

## Looking Beyond Tomorrow: the role of mineral resources in WA's future

Address to CEDA, Perth, 1 August 2006

### **SAM WALSH**

Chief Executive  
Rio Tinto Iron Ore

I'd like to acknowledge the Honourable Richard Court, AC, former Premier of Western Australia and Ben Wyatt, Member for Victoria Park.

I'd like to thank CEDA for asking me to speak here today and as Steve mentioned in preparation for my speech I read the speech that Premier Carpenter made to CEDA last February. You may remember that he took us in his starting point to some research that purported to show that Western Australians were the nation's unhappiest people. He quite rightly questioned that. He then spelt out the reasons why Western Australia is economically and socially ahead of other states and with a dynamic economy and very low unemployment the Western Australians that I know are very, very positive and exciting about living here.

I thought that the Premier's speech was a great speech and today I would like to explore four of the themes that the Premier touched on and give my perspective from an established iron ore miner, a mining company that has operated in this State for some forty years.

Let me briefly describe the Premier's four themes. The first is the need to look to the future, to look over the horizon in order to capture the long term economic benefits of the current surge in global demand for Western Australia's iron ore. The second has to do with making things happen, in other words turning visions into solid achievements as quickly as possible. The third has to do with the importance of innovation, in particular the need to recognise that innovation takes many diverse forms and the extent to which innovation has made our industry what it really is today. And the fourth theme is the growing importance of partnerships to a business like Rio Tinto Iron Ore and the recognition that more often or not we can't do all the things that we do on our own and we need the involvement of our suppliers, the government, our communities and our customers. Partnerships are one way to ensure that the benefits of economic growth are achieved taking into account social and economic values.

Now let's start with the first theme, the horizon that I just mentioned. I believe that our political leaders do have the long term health, wealth and security of the society and the nation at heart. Despite this their view of the future is shaped to some degree by the discipline of a four year electoral cycle and while Rio Tinto also has considerable short term obligations its overall philosophy is very different. Our highly capitalised business has extraordinarily long lead times. We base our investment decisions on the trusted security of tenure provided by the State mining regime. Mining operations typically last for decades and even when a resource is exhausted we're responsible for managing our environmental and social responsibilities well into the future. Certainly we are concerned about the here and now, about yearly production and profit reports and coincidentally our 2006 first half earnings will be announced on Thursday. But at the same time we know that a generation from now our successes will be living with the strategic decisions that we're making today.

So we think about the future a lot. This effects the way that we view current events, for example take the volatility that's affected the global stock markets since May 11. Suddenly there are apparent concerns that the unusually long and strong period of global growth is going to end, in particular some fear that the

Chinese economy growth may falter with serious consequences for Australia's mineral and energy exports. Commodities stocks like others have receded from record highs. Does that mean that the considerable capital committed to expanding Rio Tinto Iron Ore in the Pilbara is at risk? The answer is not at all. Those of you that have heard me or heard senior people from Rio Tinto speak about the potential of Chinese market know that we steered clear of the arguments over whether the current rise in demand and mineral prices is a departure from the normal cyclical pattern. What we have said however is that we expect speed bumps in China's progress but quite frankly I can't see any yet. Our long view is that China will continue to need our minerals for some considerable time to come and why do we think this? Well here again we have an example of long term thinking.

The almost exponential growth in China's steel production caught the world by surprise yet that doesn't mean that our response was purely reactive. Today the Chinese steel industry has become Rio Tinto Iron Ore's largest customer because of decisions that we took back in the 1970's. The pioneering approaches made at a time when the political and economic climates were very different are bearing fruit now in the 21<sup>st</sup> Century. In the 80's we established a joint venture with the Chinese Government at Hamersley's Channa Mine. At the time this was China's largest overseas investment and that initial joint venture has led to further sales and further investments in our business. For more than thirty years we've been marketing in China, building bridges, developing relationships with Chinese steel mills. So we reckon we have a pretty reasonable grasp of the potential of that market.

Perhaps part of the reason that the gathering strength of Chinese demand was not appreciated sooner was due to the historic and continuing importance of our Japanese customers. Their needs and their willingness to enter into long term contracts with a new supplier were after all the catalyst for our business and today they still account for over one-third of Rio Tinto Iron Ore's sales.

Now to return to Chinese economic development, as we look over the horizon we see a nation with a population more than ten times

that of China in the 1960's, when Japan was already an industrialised nation, when it's accelerating economic growth sparked the development of Pilbara and galvanised the economy of this State in a very similar way to what we're seeing now based on Chinese growth. China in contrast however is still undergoing the historic transfer from an agrarian society to an industrialised one. In the economic stakes it is starting from further back in the field. That plus the sheer numbers involved suggests that speed bumps notwithstanding Chinese demand for our products will remain strong for quite some time to come.

But not is our horizon just bounded by China. As I speak Rio Tinto Iron Ore is exploring both marketing and production opportunities all around the world. Forty years and more from now I know that our successes will be still reaping the rewards of our current efforts and in the Pilbara we're seeking to extend our resources through a \$200m exploration program over the next five years. We do this to provide for future growth, the longevity of our current operations and so we can see respond quickly and decisively to the market requirements.

The extraordinary feature about the recent increase in demand for iron ore is not that it has exceeded the expectation of our iron ore producers which it did but rather the speed with which our Pilbara operations have risen to the challenge. A long term strategic view of our business is not only important in the areas of marketing and operations, it's equally important in all areas of competitive advantage such as Rio's people, our technologies, our operating systems, procurement and shipping and the relationships with all of our stakeholders. In other words we must consider our total business when looking over the horizon.

Now this brings me to the second theme, the need to make things happen which I think we can all identify with. Most of you will know that Rio Tinto Iron Ore's operations in Western Australia include our wholly owned Hamersley operations and our joint venture operations in the Pilbara with Robe River Iron Associates, Sino Steel, Bough Steel, Hancock Prospecting and HIs melt in Kwinana. If any of you have visited the Pilbara recently you'll be

aware that development is occurring at unprecedented rate. I'm very proud at the speed in which Rio Tinto Iron Ore in Western Australia has risen to this challenge. The men and women who are responsible for our \$US3.7b expansion project understand the importance of timing as well as cost. Rio Tinto in Western Australia was started by people who knew how to make things happen and get things done. In the mid 1960's the construction of Mt Tom Price with its port, roads, power supply, rail system and town in eighteen brief months in what many considered a wilderness was an extraordinary feat.

The memories of that achievement are fading as are the photos but the can do attitude it fosters lives on. Today Rio Tinto Iron Ore's operations in Western Australia include ten mines and our development with our project in partnership with Gina Rinehart, the Hope Downs mine. We own and operate two ports at Dampier and one at Cape Lambert as well as owning and operating the largest privately owned heavy haul rail network in the world.

Let me quickly give you an impression of the size and complexity of the work being undertaken by Rio Tinto's expansion projects. This dedicated organisation was created to manage the growing portfolio of projects and studies in the Pilbara and in fact globally. Expansion projects people work closely with operations to minimise disruptions when projects are being developed and to ensure the productability of what is being implemented. Since 2002 Rio Tinto Iron Ore in Western Australia has already announced capacity expansions totally well over US\$4b. This will take our port capacity in Western Australia to almost 200 million tonnes per year by the year 2008 thus complementing the rapid expansions and predevelopment work being undertaken at our mines.

As I mentioned our most recent project is the development of the Hope Downs deposit. This \$US1b project has been in the pipeline for some years and it's a partnership between Gina's Hancock Prospecting, a Western Australian business with vision, and Rio Tinto Iron Ore, a company with a track record of successfully realising visions. In addition work continues on expanding rail,

power, port and other infrastructure to complement these rising tonnages. All of this suggests to me that our Pilbara operations share the Government's interest in making things happen quickly.

The next thing that I'd like to comment on is innovation. In the Premier's speech he said quite rightly and praised the achievement of Western Australian scientists in the field of medical research, biotechnology and information technology. He made mention that the resources sector and the agricultural sector have also been responsible for technology growth in Western Australia. I'll leave my farming friends to make their own case but I would like to say a few words on innovation and Rio Tinto Iron Ore.

Quite simply if we'd not been constantly innovating our business would not be where it is today. Not all innovation takes place in a laboratory and the outcome may not be a Nobel Prize but it can be simply staying ten jumps ahead of competitors whilst delighting our customers. That sort of innovation rarely grabs headlines but it has ensured our business continues to thrive in the face of some major challenges. I want to touch on some of those.

For most of my time in mining the real price of iron ore has trended downwards as has most mineral prices. The main challenge for management has been to reduce costs accordingly and to preserve margins and let us not forget the dramatic increase in competition from resource rich countries, countries such as Brazil and India whose iron ore reserves can match Australia's in extent and quality. Nor let us forget the lead that the industry carried in its saddlebags for so many years as a result of restrictive work practices. We should never, never forget that in the 1970's and 1980's the Pilbara iron ore producers with 10% of productive time out on strike had a growing reputation for unreliability. Industrial disputation was so bad that our customers were forced to encourage the Brazilians to develop the Carajas operations.

That Rio Tinto remained in the iron ore business and remained profitable was due to innovation in the way that Hamersley Iron managed its operations and let me give you some examples of what I mean.

The first was the introduction of the all staff workforce in 1994 which allowed all of our people to become engaged and involved in workplace innovation and entrepreneurship and which brought desperately needed flexibility to our operations. That new found flexibility allowed Hamersley to begin developing the one mine system in 1997. The one mine system was a major managerial innovation that broke with established mining practice. It involved melding the running of Hamersley's various mines with the transport and shipping functions in much the same way that a well run manufacturing plant integrates all stages of the production process, from supply of raw materials to the delivery of the finished product into a single production process. Technology, especially information technology, made this highly integrated approach possible but is also required a change to the way people think about their roles. It makes us all think about our part in the success of the business as a whole rather than our immediate responsibilities and under the one mine system we strive for technical excellence in each and every area. But it's now understood that it's the effectiveness of the total business that secures our future. In other words we're as good as our weakest link and we constantly strive to strengthen each link of our production chain through innovation. When the one mine concept was instituted productivity rose in a spectacular fashion. So too did the morale of our workforce and our reputation amongst our customers.

Pilbara Rail is also a great example of just such ongoing innovation. Few people realise as I mentioned earlier that Rio Tinto Iron Ore in Western Australia owns and operates the largest privately owned heavy haul railway in the world. Once the Lang Hancock Hope Downs spur line is completed there will be over 1600 kilometres of track. More important than sheer scale however is the fact that it is the world's most efficiency heavy railway. So critical is the rail system to the Company's operational success that there has been constant pressure to push the

boundaries of innovation. If time permitted I could talk at some length about the numerous advances in real time predictive maintenance, about satellite communication, about infrared sensing, wheel impact detectors and other protection systems that altogether contribute to a safer and more reliable and much more efficient operation but time doesn't permit and all I can do is leave with the analogy of a rail system that relies heavily on constant innovation to keep pace with changing conditions in much the same way that heart patients rely on heart pacemakers to maintain this bodily function. Interference with the rhythm of either the pacemaker or our rail operations can have dramatic consequences and let me assure you that this has been pointed out to the NCC and to others.

I can't leave the subject of innovation without pointing to our HIs melt plant down in Kwinana. Rio Tinto's research into direct smelting of iron ore goes back to the 1970's. For many years HIs melt has been Australia's largest research and development project and has also evidenced that a mature industry is still capable of making dramatic breakthroughs. Today that research is being perfected in a commercial plant here in Kwinana. To date around one billion Aussie dollars have been spent on HIs melt. I suspect that a hundred years from now HIs melt will figure as one of the most important steel industry initiatives in the early 21<sup>st</sup> Century. Compared with other steel making facilities HIs melt has significant environmental, capital and operating cost advantages. It uses low grade iron ore fines therefore extending resources and contributes to much greater sustainability in iron ore mining. Its high energy efficiency and the elimination of coke ovens and sinter plants leads to better greenhouse gas performance and there are no emissions of dioxins and furons. Being able to utilise steel plant wastes allow iron and steel plants to move closer to the goal of zero waste. HIs melt to me is a perfect example of both innovation and keeping the long term thinking that I spoke about earlier.

Finally this willingness to invest today in the expectation of a return well into the future also impacts upon our thinking on our partnerships with the wider community. Put another way, the sustainability of our business cannot be separated from the future

aspirations of the communities in which we operate. Working in regional and remote locations we are particularly focused on working together with Aboriginal communities and providing opportunities for local employment. Rio Tinto Iron Ore's intention is to offer the opportunity for local people to enjoy the benefits of employment that our operations bring and we've had considerable success through our award winning Aboriginal training and liaison activity or ATAL as it is fondly referred to. And I've personally made a commitment that any young local Aboriginal person who completes her or his schooling and has an interest in pursuing a traineeship with Rio Tinto Iron Ore will be given that opportunity.

However we can't improve Aboriginal employment in the Pilbara by ourselves. Research that we commissioned through the Australian National University indicates that local indigenous people are worse off now than they were twenty years ago in spite of all the economic development that has occurred in the Pilbara. Our combined challenge is how do we tackle this? Our own studies show a rapid increase in indigenous people of employable age but equally it indicates that bad health and inadequate schooling has severely restricted the numbers able to take advantage of the economic opportunities that mining affords.

Rio Tinto has what I proudly believe to be the largest and most comprehensive range of Aboriginal and community training programs of their kind in Australia. The Company has gone beyond the usual provision of apprenticeships, direct and indirect employment to young indigenous Australians. It started right at the beginning with programs to improve the health of young mothers and continues with others that offer support for children from primary school through to university. We're doing this because the situation does not permit a quick fix. The social and economic problems of indigenous Australians in the Pilbara are deep seated and solutions to these problems require a long term, thoughtful and thorough approach.

As a mining company many of our community programs take us into unfamiliar territory but the whole point of the partnership approach is that it involves working with government bodies as

well as community, environmental and non government organisations that have the expertise that we lack. Thus we can leverage our efforts many times and make a very real difference in the long term.

The ability to leverage from partnerships is very evident in the success of the Rio Tinto Western Australian Future Fund based here in Perth and which I chair. It's an important part of the fifty million Australian dollars we invest annually across Western Australia on community programs and this Fund alone has developed more than thirty partnerships and committed \$10m in funding since 2001. But of greater significance is that this \$10m when combined with our in kind support, professional expertise and employee support has won additional funding resulting in more than \$30m of community programs being delivered here in Perth and across the State. We work hand in hand with our Future Fund partners and address issues of mutual interest and concern.

We've learnt that we cannot achieve a sustainable future alone. We do not always have the skills nor the remit to manage every issue. The beauty of partnerships is that they provide mutual benefits. For our part we have much to learn from our partners about community expectations. That knowledge helps us to invest for the future with greater confidence. Our staff were immensely proud recently when our partnership approach and leadership in this area was recognised with Rio Tinto being voted as Australia's most socially responsible major company in the annual BRW review of company performance.

To conclude let me repeat my earlier comments. In Rio Tinto Iron Ore we share the Premier's respect for the qualities of foresight, being action oriented and for being innovative. Furthermore we combine these qualities in our approach to partnerships which we see as a vehicle for aligning our activities with public aspirations particularly those related to sustainable economic development.

Now if you remember only one point from my address today this is what I'd like it to be. The iron ore industry may have its roots in the distant past but we are a state of the art, world class and

world scale industry and we are vitally important to all of Western Australia. If we forget this because we're dazzled by the glamour of newer industries and enterprises we could threaten the very many benefits that Western Australia currently obtains from its natural resources. In 2005 these included the nation's lowest unemployment, one-third of Australia's exports and about half the nation's mining investment right here in this State. And that's pretty impressive for a State that only has one-tenth of Australia's population and in 2006 it's safe to say that these benefits will be even greater.

As for the title of my address, well the role of minerals and resources in Western Australia's future depends a great degree on our willingness to look well beyond tomorrow and to think of the world as our marketplace.

## **End of transcript**

© This transcription is copyright CEDA 2006

**Disclaimer:** This is a transcript of the speakers and discussion sessions at a CEDA event. Opinions and statements included in the transcript are solely those of the individual persons or participants at the event, and are not necessarily adopted or endorsed or verified as accurate by CEDA. The transcript may have been edited. CEDA does not warrant that this transcript is free of errors and omissions.

**Terms of use:** Any use of substantial excerpts from this transcript must acknowledge the speaker and CEDA as the source of the material.