

Financing low-carbon investments

Promotion of investment based on sustainability-oriented analysis

Ladies and gentlemen, distinguished guests, it is my honour and pleasure to speak to you today about low carbon investments from the perspective of the mining industry.

To begin, let me quote from two sources: first, management pioneer Peter Drucker, who said:

“Everybody has accepted by now that change is unavoidable...But in a period of upheaval, such as the one we are living in, change is the norm.”

Second, from the UN Global Compact Initiative, which says:

“Never before in history has there been a greater alignment between the objectives of the international community and those of the business world.”

In my opinion, these statements perfectly fit the times we are in. For the mining industry and for almost every industry, we are living in interesting times filled with change, risk and opportunity. We are in a period of growth, uncertainty and transition, unlike anything the world has seen before. Climate change, the issue that is driving all of these changes, will affect almost every aspect of our lives and some analysts are calling it “the defining issue of our lifetime.”

Of course, with all of these changes and opportunities, there are also risks. And for the mining industry, these risks are significant. How does a company change a technology-intensive and high cost business like mining to a low carbon, clean energy enterprise? For that matter, why would a company want to make such a shift when the current “high carbon” side of the business is so lucrative?

The reality is that in order to meet global energy demands, the need to move future energy investments away from high carbon energy, and into more sustainable, low-carbon options has never been more urgent. According to the International Energy Agency, most future growth in energy demand, approximately 90% by 2030, will come from developing countries.

Global population increases combined with the expected doubling of energy needs in the next two decades make a transition to low carbon renewable energies an urgent necessity. Nowhere is the need more acute than in China. A recent United Nations Development Programme (UNDP) report claims that as China becomes more urbanised and the economy keeps expanding and more and more energy is consumed, the nation's current rate of growth will be difficult to sustain. It also states that energy efficiency, carbon capture and storage, renewables and nuclear power are crucial investment sectors to create a low-carbon future. The reason for this is that over the next 20 years, nearly 350 million Chinese are expected to migrate to urban areas, a number that exceeds the current population of the United States.

It is obvious to any mining industry executive that momentum is building throughout the world for green technologies and renewable sources of energy. According to market research firm Cleantech Group, clean technology companies raised \$1.9 billion in the first quarter in 2010, an increase of 29% from the fourth quarter of 2009, and an 83% increase over last year.

Low carbon investment is a strategic choice. In my opinion, it is the next frontier for mining investment. Companies that don't invest in low carbon technologies will miss out on major opportunities for new investments, new innovations and for substantial growth, while those that focus on low carbon, green energy sources will enjoy the benefits of being on the cutting edge of the mining industry. But I'm not the only one to make this

claim. A 2006 CitiGroup study stated that, “sustainable development in the mining sector presents companies with a number of choices:

- 1) Seek out low-regulation, low-cost environments for their future development
- 2) Develop a new business model that places a premium on environmental responsibility and social progress
- 3) Try to operate in the old way in the new world and go out of business”.

Even for countries that continue to rely on the exports of high carbon energy resources, the four-year-old study is a warning that such a short-term strategy will ultimately hurt the country’s economy as the rest of the world moves on to low carbon sources of energy in the years and decades ahead. From a purely “bottom line point of view”, low carbon is the future, and the future is happening now. Companies that don’t recognize this reality will soon disappear, and countries that don’t heed these warnings will suffer.

In the current business climate, “environmental responsibility” and “business opportunity” are finally starting to be compatible goals. Investing in “green” companies does not just make political or emotional sense. It makes financial sense as well. Sustainability is no longer just something to put in a corporate annual report, but is a genuine strategic focus that affects a company’s bottom line. According to the Financial Times, “this is a long-term trend and the cleaner, greener companies will come out as winners in the end.”

And a report by Pew Charitable Trusts into the green economy has revealed a major increase in investments in alternative energy throughout the world - an increase of 230% over the past five years. The world leader in clean energy, China, increased green investments by 50% last year and countries like Britain, Spain and Brazil have invested heavily in wind and solar. In some ways, even the US has taken important

steps with renewable energy and transportation initiatives - not to mention, the initiatives of “green” states like California.

The annual Climate Competitiveness Index (CCI), created by the independent non-profit institute AccountAbility in partnership with the UN Environment Programme (UNEP) predicts that the global market for low carbon products and services will be in excess of two trillion U.S. dollars by 2020. However, the report notes that to secure this market, countries need ambitious climate competitiveness strategies, as well as the institutional infrastructure to build markets and convince investors.

The disappointment of Copenhagen seems to have created a new sense of urgency over climate change and has spurred governments around the world to move forward with their own initiatives. According to CitiGroup, 74 countries have drawn up carbon “action plans” covering 80 percent of the world’s emissions and 90 percent of the world economy. Even the 2 main economic powers in the world, the United States and China, have made important moves in this direction. The Obama administration has promised stricter regulatory enforcement in lieu of new regulations, while China has made significant green investments across a variety of industries. Last year, China overtook the US and the rest of the world in clean energy investments, spending \$34.6 billion.

This is an area of competition not just for China and the US, but also for many countries around the world, according to a new report from Deutsche Bank titled, “The Green Economy: The Race is On”. The report says that, “the criticism of Copenhagen's failure to reach a binding multinational contract misses the fundamental point. The solution lies with governments establishing optimal national policy frameworks that foster the investment, jobs and wealth-creation that the clean energy revolution will bring.”

All of this will cost money - lots of money. A recent World Bank report, "Winds of Change: East Asia's Sustainable Energy Future", states that the six countries covered in the report (China, Indonesia, Malaysia, the Philippines, Thailand and Vietnam) need to collectively invest \$80 billion each year in order to switch to renewable power.

In a statement that coincided with the report, Jim Adams, World Bank vice president for the East Asia and Pacific Region said: "What is required is a paradigm shift to a new low-carbon development model with sustainable lifestyles." In other words, there are tremendous opportunities to transform these emerging economies on multiple levels, but companies and countries need to invest in a new way of thinking, a new way of doing business.

Despite the costs of this transition, investments are long-term and represent a strategic advantage for any company that undertakes them. Although energy consumption levels have tripled in the past 30 years in these East Asian countries, they are expected to double again in the next 20 years in response to increased urbanization and industrialization. For these countries and for companies in the mining industry, investing in low carbon, renewable energy sources makes perfect financial sense for both the near-term and long-term bottom lines.

An International Energy Agency report on "the economics of transition in the power sector" notes that the microeconomics of these investments are significant and illustrate "the potential costs and incentives required to stimulate a shift in investment patterns." It goes on to say that microeconomic analysis revolves around questions of risk and in times of uncertainty, companies usually require additional returns on investment. In other words, increased risk means a greater expectation of return. If uncertainty and risk can be minimized and the return on investment made clearer, companies will be more likely to act and make the investment that is needed.

Ladies and gentlemen, the mining industry can't make this transition to low carbon mining alone. For the private sector to become fully engaged in transitioning to more low

carbon investments, it needs more information and more dialogue with local governments and with international organizations like the UN and the World Bank. Promoting low carbon investment requires a total commitment from business, governments and international organizations.

In recent years a number of business-led climate initiatives, such as the World Business Council on Sustainable Development, which is an association of CEOs from some of the world's 200 most influential companies, have helped in this regard.

There are regional organizations as well; the UK-based Corporate Leaders Group on Climate Change is one example. Their aim is to help initiate changes in government policy on this vital issue. All of these business-led organizations promote dialogue and cooperation between industry and government.

The mining sector would also benefit from more dialogue and engagement with governments and world organizations. Conferences like this one are an excellent opportunity for this kind of dialogue.

But I propose that a dedicated Council of Mining CEOs, either on a global or a regional level, would be an even more effective way of promoting dialogue and cooperation between the public and private sectors and creating the incentives that are needed to move forward with this transition.

Andrew Grove, former CEO of Intel, once said:

“A corporation is a living organism; it has to continue to shed its skin. Methods have to change. Focus has to change. Values have to change. The sum total of these changes is transformation.”

I'm confident that we are at a point in history that will see a massive transformation in the way we power our homes, our vehicles and our businesses and the mining industry is a vital component in helping to make this transformation.

In closing, let me say that investing in low carbon resources represents a long-term commitment, but the mining industry, whether low carbon or high carbon, has always required a long-term approach to investment. Investing in mining has always been the proverbial marathon rather than a sprint.

But in the current reality, as we face “the defining issue of our time”, maybe we are no longer talking about just a marathon anymore. There are “hurdles” and other obstacles on the racecourse that we must overcome. But with the cooperation and commitment of both the private and public sectors, I know we will be successful.

The race has changed dramatically, but make no mistake: the “green race” is on.

Thank you for your attention.