Creating Shared Value: Mining’s vital role in the 21st Century

Arnaud Soirat, chief executive, Copper and Diamonds
World Copper Conference, Santiago, Chile

9 April 2019

**Check against delivery**

Thank you, Minister Prokurica, for your comments and continued support. It is a pleasure to be back at CESCO with my friends and colleagues in the industry.

This year’s CESCO comes at a pivotal time for the mining industry. A time where there is now an even greater focus on what we at Rio Tinto call, sustainability. Of course, sustainability isn't a new idea, those of us in the mining industry have talked about license to operate for decades, and we have known that obtaining and sustaining the support of communities and governments is so important to our success. But, I would argue that society’s expectations of mining have increased and this has now extended into the investment community in an even greater way. What we are experiencing now is qualitatively different.

I would therefore, like to use this opportunity today to challenge how we think about the value proposition of mining and offer some perspectives on how the industry can play an even greater role in society. What does it take to be a responsible mining company in this new era – one that can deliver value to shareholders consistently over long periods of time but more than that – one that also delivers value in the second sense – a contribution to society?

We hear the term quite often: social responsibility. I use a slightly different term: societal responsibility – because I see our work, mining, as just one element in the overall interplay between what governments, businesses, institutions and individuals do – collectively, as a society – to make our world better for all of us.

This means operating in a safe and environmentally responsible way, including thinking about climate change. This means collaborating and playing to each other’s strengths to find solutions – businesses can play a role in driving innovation but require consistent regulatory regimes and long-term investment settings to do so and this is where governments come in and consumers have a lot of power to also create positive change. Partnership is key.

Really it is about having a collective and shared purpose to create mutual value. And for those of us in mining, we have a critical role to play in helping to shape the 21st Century.

Let me explain why I think this is the case. The materials we produce are essential to the ‘electrification of everything’. So much so that we can in many respects begin to think of ourselves as technology companies, making everything from the electric car in your driveway to the smart phone some of you are using to live-Tweet comments on my speech right now.

And meeting this demand for the world’s essential materials equals both opportunity and responsibility.

It means balancing competing claims that are equally essential to our success: the need to focus on the strength of the balance sheet while investing in our people and growth.
If we don’t create value in terms of productivity and profit, we can’t create value in the larger societal sense that is central to human progress. It’s just that simple. Successful business means successful societies.

The good news is, looking at copper – the essential metal that brings us here together today – Rio Tinto continues to see significant opportunity.

On the demand side, we see a very dynamic picture.

Even with signs that global growth may be slowing, even with the daily headlines about trade and tariff wars, the demand drivers are unmistakable. There is China’s growth, even if at a more moderate pace, as well as continuing growth in other emerging markets. There’s the demand driven by demography, with the material needs of a world heading towards 10 billion people by 2050, and more than a billion people moving from a subsistence existence into a middle class lifestyle, with all the provision of goods and services that implies. Then there’s technology, the revolution in materials science continues to develop new uses for new metals and minerals, as well as mainstays like copper.

Here is a fact that puts our potential in perspective: the world will need the same amount of copper in the next 25 years that it produced in the last 500 years to meet global demand.

At Rio Tinto, we are well positioned to meet this this expected copper supply crunch with some of the industry’s best assets – Escondida, KUC and Oyu Tolgoi. We have a solid foundation of tier one operating mines on three continents, and exciting growth options in Resolution and Winu.

Starting out here in Chile, at Escondida, copper production was up 29% from 2017 to 2018, following the commissioning of the Los Colorados concentrator, and a resolution to the labor strike we saw in 2017.

Turning to the US, at Kennecott, our 2018 production was up 37% year over year, boosted not only by work in a higher-grade portion of the pit, but by our productivity improvements and increased plant throughput. We are progressing a nearly $1 billion dollar pushback project that will see production transition to the South Wall, with higher grades, from late 2020. Studies are on track with options to extend the life of the mine beyond 2030.

And in Arizona, America’s Copper State, we continue to move forward, towards developing one of the world’s largest untapped deposits of copper called Resolution. The proposed mine is currently in its permitting, planning and development stage and this summer we will meet a major milestone by completing the draft environmental study which will involve a period of public comment and consultation. This puts us on track for a final environmental permit in summer 2021.

Leaving the Americas for Australia, I want to highlight the discovery of our Winu Project. Its early days, with more drilling to do, but our initial results are strong for both copper and gold – a great sign as we move to Phase 2 drilling. I look forward to sharing more results on this exciting discovery as we move forward but I also want to highlight that 60% of our exploration spend is focused on copper, a clear demonstration of the strong future we see for this commodity.

Moving from Australia to Asia, Oyu Tolgoi in Mongolia - OT as we call it - will be the world’s third-largest copper mine, and is one of the most exciting copper and gold projects in the world. I want to spend a little more time on Oyu Tolgoi because I think it is a perfect example of some of the things I touched on in the
introduction: an example of where mining can make a positive contribution. And also an example where collaboration is required to ensure the operation reaches its full potential.

OT is already one the best performing operations, in terms of safety and productivity, across Rio Tinto’s global portfolio.

Copper production from OT’s open pit ticked higher in 2018 and at the end of last year we progressed a sustainable power solution for the operation by signing a major Power Agreement with the Government of Mongolia.

The next phase of the business is to finish the underground development, which will triple our overall production. Work is progressing with all critical infrastructure in place and detailed engineering design work is on track, with the fit-out of Shaft 2 – our main production shaft – and the completion of the overland conveyor.

In a $5.3 billion construction project you can expect some challenges, and difficult ground conditions have slowed progress in some areas of the underground development. We’re adjusting our mine design as we progress - integrating new geotechnical data than was available during surface drilling. This data reveals there are areas where the strength of the rock is more variable than anticipated in the feasibility study requiring potentially significant design changes. Anyone involved in block cave construction knows that adjustments based on real-time modelling is just part of the process.

For me, OT is a great example of an operation creating value for shareholders and making a difference to society. At OT, we’re drawing on the local workforce to provide approximately 93% of our jobs, we’re buying 80% of the goods and services we need from local, regional and national sources – that’s more than 900 Mongolian companies in total. And this percentage of local spend already stacks up very well against industry standards in mining countries.

We have built or upgraded six training centres throughout the country that will provide the next generation of technicians and mining experts – for projects in Mongolia and around the world. Education and training are major focus areas. We are delivering our vision to create enduring value, knowledge and skills to the people of Mongolia. Oyu Tolgoi has provided training of more than 900,000 man-hours to about 17,000 employees and contractors in 2018. Looking to the future, we know that OT’s sheer scale and longevity will be the catalyst for the creation of entirely new Mongolian industries in the decades ahead. So a good portion of the value we create is benefiting Mongolia and Mongolians – and that’s important to us.

The Path to Sustainable Prosperity, the Chilean Lesson

All of us at Rio Tinto are proud of Oyu Tolgoi and I am delighted that our OT leadership team and Board are here at this year’s CESCO. Their attendance gives them a chance to meet and speak first-hand with the leaders of the copper world. We are pleased to be able to help bring together Mongolia and Chile to share and learn from each other, there is great value for us all in this exchange.

And I am sure as you talk together, even if it’s with the help of translators, you’ll find you have a lot in common. As a nation, Mongolia is beginning down the path of transforming its resource potential into progress and wealth. Here in Chile, you can see the results of that road well-travelled, a nation that has used its resource riches to build a modern, prosperous, sustainable society.

Creating value in that social sense as well. It can be done, and Chile is proof. The lesson learnt is that creating sustainable value is about business, governments and society all working together.
Although Chile is renowned for its abundant mineral wealth today, it wasn’t always the case. 100 years ago, Chile produced around 30,000 metric tons of copper a year, about the same amount of copper this country now produces every two days. What changed? For one, technology changed the game, with new milling breakthroughs, low-grade large-scale copper mines became the norm.

But that is only part of the story, because Chile’s wealth and copper’s contribution to it was unleashed by sound economic policies, most importantly reforming the rights for private companies, which allowed Chile to reinvest its wealth in other sectors and diversify its economy.

Today, even though copper production has ramped up dramatically, the Chilean economy has become richer and more diverse while reducing its dependence on copper exports. Chile went from 80% of its exports attributed to mining – as it happens, that’s right where Mongolia is today – to 50%, while increasing its copper by production by 400%. This is a great example of economic diversification.

And Chile continues to diversify its economy, ensuring that it’s at the forefront of the 4th industrial revolution. And it is clear that the sky’s the limit. Chile is now thinking even bigger, setting its sights on space, as it’s now the world’s astronomy capital with an aim to harness its astrodatal capabilities.

The lesson for all nations from Chile’s example is clear: no country rich in natural resources has ever achieved economic development by overlooking its comparative advantage. But the value creation of mineral wealth is strongest when there is a framework to make that possible, providing certainty and a favourable climate for foreign investment. A clear regulatory framework and an independent judiciary. And a commitment to honouring agreements and contracts is essential, especially in our industry, where time horizons are long and upfront investment is massive. At Oyu Tolgoi, the sanctity of the key investment agreements makes the shareholders’ potential US$12 billion investment in Mongolia possible. Without these agreements we do not have a business case. And we will not have an operation. We welcome the Mongolian Government’s recognition of the importance of these agreements, with the Minister of Mining highlighting in comments overnight that they not only underpin the Oyo Tolgoi project but the strong economic future mining can deliver for his country.

Chile has put solid investment frameworks in place, and the results are evident all around us. They can be emulated in Mongolia, and in every other country with a resource base to build on.

Climate Change, the Challenge of our Time

So, the best examples of success come from all parts of society working together and this is very true for one of the biggest challenges of our time: addressing climate change to combat the warming of our planet. This is a global issue and will need a global solution.

If you look at where we are right now, as an example, Chile is experiencing not at some distant point, but today, right now, its own challenge. Whether it’s the disappearance of Laguna de Aculeo, or the recent iceberg breaks in Patagonia, there are strong signals right here that change is upon us and the time to take action is now.

And Chile is acting. It is harnessing its renewable energy power to attract data centres and is starting to expand mining in lithium and cobalt, materials that are key to the low-carbon technologies of the future. And the world is taking notice: Google is tripling the size of its sole data centre in Chile, entirely powered by solar.
As for Rio Tinto, this February we launched our first climate change report using the TCFD framework, assessing the impacts of climate on our business and how we plan to mitigate it. We have reduced our emissions-intensity footprint by almost 30 per cent since 2008, and today renewable energy provides nearly three-quarters of the electricity we use. We appreciate there is more to do and we do believe we can be part of the climate solution.

We know that combating climate change takes a concerted effort, combining the talents and perspectives of every sector of society, governments, NGOs and leading international institutions. That’s why we are working with partners like the World Bank where we have joined their public-private facility called Climate Smart Mining. This facility, which launches just a few weeks from now, will innovate and deploy financing specifically designed to manage the clean energy transition - responsibly, pragmatically and sustainably.

Creating Shared Value

And that really is the message I want to drive home today: the mining industry can and must continue to play a role in some of the toughest challenges and opportunities of the 21st Century.

I’m proud of what we’re doing as an industry. And we must do more. Of course, there are many examples and not just those from Rio Tinto where the mining industry is contributing in terms of stepping up to successfully manage the environment, in stepping up our communities work, and in stepping up to meet the challenge of making sure our companies are the kinds of places, young people want to join. This is critical work and there is no doubt in my mind, it will become even more so in the 21st century.

So much in our modern world is shifting. The imperatives of today will be different of those of tomorrow but the mining industry’s investment horizons and operations are long-term. Providing a strong ballast for many communities as the world changes around us. Our industry, which discovers, designs and builds projects that can last 20, 30, 40 years – or mines that are 115 years young, as in the case of Kennecott – embodies what it means to look long-term and build to last.

That makes us the perfect partner in the societal sense: ready to invest, evolve and grow in ways that strengthen the social and economic forces that benefit the communities and countries we work in, and the world around us.

That is why, as much as we can take pride in all that we’ve built, it’s the promise of what is to come that must drive us forward, to create value in every sense of the word.

Thank you.
Contacts

media.enquiries@riotinto.com
riotinto.com

Follow @RioTinto on Twitter
Contacts

media.enquiries@riotinto.com
riotinto.com

Follow @RioTinto on Twitter

Media Relations, United Kingdom
Iltud Harri
M +44 7920 503 600

David Outhwaite
T +44 20 7781 1623
M +44 7787 597 493

Media Relations, Americas
Matthew Klar
T +1 514 608 4429

Media Relations, Asia
Grant Donald
T +65 6679 9290
M +65 9722 6028

Media Relations, Australia
Jonathan Rose
T +61 3 9283 3088
M +61 447 028 913

Matt Chambers
T +61 (0) 3 9283 3087
M +61 433 525 739

Jesse Riseborough
T +61 8 6211 6013
M +61 436 653 412

Investor Relations, United Kingdom
John Smelt
T +44 20 7781 1654
M +44 7879 642 675

David Ovington
T +44 20 7781 2051
M +44 7920 010 978

Nick Parkinson
T +44 20 7781 1552
M +44 7810 657 556

Investor Relations, Australia
Natalie Worley
T +61 3 9283 3063
M +61 409 210 462

Rachel Storrs
T +61 3 9283 3628
M +61 417 401 018

Rio Tinto plc
6 St James’s Square
London SW1Y 4AD
United Kingdom

Rio Tinto Limited
Level 7, 360 Collins Street
Melbourne 3000
Australia