Leadership, relationships and resilience during challenging times

Andrew Harding, chief executive, Iron Ore, Japan, Korea and China
Australia and New Zealand Chamber of Commerce, Tokyo, Japan

30 March 2015

** Check against delivery **

Leadership, relationships and resilience during challenging times

Thank you Melanie for the kind introduction.

And to the Chamber for the invitation to speak.

It’s great to join with friends from Japan, Australia and New Zealand this afternoon.

This Chamber does a tremendous job bringing together and promoting many diverse sectors, such as mining and manufacturing, banking and finance, and agriculture.

Sectors that over many decades, even centuries, have been the drivers of a better life for people in Japan, and millions of others around the planet.

In 2015, the Year of the Sheep, we can be reminded there is more than 100 years of trade history between Australian and New Zealand wool growers and Japanese woolen mills.

And similarly with raw materials such as iron ore, coal, aluminium, dairy products, timber, seafood, pearls and diamonds and, more recently, liquefied natural gas.

Despite our intense rivalry on the sporting field and in business, Australia and New Zealand have a great deal of respect for one another.

We are younger, smaller and more geographically isolated than many other countries. And yet these have been sources of competitive advantage.

Strengths that have harnessed our innovation, encouraged us to engage with our Asian neighbours, and helped us become world leaders in many of our chosen fields.

I also feel very confident in saying that both Australia and New Zealand place enormous value on the deep and enduring relationships, partnerships and friendships we each share with Japan.

Our three nations also share a most resilient spirit, as we have seen during many challenging times.

So today, from my own viewpoint, I want to speak to you about four of the most important words in the corporate language-leadership, relationships, resilience and challenges.

Rio Tinto - a world leading miner and the importance of Japan

Rio Tinto is a global leader.

Indeed, Rio Tinto is the leading global mining and metals company.
We are totally focused on finding, mining and processing the Earth’s mineral resources—metals and minerals transformed into end products that contribute to higher living standards and economic development.

We are present at every point in the development cycle and we provide the vital building blocks for growth throughout the world.

Japan is Rio Tinto’s second largest market and accounted for more than 15 per cent of our global revenue in 2014.

We are one of the largest suppliers of primary aluminium to Japan.

We export thermal and coking coal and do business with power utilities and steel manufacturers in Japan.

Rio Tinto has been supplying copper to the Japanese market since the 1970s.

And Japan routinely figures within our top three Argyle Diamond Pink customers by value each year.

Rio Tinto also supplies minerals such as titanium, zircon, metal powder, salt, gypsum and borates.

And my own iron ore business has had longstanding relationships with Japanese steel mills.

Since our first shipment in 1966 we have now shipped more than 1.6 billion tonnes of iron ore to Japan.

We continue to be an important and integral part of Japan’s exciting growth story.

This I believe was recognised in a letter I received from Yoshitaka Akimoto, who, after two and a half years, will shortly complete his term as Ambassador of Japan to Australia.

In that letter Ambassador Akimoto reflected on Japan and Australia’s relationship developing in leaps and bounds, so much so that he described our relationship as entering a ‘new age’.

I have thought about this ‘new age’ a great deal knowing I would speak to you today.

What does this ‘special relationship’ mean for both our great countries?

Do we have all the building blocks in place to make the most of the many opportunities our special relationship presents?

Our world-class iron ore business

Our largest presence in iron ore is in the Pilbara region of Western Australia, our mainstay for nearly 50 years.

In fact, our iron ore operations were born on the back of the Japanese Steel Mills, whose commitment to long-term offtake contracts back in the 1960s financed our first mine development.

We now have 15 operating mines in the Pilbara feeding four port terminals, linked by more than 1,700 kilometres of rail.

This highly sophisticated and fully integrated system runs 24 hours a day, 365 days a year.

No matter which way we interrogate Rio Tinto iron ore, the conclusion reached is that it’s a world class business.

The ability to maintain consistently attractive EBITDA margins has been a feature of our iron ore business, over many years and through many cycles.

We have worked hard to stay in front of the challenges associated with the global market, particularly at a time of lowering iron ore prices and it is imperative that we continue to do this.
In the last quarter of 2014, our adjusted cash unit cost was equivalent to US$17.00 per tonne.

Being the lowest cost iron ore producer is a relentless chase, not because we want to ‘be first’, but because it’s necessary for the health of our business.

We offer a range of quality products to global customers, enabling us to optimise our business size, mine development, and production planning.

And importantly, provide our customers with long-term certainty of product quality. This is of keen importance to our Japanese business partners, who look to us for stable supply.

We predominantly ship to large financially-stable steel mills with large off-take capacity, such as Japan’s four mills - Nippon Steel & Sumitomo Metal Corporation, JFE, Kobe and Nisshin.

We have a record of success that enables me to claim with confidence that Rio Tinto is the supplier of choice to the Asian steel industry, and will remain so.

Our decade of growth in the Pilbara

In order to look forward, it’s valuable to reflect on the last decade of growth in the Pilbara.

As a clear and consistent strategic response to the unprecedented growth in China, we have more than doubled our installed annual capacity from 171 Mt/a in 2005 to 360 Mt/a due in the first half of this year.

Growth of just one per cent per annum is required for China to reach 1 billion tonnes of crude steel production towards 2030.

Urbanisation will continue to power future steel demand.

This will include replacement construction activity, as well as rising standards of living driving growth in the automotive, transport and machinery sectors.

ASEAN countries, India, Africa, and the Middle East are all expected to have strong growth fundamentals, such as urban population and GDP per capita.

Most importantly, traditional and mature markets like Japan and Korea remain very important to our business.

Certainly the iron ore market is in a period of transition, where high-cost supply is being displaced by lower cost seaborne expansions.

We have already seen significant curtailments of iron ore supply from the Chinese domestic sector, as well as reductions from high-cost seaborne suppliers.

However this transition does not happen smoothly, and can result in significant volatility before the market finds the new equilibrium.

Within a few months, our Pilbara infrastructure will be name plated at 360 million tonnes a year, the result of us undertaking the largest integrated mining project in Australian history.

This milestone marks both the end of an incredible journey, as well as the start of another new phase for our business.

After balancing growth projects with operations, we are now approaching a point where our attention can be focused on growing into, and fully utilising, the new system capacity.
**Leadership during the cycles**

As businessmen and women, you will each have your own views of leadership and indeed the leadership challenges you currently face.

My role as the chief executive of iron ore at Rio Tinto is one of a custodian.

That means the constant improvement of the business.

I concentrate on three main things.

Firstly, **a vision**.

Like others before me, the vision for the iron ore business is fundamental.

It needs to be big enough to make an impact – it is “To continue to be the **best** iron ore business in the world”.

Rio Tinto and Japan had a vision 50 years ago to establish a world-class iron ore business in the Pilbara.

And we have successfully grown that business over decades, and through all stages of the cycle.

This is followed by **a great strategy**.

It must be based on what the company can do best.

At Rio Tinto, marketing, supply chain optimisation, and developing new technology are central to our strategy.

And, thirdly, we must **build momentum** every day.

This is more than enthusiasm.

In our business, it means driving for sustainable outcomes, being proud of what’s achieved, and working collaboratively as opposed to working in silos.

What does the current commodity cycle mean for Rio Tinto?

Cycles are, by their very nature, characterised by both highs and lows.

It is my job as the CEO of iron ore to remain distanced enough to see the overall pattern.

How long will this challenging pricing cycle continue? It is not easy to predict.

What I can predict however, is that with careful positioning, a high quality resource and financial strength at its core, any business can not only persist, but thrive.

This is true even in a market that brings sometimes insurmountable challenges to those less willing to adapt.

We at Rio Tinto have had to adapt and will continue to do so.

**Valued business partners and suppliers**

Through the good times and the bad, we have maintained our relationships with customers, joint venture partners, suppliers, governments, and local communities.

And in most cases those relations have grown stronger.
Rio Tinto partners with 15 Japanese companies in our joint venture operations around the world.

Our first shipment of iron ore to Japan was in August 1966.

The Robe River Joint Venture started production in 1972, with current ownership managed by Rio Tinto, with partners Mitsui and Nippon Steel & Sumitomo Metal Corporation.

Japanese companies are important partners in Rio Tinto’s global supply chain.

Last year we procured about $1 billion worth of our global mining machinery and equipment from Japanese companies.

We use Komatsu haul trucks and dozers, Hitachi excavators, Bridgestone tyres and belt conveyers, IHI gas turbines, Fuji Electric, and Toyota fleet across our global operations.

These relationships make us more competitive, they make us stronger, and they make us more resilient.

To survive, and indeed thrive, during challenging times I believe we must extend our collaborative networks far beyond our own businesses.

Through collaboration with many of our small and large suppliers, and global education partners, we are developing systems and technologies that significantly improve productivity, are better for the environment, and safer for our people.

Relationships with suppliers are also central to simplifying, streamlining and transforming our business.

Last month, we brought together our top 50 vendors and suppliers.

We outlined the challenging market conditions we are facing, we shared our 2-year transformation journey, and we asked them help us find better, smarter and safer ways to work.

You wouldn’t expect anything less from Rio Tinto.

But we certainly didn’t ask them to do anything our business isn’t already doing.

In fact, our message to suppliers was quite simple.

We want to work with you to deliver greater value for our business, and yours.

Strong relationships with governments

Our relationships with local, regional and national governments are also incredibly important.

The historic visit by Japanese Prime Minister Abe and Australian Prime Minister Abbott to our West Angelas operations in July last year was a wonderful testament to our enduring relationship.

The recent coming into force of the Economic Partnership Agreement between Japan and Australia is a great step forward.

I understand New Zealand Prime Minister Key visited Japan last week, and that agricultural cooperation and the TPP, among other topics, were on the agenda.

These sorts of initiatives are a key part of Prime Minister Abe’s third arrow which will be important for Japan.

Much the same as so eloquently expressed by Ambassador Akimoto, I too am convinced that Australia and Japan will continue to aspire to a new ‘special relationship’, and one that is built on trust and mutual benefit.
Similarly, local Consul General Funayama departs Perth at the end of March.

Rio Tinto has appreciated Mr Funayama’s support for the annual Japan Festival, which started in 2014.

The Festival aims to strengthen the bonds of friendship and business connections between Western Australia and Japan, as well as the sense of community among the Japanese people living there.

Mutually beneficial relationships with communities

In 2014 our iron ore business contributed almost thirty-two million dollars in financial support for community partnerships across Western Australia.

This is in addition to the record $1.8 billion we paid last year to the Western Australian government in royalties and taxes.

We also provided more than ten million dollars’ worth of in-kind support to community initiatives.

To touch on just a few examples, the Rio Tinto Naturescape Kings Park is a place for children to connect with nature and learn to appreciate the unique Western Australian environment.

The Rio Tinto Life Flight jet is making invaluable medical care available in the furthest corners of the state, as part of our partnership with the Royal Flying Doctor Service.

And at SciTech, Rio Tinto Innovation Central is inspiring young Western Australians to develop the skills and thinking that will make them the innovative leaders of tomorrow.

I’m proud to say, Rio Tinto’s relationship with Japan has never been limited to the supply of ore, equipment or technology.

It binds us with your society as indeed we seek to involve ourselves with our own community in Western Australia.

For example, in October last year I visited Tohoku to talk to people impacted by the March 2011 earthquake and tsunami disaster and see how the recovery progress is tracking.

It was clear that, although three-and-a-half years had passed, a lot still needs to be done.

And Rio Tinto remains committed to supporting the community over the long term.

In Sendai I had the opportunity to meet some future business leaders who are able to complete their studies as a result of The Rio Tinto-Komatsu Joint Scholarship for Tohoku University.

This is a 10-year commitment that we established together with Komatsu right after the disaster.

I was impressed by their sense of purpose and resilience.

Our employees in Japan are also working with “ARTS for HOPE” which is a programme that aims to support the mental health and resilience of children and others in the disaster region.

Together, we understand that it is our responsibility to use our scale and power for the good of the communities, families and individuals that we touch.
Conclusion

In conclusion, let me reiterate that Rio Tinto’s iron ore business would not be the great business it is today if it wasn’t for our unique fifty year partnership with Japan.

And for that we are truly grateful.

The way each of us lead and position our businesses must take into account market and related cycles, often with periods of increased volatility.

This is important not only in the way we structure our organisation, but also for the way we work with those external to the business - investors, customers, suppliers, governments and communities.

And a Chamber of Commerce, such as yours’, for example.

I firmly believe relationships, indeed trusted partnerships and friendships, are fundamental drivers to the resilience and long-term success of any business.

Thank you.