

Experience proves garlands are not distributed for pessimism

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Melbourne Mining Club**

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****Check against delivery****

Ladies and gentlemen it's great to be with you tonight.

I think I am the first Melbourne-born boy to address the Melbourne Mining Club here at the historic Lord's cricket ground.

It's customary at Rio Tinto to acknowledge Traditional Owners and I would like to pay my respects to the first Australians to play cricket in the United Kingdom in 1868. They were from the Wimmera district of my home state of Victoria.

That match was ten years before a colonial eleven took on WG Grace here at Lord's in a match completed in just under five hours – which you will be pleased to hear is nowhere near the length of my speech tonight.

It's been quite a fascinating year so far. A lot of commentary, free expert advice, and even some sledging has come our industry's way.

With a history stretching back to around the time of those early matches, Rio Tinto people know what it takes to play a long and quality innings. As do many of you in this room.

Even so, there is no doubt our industry faces a number of challenges, some real, some of perception, and some of outright illusion.

Under this kind of scrutiny, and at times misconception, I strongly believe we must reach out to reconnect and reframe our industry. This is all the more important when times are challenging for many.

So tonight I'd like to talk about how we see the game evolving.

How we should be true to open economies and open markets. Confident the strong long-term demand drivers are still very much with us, review the way we approach our social licence and remind investors of our long-term value.

So let's look at the state of play.

It's been a challenging time. Not only for our industry but many others, in both hard and soft commodities. Be it iron ore or coal, steel or aluminium, oil and gas, or sugar and wheat for that matter.

Some have called it a crisis of confidence and talked themselves and others into a gloom. It's been suggested to me there's a direct correlation between your position on the cost curve, and the volume of your opinion. The higher on the curve, the louder you get.

The industry's cycles have caught some unprepared, and others looking for answers. There also seems to be a view that you can talk markets into submission or bend reality to suit your will. Some even question the invisible hand of the market.

In times of economic uncertainty, it might sound seductive or comforting to want to put up the barriers, but we must keep markets and trade open. It's worth remembering in Australia for a quarter of century iron ore exports were banned. Look at the wealth created since that artificial barrier was lifted.

In the past eight years alone, iron ore has contributed 70 billion Australian dollars in royalties and corporate taxes. It's not only earned the country billions of dollars it has helped transform a previously European-focused nation into a key trading partner with Asia.

Of course, a rising tide lifts all boats, and when things are good public support is high, but when the cycle changes, criticism inevitably follows. Such criticism is often based on the tension between our focus, which is inherently long term, and those fixated on the short term.

But if you've been around long enough you get used to such cycles. You don't dismiss them, you anticipate and act upon them. And by and large I think we at Rio Tinto have done that.

This has meant we have one of the strongest balance sheets in the industry, but we cannot be complacent. For building and playing the long innings with confidence is key.

As an industry, we need to be very careful of the signals we send to our customers, our host governments, and our communities. Talking the industry down risks becoming a negative feedback loop.

It feeds public anxiety about our industry's crucial role. It feeds the narrative we are of a previous century, not this century.

That's because returning to a "new industry norm" still requires a significant supply response. It provides us with the opportunity to deliver decades of value to our shareholders, our partners, and our communities.

I'd like to echo the sentiments of fellow Melbournian and Zinc Corporation founder W.S. Robinson. He noted: "*Experience proves garlands are not distributed for pessimism.*"

I share his optimism. The twin drivers of modernity and prosperity give us every reason for confidence.

So, for those mired in pessimism let's reflect for a moment on the drivers of demand. Within a generation, India will overtake China's population. By 2050, the world's population will increase by a third. Africa's population will double.

Urbanisation is not slowing, it continues at pace. By 2050, another 2.5 billion people will move to an urban environment. It's clear these forces of prosperity and development will require more infrastructure.

The B20 - the business group linked to the G20 - estimates more than US\$57 trillion of infrastructure will be needed in the next 15 years. That is a sizeable infrastructure deficit.

For those concerned about China's moderating growth, keep in mind its economy will grow more in the next ten years than it has in the past 25 years.

India's economy in the next decade will almost double. Albeit, initially less commodity-intensively than China, but in dollar terms equivalent to what China has just achieved in the past eight years.

So, iron ore and metallurgical coal will remain the building blocks of urbanisation and industrialisation. Aluminium will be at the centre of our transport and consumer needs.

And what of copper? It was with humanity in the Bronze Age, and so it will be, in the silicon and solar age. A conventional car uses 15 kilograms of copper. A fully electric car, four times as much.

The industry faces a supply gap of four to six million tonne per annum within a decade. We can safely assume the world will need many more mines like Oyu Tolgoi.

So, the demand signals are strong and clear. We will grow year-by-year to meet humanity's needs.

A trend that's not cyclical is the public's ever increasing expectations. Retaining our stakeholders' confidence is our challenge. Without it we have limited growth both in emerging markets, and our operating heartland.

Twenty years ago Rio Tinto's chief executive, Leon Davis, outlined the new competencies required in our industry. He said there was a risk that: *"consistent failure to win broad public support for one's activities will handicap a business, or an industry and lead to its eventual demise."*

He talked of the new thinking and skills required working with our people, Traditional Owners, in developing economies and with the environment lobby.

Since Leon's speech the industry has made great strides, but we must do more. On each of those points we have some new elements to consider.

Let's start with our people.

We offer many modern career opportunities, both in the soft skills and hard skills.

We all recognise the need to build a more diverse and inclusive business to better reflect our host communities. As an industry, our diversity statistics are not where they need to be and we need to do more.

And keeping our people safe has to become our absolute number one goal.

On safety, the raw numbers do point to large improvements.

But the raw truth is fatalities and injuries still occur. Zero fatalities must be our base line, not the stretch target. It's what the public expects of us, and we should demand of ourselves.

In working with Traditional Owners Rio Tinto led the way in Australia. I would like to believe we have taken those competencies to new regions and countries but with a different emphasis. I am not saying we have not had, or will continue to face, challenges. But when I look at new projects, such as Oyu Tolgoi, where 95 per cent of our workforce is Mongolian I am greatly encouraged.

Since Leon's speech what has changed is the broader range of stakeholders we work with. It's no longer enough to just engage with communities. We also need to evolve our capacity to involve, engage, and partner with governments and development banks. Work better with civil society and social enterprises and the environmental lobby.

And we now have greater transparency, through tax initiatives such as EITI and publishing our community commitments and environment performance in sustainable development reports.

It's now a lot clearer to host governments and to civil society the role we can play in economic and social progress. There are many positives out there, they're just not always noticed.

Last year at Rio Tinto we supported 2,200 community-related programmes. Far from token, they're very tangible. We need to get better at telling our story.

Support for our industry is strongest at the local level, rather than with the general public who have no familiarity or interaction with us and this does make it hard for us at times.

Our challenge is to disentangle genuine community concerns from the broader public debates. Those with totemic labels – carbon, uranium, sustainability.

The infusion of the human rights language into sustainability also poses additional challenges, for all industries. Particularly when the issues we seek to balance, or the operational mistakes we may make, can be couched as "violations", "abuses" or "unethical" behaviour.

Such language denigrates our great people and it can polarise discussion when we seek to find practical solutions to complex issues be they: carbon, working in emerging countries, or explaining our global tax arrangements.

So what's the solution?

It probably won't surprise you when I say more transparency and continued engagement.

Rather than push our critics away, we have to work constructively with NGOs and civil society at the grass roots of our communities. Railing against community attitudes does us a disservice. It can further entrench negative attitudes and with it burdensome over-regulation.

Because many regulatory responses of late rather than aid decision making have increased community anxiety and delayed investment decisions to the detriment of all.

So, while we have made significant progress, 20 years after Leon's seminal speech, we can and need to do more. I would suggest the competencies we need to embrace have evolved to encompass our commitment to safe and diverse people, Traditional Owners – and all stakeholders, and both emerging and emerged economies.

I've talked about industry confidence and renewing our social licence setting, so what else should we focus on? I'd like to suggest we look to refresh our position as an industry to invest in.

My suggestion is not directed at a company level, but at an industry level to better present our case.

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Our industry exhibits a wide range of the risk reward profiles. From the blue sky explorer to the centuries young diversified producers. There will be the lowly-gearred and the leveraged. Those in a hurry and those focused on capital growth and dividends.

But let's consider the big picture for a moment. The industry's exploration spend is near a decade low. Industry capital spending is near its lowest in 30 years. Industry operating costs are down and falling.

Prudence is good. But investing well for long-term returns is critical for shareholders. The current squeeze may well be providing the next cyclical upswing. Given the demand outlook I painted earlier we have every reason for long-term confidence.

I like the idea of costs continuing to fall, strong demand for our products, and the potential for price rises. The market is looking to us to unlock value through better management of our fixed assets, our working capital, and the skill of our highly talented people.

Our industry is reinventing itself, as all industries do through intensive competition, the adoption of new technologies, forging new partnerships, and developing new markets.

Not all can or will succeed. But we shouldn't let our industry be defined by fourth quartile failures, any more than the IT industry should be defined by the once mighty Xerox or Kodak. All industries move with the times.

We should remind shareholders of our longevity, our dividends, and that our future is tied inextricably to human prosperity. An undeniable trend that despite temporary periods of slower advancement, steadily marches on.

It is human nature to seek comfort in certainty because there is so much that is uncertain about our industry, from geology, to sudden market shifts, to social attitudes.

And some may therefore look for artificial constructs, of the mind, or the regulatory kind to deny or slow change. But we must embrace change.

For there can be no doubt the world will continue to demand the metals and minerals that make modern life work. That is the certainty we should all focus on.

We should reward those taking the long view and share in the wealth and the knowledge that is being created and which by our actions continue to make society more prosperous.

Thank you.

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