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ADDRESS TO

THE MELBOURNE MINING CLUB

BY JOHN PIZZEY

I've only been to one of these luncheons because of my travels abroad, and so I am not absolutely familiar with the protocols and procedures. One comment that was passed onto me was that it was not appropriate to spruik the company you were involved with.

At the lunch I did attend, my colleague Owen Hegarty gave his enjoyable 'all singing all dancing' review of Oxiana. It was apparent that the rule on company promotion was interpreted with generous latitude.

Clearly then, with encouragement from Owen and the support of the MD Michael Beer, it might be appropriate to spend a good deal of my allotted time on the most fun part of the re-entry to Australia and that is the prospects of Range River Gold, an explorer that Owen has generously let me Chair in order that I might reacquaint myself with the real life mining industry in this country. From the grass roots, so the speak – although with 45 degree temperatures in the Pilbara, there is not much grass.

However, except to say it is based in Australia, it does have great prospects and it is headquartered in Melbourne – this great mining capital – I have been advised that I would need a prospectus, a forward looking statement disclaimer, full disclosure under Sarbanes Oxley and still probably run foul of ASIC, ASX, CLERP 1 through 9 and rules of the Bermuda triangle.

But I do hope you would allow me to return when we reach the magical one billion dollar market cap. We only have about \$975 million to go, but Michael Beer is optimistic.

Apart from thanking the organizers for inviting me to speak, I would in fact like to offer my very sincere praise for the people behind this concept which helps raise the awareness of the people of Melbourne to the mining industry; awareness that is needed if we are to fund the vigorous growth of this vital sector of the Australian economy.

I am sure anyone associated with the industry over long periods will tend to look back and believe the halcyon periods are all behind us. Maybe it just reflects my age, but I do think this lunch and similar forums do provide part of the framework that helps promote mining.

No lunch like this kept BHP in Melbourne or stopped Alcoa or RIO seeking a new centre of gravity.

It does help the Range Rivers and even the Oxianas stay in Melbourne, and it maybe shows a lot of individuals that there is a great opportunity in the industry no matter where they later locate themselves.

The New Yorker Magazine, I believe, did run the cartoon that reflected upon the retirement of a large, corpulent businessman. His reminiscence over a large whiskey was: "I have learnt a lot in my 40 years, but unfortunately it was all in the Aluminium industry".

Maybe a sad reflection on me, but let me say being involved in the Aluminium industry in Melbourne in the 70's and 80's, and particularly in the Alumina end, was a fabulous experience.

For a brief period, at the intersection of Bourke and William Streets, almost all the traded alumina in the world was contracted. And if you took a brief tram ride up Collins Street, you added a few more percent. A plane trip to Sydney put a cherry on the cake.

And it was not a nominal centre of the Alumina world - it was real. I can vouch for Alcoa, and the separate entities of BHP, Shell/Billiton and Comalco seemed to act that way as well.

I am not going to decry any company shifting their focus or operations to more appropriate locations. I would be the perfect hypocrite if I started on that path because in Alcoa's case I contributed to firstly Alumina and then Aluminium moving out of Melbourne.

The process I see needing a recharge is the next generation of companies that will give the opportunities to the next group of young people and their careers in the mining industry. And not just direct employment, but employment in all the necessary support structures in finance, legal, engineering and manufacturing – and even the fourth estate.

There is enough anti-mining rhetoric in Australia and Melbourne. The promotion of the positive side of mining and its risk, reward and opportunities need these forums.

And what a great time to be starting into the resources industry.

I have made two recent trips to China - one on the tail end of my Alcoa experience and the second with an industrial company that included some private travel over parts of China outside the east coast.

Simple observations:

Demand is great and will continue.

Buyers will demand low prices and will encourage supply tension to meet this goal.

The laws of supply and demand have not been rescinded, and so price rises and falls will occur.

If pundits repeat centuries of bad habits, then good times will be predicted to last forever and shortly thereafter bad times will be forecast to last forever. Neither will last forever.

For the resources industry, I believe the great changes in the first part of the 21ST Century are the rapidly changing competitors and the changing risk profile of those entrants.

Around the world, the traditional mining houses will be strong competitors and Australia and Australians be well represented there.

But, Australians will also be well represented in some of the growing mining house. If you look at the Aluminium Industry, you can see the new competition and some of that competition ably staffed by people from many countries, and many of those being Australians.

The next issue is risk profile, and we will see some of the new companies with a tolerance of risk that is different from what we have grown used to over the last few decades. But it is not just risk appetite that is changing - it is companies' perception of countries' risk.

Without going into detail, old line ALCOA is now viewing previous "high risk" areas as becoming possibilities. Many of the new names have an even more tolerant view of some of the more "tourist hell-holes". The changed attitude is bringing forward many of what were considered low priority opportunities.

All this activity will make it a great time for Australian mining people. It will challenge Australia and its policy-makers because the "risk-free premium" used for Australian developments will not be as great.

When invited to speak some months ago I was told that I could speak on any subject that came under my gaze. As bit of light relief, I would like to focus on the subject that did occupy me for many hours in the last few years and that was the London Metal Exchange.

As that memory fades and I drift away from actual involvement, it is interesting to look at a few items concerning my term on the Board.

While the London Metal Exchange may conjure images of corpulent captains of industry sunk deep into leather sofas unmoved for decades, the Copper/Hamenaka affair put paid to any idea that the LME was immune to change.

The affair was the catalyst for a change to the Board structure and a realigning of internal priorities and direction.

Even though I was not at the LME during the copper debacle, my arrival was close enough for me to understand that at the time the Board, led by Raj Bagri, kept the LME in tact. The Board under Raj saved the LME not from collapse but from radical intervention, which would have changed the role of the LME forever. I am unashamedly an admirer of Raj and what he did for the LME at that time.

The copper crisis lead to some change and it was the SFA, now the FSA, that drove change around process, compliance and Board structure. My name was put forward as a representative of the Aluminium industry with a further advantage in that I was U.S. based and associated with a major user of LME information and some products. I came to the LME with some of the Producer bias and prejudices around exchanges and their function.

Inside Alcoa, our attitude to exchange prices all changed when Paul O'Neill became Chairman and CEO. He caused Alcoa to go from a cottage industry in the LME type products to a very sophisticated player – not always using them, but trying to understand them.

Today – in Knoxville, Tennessee of all places – there is a very polished act in arbitrage, logistics trading, product trading and metal funding.

I continue to be surprised by Producers who don't seem to understand that the LME is a terminal market that has a price-clearing mechanism that works on a marginal tonne basis. These Producers are concerned when a daily price does not represent their long-term costs and definitely doesn't automatically give an acceptable return on their asset.

The beauty of a market in a capitalist world is that as a Producer you can price on any mechanism you like. The trouble is, despite hating some of the aspects of the LME, it has credibility – something Producers in their search for alternatives have been unable to establish. “Bring back Producer Pricing” is a rallying cry with few supporters.

When I went to my first LME Board meeting, I had no idea of how the LME worked nor how I could contribute. Some will say that six years later when I left, the situation was very much the same.

What have I Learned?

Complexity.

The Board is diverse with numerous agendas and preferences. It is not surprising that this diversity has meant there has been difficulty in achieving some goals. However, it has also meant there is now great difficulty for any one group to dominate the agenda. The active participation of Producers has added to the substance of the LME and brought further balance.

Strong opinions expressed by people outside the LME who have not got their way are common. For me, this just demonstrates that vocal agendas are not always bent to.

Compliance.

Compliance is an enormous issue in all markets and no less on the LME. Whilst nothing is perfect, the LME's compliance record post the copper problem has been a major success. And one thing that I can vouch for is that it is totally removed from vested interests and influence. Coming from an industry that has received its fair share of attention, I have at times thought some of the actions were a little over zealous. However, I have never challenged the integrity or even-handedness of the compliance function.

Change.

The LME has evolved and will continue to evolve because it must meet stakeholder needs. To the extent that it doesn't change, alternatives will take its place.

Funnily enough, it was the huge threat of Enron that caused major trading changes while I was on the LME Board.

The LME did react to the dot.com and Enron era. There have been many positive changes as a consequence, and there are other changes that are evolving.

Patrick Young wrote recently, "The world's last open outcry exchange to survive will probably be the London Metal Exchange."

Young will be pleased to know that I tend to agree with him. I see less need for change in the open outcry system than many do, and I am not convinced the "for profit model" model is best for the exchange.

On the open outcry system, I am confident that the concentration of liquidity at the ring gives a fairer price discovery. This is a personal bias based on the belief that the integrity of the price discovery system needs to be the priority before any other change is made.

In reviewing the “for profit” model, I remain very circumspect of the benefits it will bring to the users of the exchange and believe it will raise costs to the Producers, the people I am closest to.

I believe in the model of the well-run public golf course. To attract players, the course is maintained in first class condition, clear rules apply, and the management is open and transparent.

The “for profit” model in a limited metal market is, for me, code of seeking “profit” from the cash cow and I suspect that means “Producers”.

In this area, I am willing to be shown that I am wrong. But the facts for me do not yet add up for change.

My election as Chairman.

Finally on the LME, how on earth did I become Chairman?

An institution of 125 years heritage firmly bolted to the centre of the City of London and always headed by someone from the broking fraternity. A U.S. based Australian from a Producer background with no link to the U.K. trading or finance establishment does not look like an obvious choice.

Firstly, Raj Bagri had to decide not to stand because I would never have stood against him.

When Raj decided not to stand, the field was wide open and from there it was the courage of the practitioners that forced change upon themselves – not some political coup fermented by me.

The practitioners knew that the future for the LME was with an independent chair and even though they may have liked “one of their own,” that was probably not an option.

And on this basis was started a transition of the LME to a different future.

My conditions were well known.

I had no desire to stay beyond one or two years at the very longest.

I was prepared to actively look for a first class replacement; a process I started on Day One.

I was not willing to be a lame duck because several current issues were highly contentious and we had to move forward.

Over all, it was an absolutely fascinating experience. I think I got through it adhering to the requirement: “First do no harm.”

One issue that may impact the LME and will impact our resources industry is climate change and Traded Carbon Credits.

Rarely does a day go by without some dire warning of the consequences of Australia not ratifying the Kyoto Protocol. I have long ago given up arguing the science of climate change. What alarms me is the airy talk by State Governments that we need a carbon signal in the economy – just a small one mind you; let's say \$5 a tonne of Carbon Dioxide.

This would increase the cash cost of production for Aluminium and similar metals by more than \$100 dollars per tonne.

What perhaps is most disturbing is the attitude of commentators and/or promoters of such actions who suggest that the carbon signal will have almost no impact and that resisting the imposition of such a system is costing the economy billions in new business opportunities.

It has to be acknowledged that tradable credits have worked extremely well in attacking issues of acid rain and smog, especially in the USA. You trade regionally and people see the improvements in the same regions. And improvements are significant.

Climate change is global and needs global solutions.

I wonder if there is not a parallel in a totally unconnected area.

In the 1960s, a regional group decided to place a small but significant levy on bauxite. It was the OPEC of the bauxite industry.

WHAT HAPPENED:

Development didn't just stop in these countries, but operating plants actually closed.

Total production didn't slow and in fact world growth took-off, and bauxite production with it.

The non-levy countries – Australia and Brazil – got a free kick and kicked a goal. And kept kicking goals for 30+ years.

Now, 40 years later, the bauxite levy debate is a spent force even in the countries that strongly promoted them at the start.

We should all be aware of the “law of unforeseen consequences”. It is alive and well and it bites when and where you least expect it.

Thank you for this opportunity to speak with you today.

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