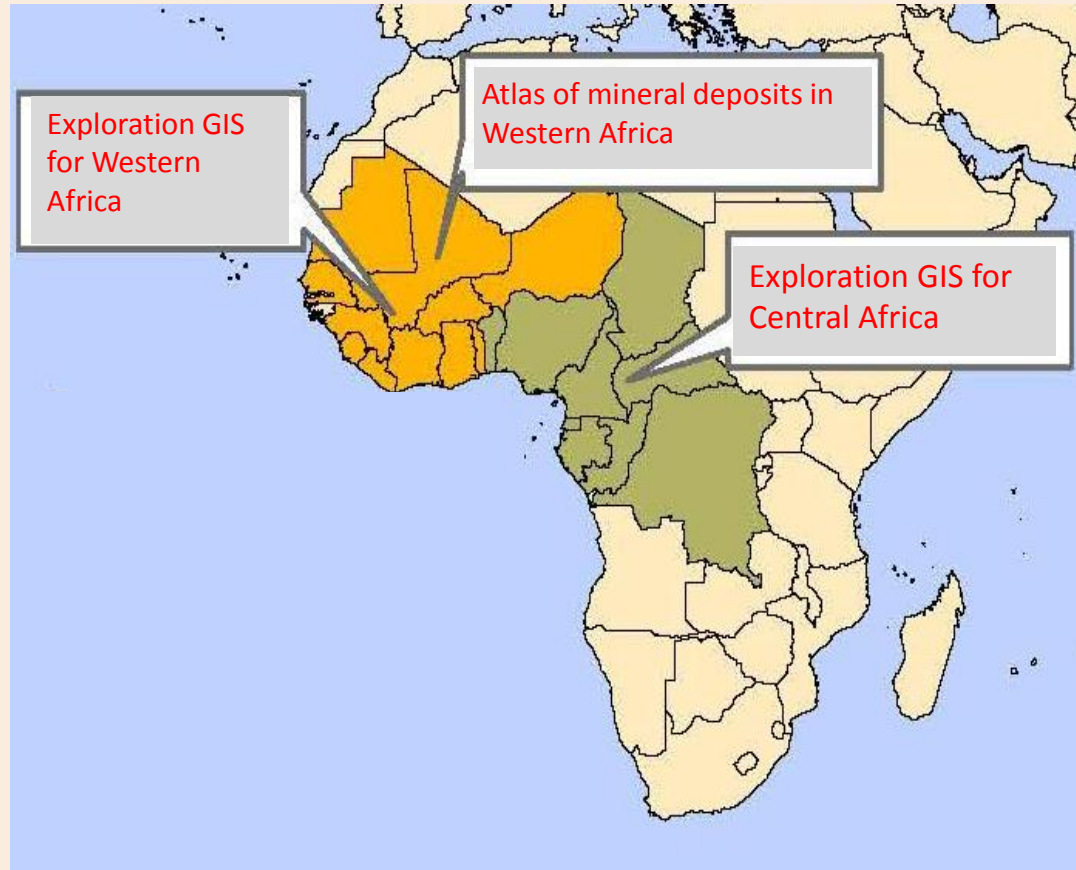
Australian exploration projects – strong base of grassroots; but few make it to feasibility



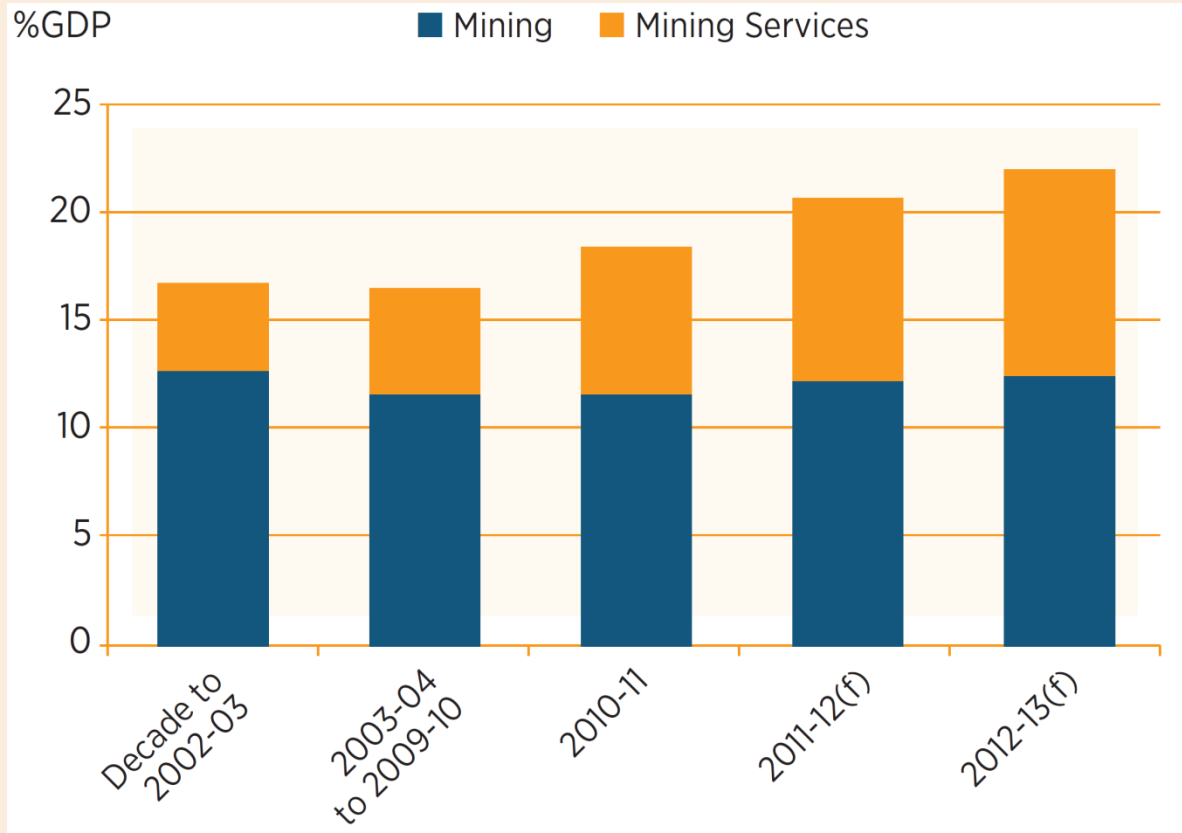
Number of exploration projects by stage of development

Source: Geoscience Australia, 2011-12

Australian engagement in African pre-competitive geoscience



Growth of Mining Equipment, Technology and Services (METS) – additional way of thinking about value-adding



METS output is growing at 15 to 20% a year

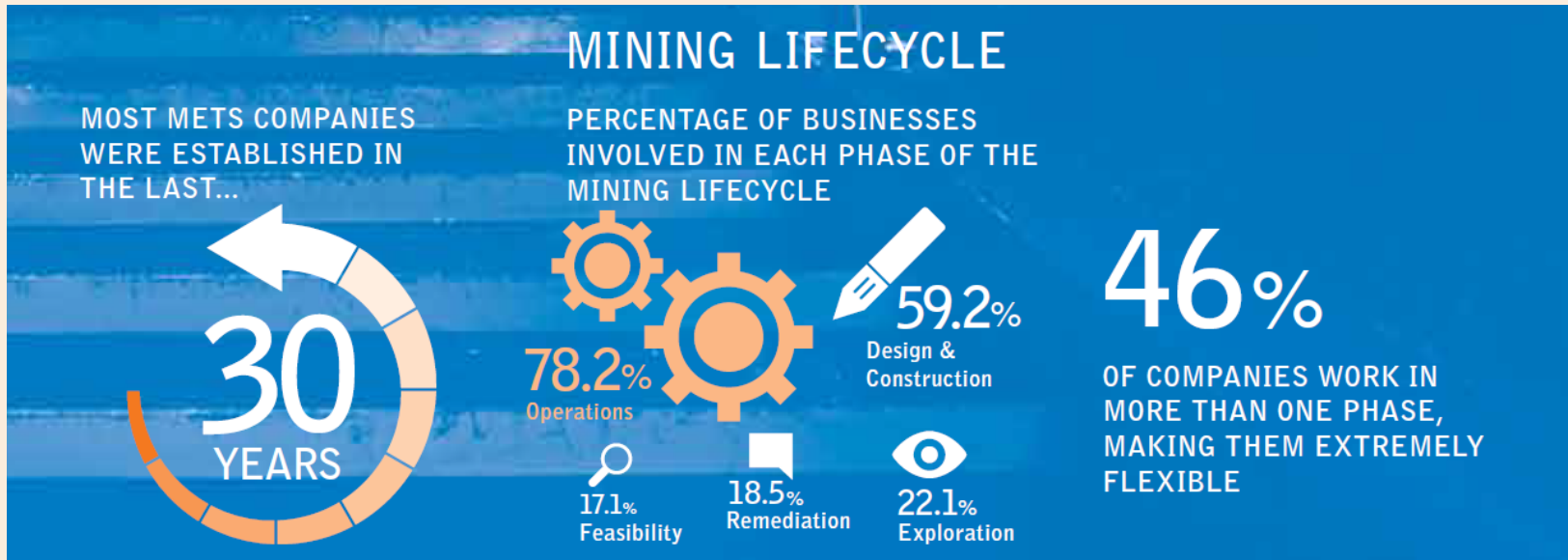
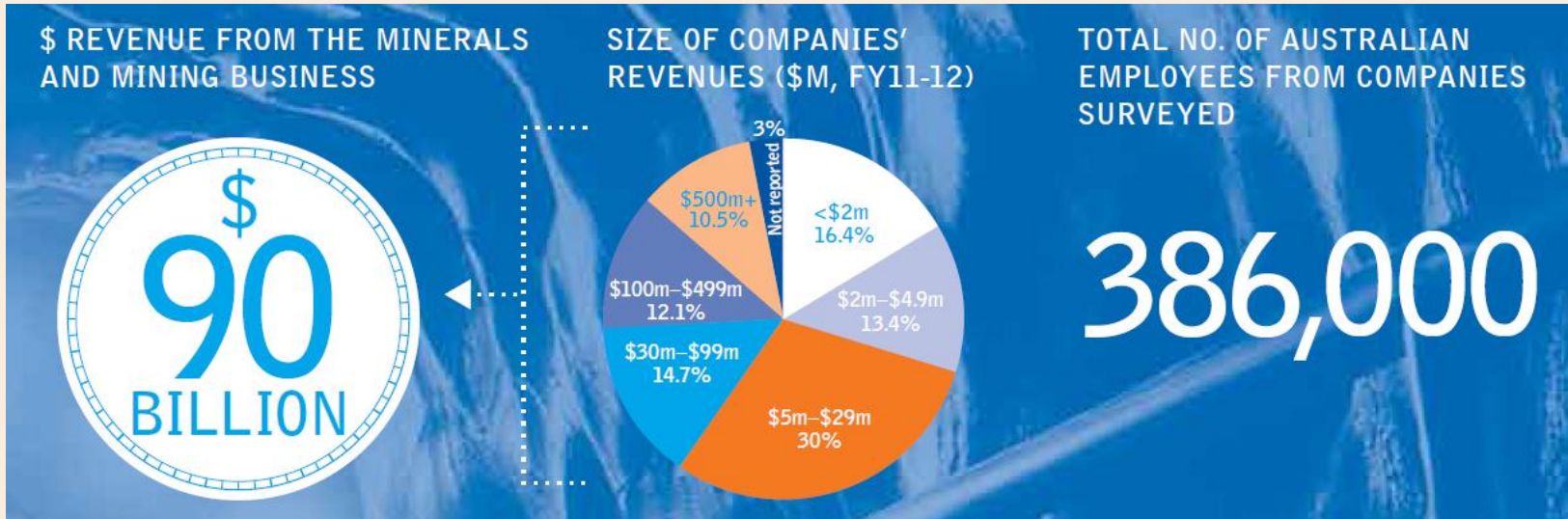
- 4% of national output in 2002-03
- 8.4% in 2011-12

METS contribution to *GDP*

- 6.7% in 2010-11
- Est. 9.4% in 2012-13

Many *METS* are knowledge- and technology-intensive

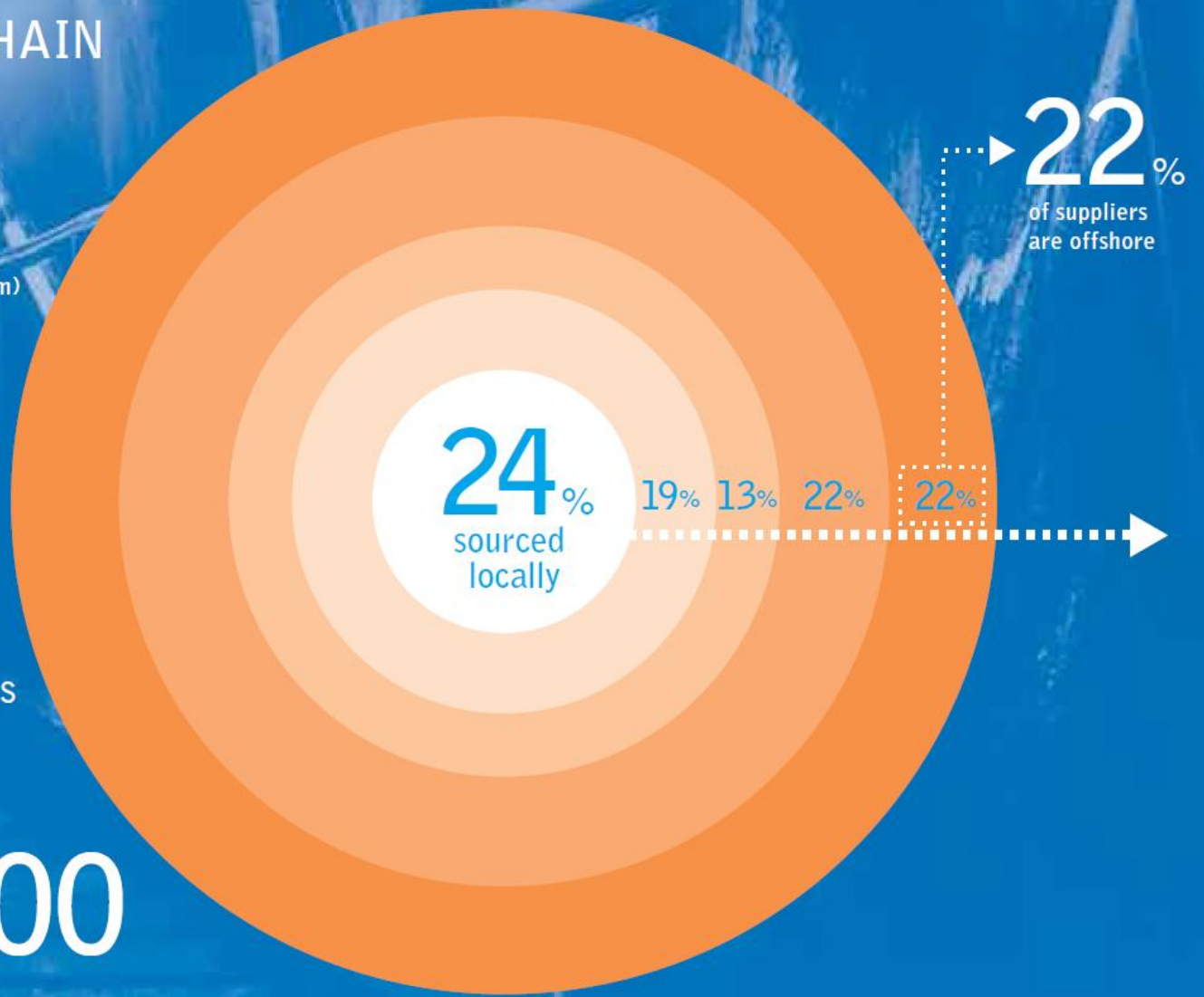
METS is now a very important industry sector



SUPPLY CHAIN

WHERE METS SUPPLIERS ARE LOCATED (%)

- Local (<25km)
- Regional (25–200km)
- State/Territory
- Australia
- Imported



22%
of suppliers are offshore

24%
sourced locally

19% 13% 22% 22%

NO. OF SUPPLIERS TO METS COMPANIES SURVEYED

23,000

METS firms are exporting, equipment, technology and knowledge – developed from 150 years of mining

REGIONS AND COUNTRIES EXPORTED TO (%)

● Region
● Country

\$27bn

EXPORTS FROM METS COMPANIES SURVEYED



Optimising local content – Australian Industry Participation

- Proponents involved in Australian projects *encouraged* to adopt Australian Industry Participation Plans (AIPPs)
- Most mining and petroleum projects have AIPPs
 - Cover construction and operation
 - Take in national, regional and local content
 - Include Indigenous content
 - Encompass skills, materials and services inputs
 - Link-up purchasers and suppliers via Industry Capability Networks



Australian Industry Participation in Western Australia resource projects

- Proportional spending on the construction phase of oil & gas projects (but not mining) has shifted towards overseas suppliers over the last 30 years
- But there continues to be a very high level of Australian industry participation
- CME/APPEA Local Content Study (2011)¹:

Sector	Construction	Operations
Mining	86%	95%
Oil & Gas	58%	83%

- WA State Government Local Content Report – November 2011²

Sector	Construction	Operations
Mining, Oil & Gas	74%	100%

- Publically announced local contracts July 2011 to March 2012 = A\$15.5 billion³

Sources:

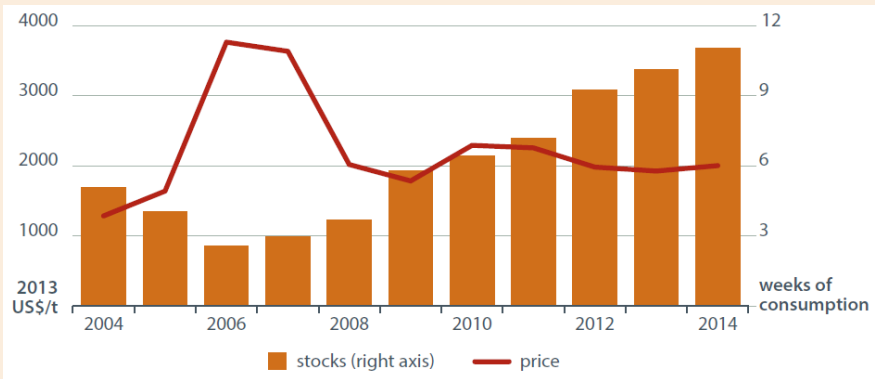
1: CME/APPEA Local Content Study 2011

2: Government of Western Australia, Department of Commerce, Local Content Report 2011 – figures for period 1/1/2011 though 30/9/2011

3: Media Statement, 8 March 2012, Minister for Commerce, Hon Simon O'Brien

Challenge 1: Market volatility and uncertainty

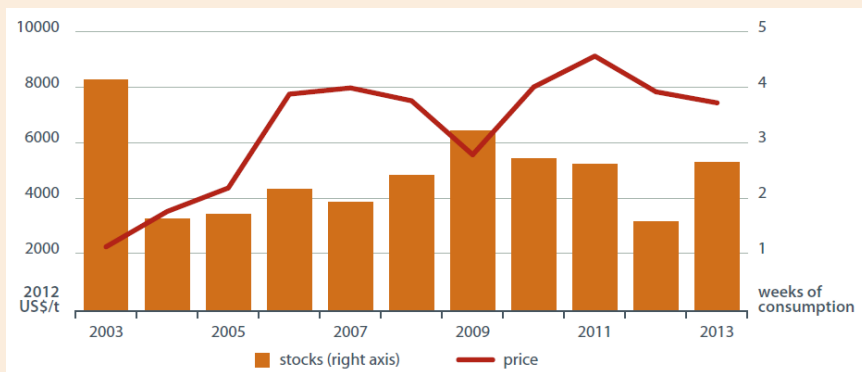
Annual zinc prices and stocks



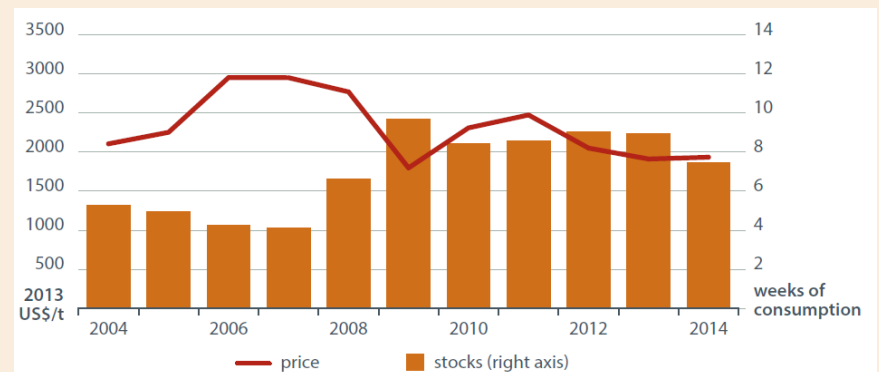
Annual nickel prices and stocks



Annual copper prices and stocks



Annual aluminium prices and stocks

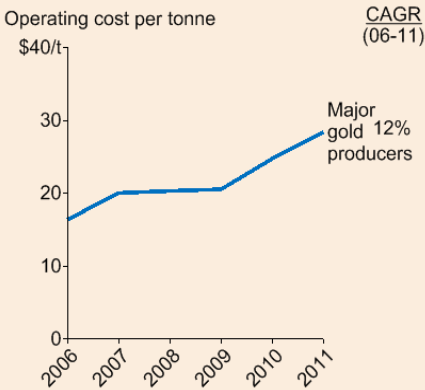


China growth rates and patterns of growth? Demand from rest of Asia?

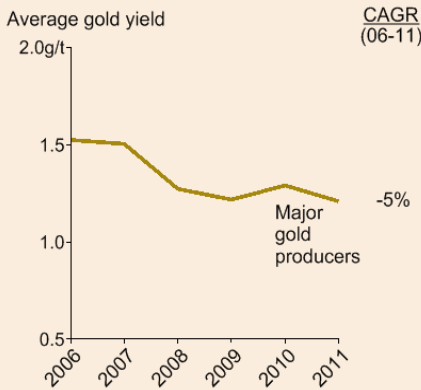
Margins and returns from mining are now in decline

Gold industry example: Costs up; Returns down

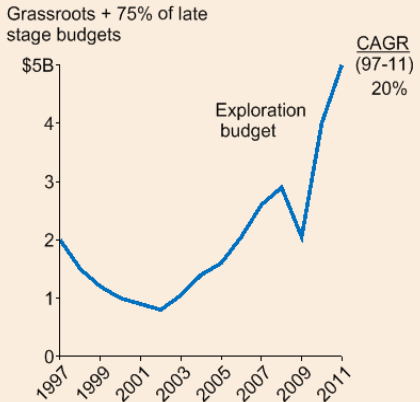
Costs rising at ~12%



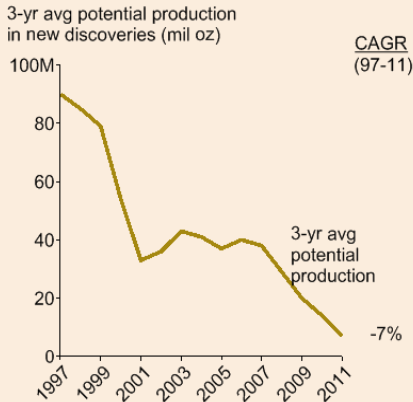
Yields down 5%



Exploration budgets up 20%



New Discoveries down 7%

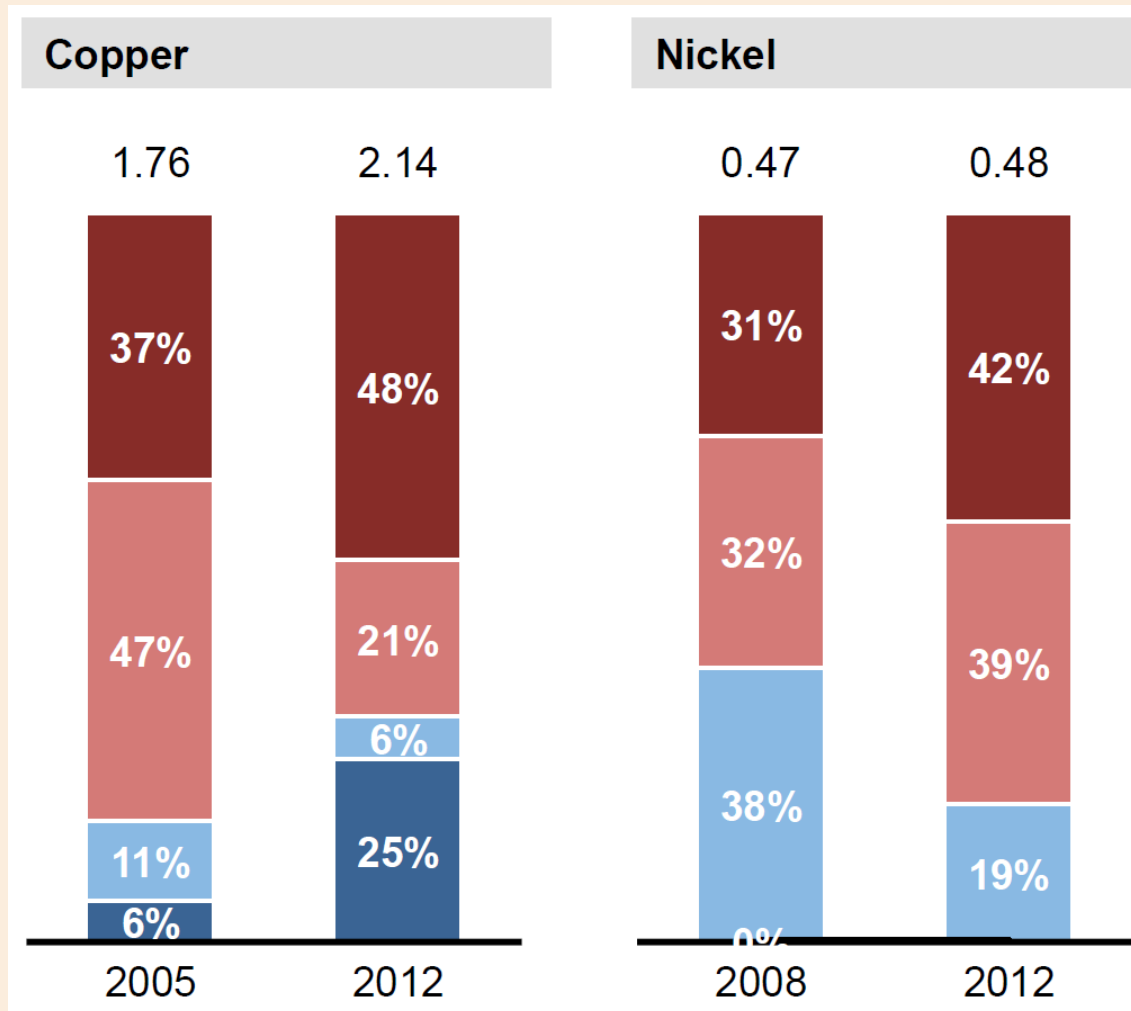


Note: Cost per tonne is the weighted average of 8 major gold producers by total ore mined; average grade is the weighted average of 8 major gold producers by total ore mined;

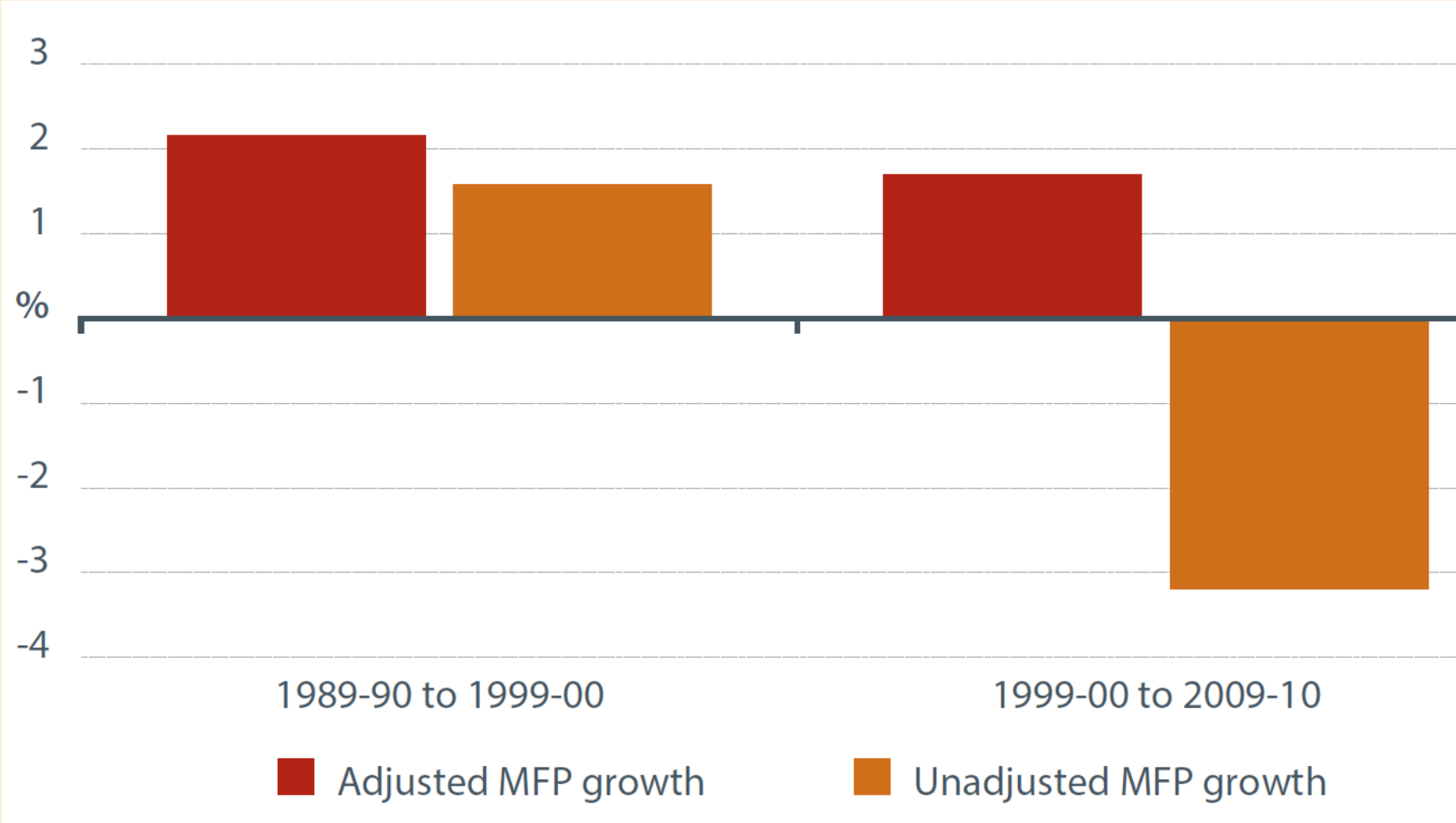
Major Gold producers: AngloGold Ashanti, Barrick, Harmony, Kinross, Goldcorp, Gold Fields, Newmont and Newcrest

Source: Gold Fields company data, annual reports, 'Committed to Excellence' report (IAMGOLD Corporation, Dec 2012)

Challenge 2: competitiveness of Australian mines – cash operating costs: percent of production by cost curve quartile



Multi-factor productivity growth rates, (per cent) over time intervals, Australian mining, 1989–90 to 2009–10



Source: BREE, Resources and Energy Quarterly, June 2013

Challenge 3: Infrastructure provision

Infrastructure Australia approach

Priorities

- Identifying, prioritising and investing in infrastructure that delivers real economic, social and environmental benefits
- Creating new opportunities to fund and finance infrastructure



People are Australia's most important asset

Focus on attracting, developing and retaining high-quality talent, rather than singular focus on hard infrastructure



Education and training institutions: key infrastructure assets

- Crucial to dealing with challenges and opportunities of the 21st Century
- Advanced education integrated with research

Complementary to traditional infrastructure

- Knowledge-intensive and knowledge creating
- Adaptable and capable to deal with uncertainty and to engage with the emerging new global economy

Public sector and industry collaboration

- e.g. WesTrac, SKM Learning Centre, GE Energy Learning Centre; University centres (Rio Tinto, BHP, Chevron, Shell)
- Workers trained will move to other projects inside/ outside, taking skill set and culture with them

Integrated policy on industry, education and training



It's for the people: building strong community benefits, understanding and support





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