

Friday, 8 August, 2003

“What Shade of Green are You?”

Good afternoon, Ladies and Gentlemen. I'm delighted by having been invited to speak to you, and for that I would like to thank the Melbourne Mining Club for organizing this luncheon.

Mining is like no other business in the world. With a few drill holes we can create enormous wealth through the process of discovery. The construction and development of new ore bodies creates wealth not only for our shareholders, but also for the communities in which we work – both directly through the taxes we pay at the local, regional and national levels, the employment we create, the purchase of goods and services during operation, and the development of infrastructure that can attract other industries and growth.

150 years ago gold mining opened up California, which if it were a country today, would rank as one of the richest in the world on a GDP/capita basis. At about the same time, gold discoveries also opened up Australia and Canada. Today our industry is at the forefront of economic development in countries such as Botswana, Tanzania, Mali and Ghana. Mining also continues to be a sizeable part of the economy of more advanced countries such as Chile, Peru, Canada and Australia.

We, miners, geologists and promoters like to think very positively of our contribution to world economic growth, societal benefits and stewardship of the environment.

The other side of the coin would be the critics' definition of mining: 'mining is the worst ecological fraud committed by humanity as it uses the most toxic substances known to mankind that will leave the planet with an environmental holocaust'.

That's what we call the critics' litany, I'm sure you have heard it before in relation to cyanide, mercury or plutonium.

- Plutonium: the deadliest substance known to mankind.
- Mercury: the most lethal substance known to mankind.
- Cyanide: the most toxic substance known to mankind.

As a matter of fact, cyanide is not even close to being the most toxic substance known to mankind by at least two orders of magnitude. Ricin is 500 x gr for gr more potent.

On Wednesday, I had a long discussion with our Chief Chemist on cyanide and I learned that one of the antidotes to cyanide, Amyl Nitrite, was a precursor to the cure for ED.

Those of you who have ED would know of the immense benefit of this development. For those who don't ED stands for Erectile Dysfunction and the pill is called Viagra!

After this little discussion, let's go back to our problem - the question is very simple, who do you believe? Let me give you a real life example, at the Newmont annual shareholders meeting in May, in Denver, management gave an overview of the company's environmental and community relations program. A number of special interest groups were in attendance alleging the usual crisis and holocausts. After the meeting, one of the people attending came to me and said "I heard you and I heard the special interest groups – who do I believe?" and that ladies and gentlemen is the greatest challenge of our industry in this century. That belief is the cornerstone of our Social License.

There used to be a time when whatever pronouncements you heard from the environmental movement was accepted as gospel, they held the high moral ground because of our industry's sorry track record. The good news is that we were held in such low regards, if not contempt, that we only had one way to go and that's up and that is what is happening.

One of their own, Bjorn Lomborg, who finally decided to check facts from fiction wrote a book called "The Sceptical Environmentalist". It is a must read for all of you. I would like to take just one example from this book out of literally hundreds to give you a perspective of what we as an industry face, and how I think we should respond.

Remember the Exxon Valdez accident in March 1989? Thirteen years later, 66% of people surveyed still believe that the beaches and waters of Alaska are polluted. So far this disaster has cost Exxon more than \$3.5 billion and the lawsuits are still flying.

I certainly do not want to minimize the significance of this tragic incident, but we need to put this in perspective. The overall pollution caused by this disaster was less than 2% of pollution caused by powerboats in the U.S. every year! Pleasingly, many people now agree that the Sound is almost fully recovered or will be within a fairly short time.

This is all part of the myth-making of the mining critic's movement – myths that are propagated by some members of the press in search of flashy news and readership; politicians in search of cause and votes; and the special interest groups' movement in search of campaign money.

These are facts of life today and you'd just better make your peace with it. In fact, I tell our people – "stop whining and do something".

As we all know, mining can bring sustainable economic development and very significant positive benefits to those communities in which we operate. However, don't take for granted for one second, that because you have an economic project that will create jobs and prosperity, that you will be welcomed with open arms everywhere. Dream on, as they say. The fax machine, the Internet, digital camera and the mobile phone have magnified the problems by making our world very small indeed. The entire planet is now everybody's backyard. Reputations can be made or lost far more quickly

and easily in this environment, which makes establishing a social license to operate even more imperative.

It is one of these notions that is not easy to define, but once you have it you realize just how valuable it is. At Newmont, we define it as follows: "Social license is the acceptance and belief by society and specifically our local communities in the value creation of our activities, such as we are allowed to access and extract mineral resources."

Let me give you a couple of examples to illustrate my point:

At one extreme, there are places in the world where mining just won't happen. The sooner you figure it out, the better. You will never permit an operation in or anywhere near Yellowstone National Park or Kakadu National Park here in Australia. Noranda, Rio and Newcrest took a few years to realise that.

In other instances, your project may become entangled in local or national politics such as Voisey's Bay in Newfoundland. It took ten years to get a mining license from the provincial government.

Manhattan Mineral's Tambo Grande project in Peru has also had its share of publicity. The project met with strong local opposition from the mango and lime growers in the valley. In a secret ballot last year, organised by Oxfam, the project was rejected by more than 90% of the local constituents. The economics of the project were never an issue, but rather, the company's social license to operate was never obtained. This in turn translates into a nervous central government and long delays in permitting. The future of the project remains, unfortunately, very much in doubt and from a human perspective, it is not the filing of an EIS that will earn you a social license.

Special interest groups in Argentina have been successful in halting the development of the Esquel Project, recently acquired by Meridian Gold. In a popular vote in May the project was rejected by more than 90% of voters. According to the company, a radical group faked an illegal dump of supposedly dangerous material to erode the company's credibility and stop the project.

Gabriel Resources' Rosia Montana Gold project in Romania is another good example whereby the majority of the local population and government both at the local and national level are believed to strongly favor the project, but critics from Hungary and Germany have been fighting with misinformation and in some cases disinformation.

Life is not fair, but you'd better get used to it! Unfortunately, most special interest groups cannot offer jobs, training, medicine, roads, power and water, like mining companies can.

You don't get your social license by going to a government ministry and making an application for one, or simply by paying a fee. It is not a simple case of throwing money

at a problem and hoping that it goes away. It requires far more than money to truly become part of the communities in which you operate. Sit down with the local communities and understand their needs, wants and customs. Tell them what you will do and live up to your promises. Establishing that you are accountable for your actions is the key to gaining the respect of your stakeholders.

Failure to obtain the approval of local communities when developing a new mining operation can result in huge unforeseen costs and long delays. At Newmont, we aim to be the partner of choice, not just for local or foreign governments looking for investment, but for all the communities in which we operate and live. We should know about this at Newmont as we didn't do any of the above at Ovacik in Turkey.

Suffice to say, we did not do a good job of earning our social license, especially in the face of a lot of misinformation propagated by critics, including that the use of cyanide would destroy all the olive groves and thereby the local inhabitants' livelihood.

Total permitting time was an agonizing 10 years, including 3 years of re-permitting after the government withdrew several key approvals. During this latter time, a fully-functional mine and plant stood idle.

We had to educate the local communities that cyanide could be used effectively and safely in mining, and we had to commit to incorporate a unique cyanide destruction system for process fluids, a sealed tailings pond and a zero discharge system for waste water. The combination is thought to be the first of its kind in the world. We poured our first gold bar in May 2001. Did these costs lower the project's returns? Without a doubt. Would Newmont have produced approximately 130,000 ounces of gold at a cash cost of \$138 in 2002 without this investment? Absolutely not.

Again, a strong social license is a valuable asset that one must earn. Ovacik is one of those projects where we saw every shade of green at first, we were "naï ve" green. Then we became "olive" green, and the whole process cost a lot of "Uncle Sam" greens!

Looking at Turkey today, we have a large, prospective land package and we are operating largely with the support of the local communities in which we operate. In fact, a few months ago on a visit there, I saw for myself the return on our social license investment where, for instance, other Turkish villages, who were violently opposed to the mine, are now requesting that we bring in drill rigs to explore on their land.

Batu Hijau was a case where Newmont did everything by the book and it worked.

Construction took place from early 1996 to 1999 at a cost of \$1.9 billion with processing operations commencing in September 1999. As most of you will recall, during that time we experienced the Asian crisis, Indonesia went through three presidents in short order, the Rupiah went from 3,000 to the dollar to 16,000 and there was devolution of power from the Federal government in Jakarta to the provinces through a "regional autonomy"

program. These were the most turbulent and unpredictable times for Indonesia since Suharto came to power in the mid-1960s.

Despite operating in this environment and employing a peak work force of almost 16,000 people, the project never missed a day of construction and we were able to complete it on budget and ahead of schedule, and it was operating for almost four years without a day of interruption. When did we know that we had earned our social license? When the local villages told one of the many critics that operated on the island that they were no longer welcome as they felt they were disturbing the peace. We maintain that social license every day with responsible social and environmental performance. It is these lessons that we are applying in new countries such as Ghana where Newmont will have its next operations.

In Australia, the mining industry is a significant employer of indigenous Australians. To focus Newmont's employees on the land and people we operate on, and their roles as "ambassadors", we created the "Newmont Indigenous Cross Cultural Induction" program. We are very proud of this program and the sensibility it brings to our workforce.

One of the biggest challenges facing smaller exploration companies with limited financial resources when operating in developing countries, is that much of the social license costs are required to be spent up front prior to any revenue being received. This can stretch balance sheets and put smaller companies at a serious disadvantage when it comes to developing projects. And if you don't do it right, you may never get your license to operate, whether you are big or small.

Having a track record, such as Newmont's in Indonesia, Turkey and Peru, certainly gives us a great deal of credibility when it comes time to move into a new country. It is one of the big advantages that we as a large multi-national company can bring to the table when partnering with a junior company in the development of new projects.

In conclusion, I would like you to remember the following key points:

1. You can be very proud of the wealth our industry has created, and continues to create throughout the world.
2. Earning your "social license" is not an elective in the university of the hard world. It's a full credit course. There are no shortcuts.
3. You are our first line ambassadors and what you do and say matters a great deal. A social license, much like a reputation, is first and foremost built on trust, which takes years to build, but can be lost in seconds. Always keep that in mind.

May you all find your pot of gold at the end of the rainbow!