

GOLD MINING IN THE 21st CENTURY: RENAISSANCE OR MARGINALISATION?

OUTLINE OF AN ADDRESS BY BOBBY GODSELL, CHIEF EXECUTIVE OFFICER, ANGLOGOLD, AT THE MERRILL LYNCH GLOBAL METALS, MINING AND STEEL CONFERENCE, PHOENIX, ARIZONA: WEDNESDAY, 17TH MAY 2000

In these comments I seek to review five areas of challenge in and to our industry. Each of these challenges represents both threat and opportunity. Our response to these challenges, amongst others no doubt, will help determine whether our industry experiences renaissance or marginalisation in our “new times”.

In the economics textbooks of my learning days, mining was viewed as a primary form of economic activity. It was viewed as part of the foundation on which other layers of the economy had to be based. Today, this economic process suffers from at best benign neglect, at worst positive disaffection. It is not at all ordained or inevitable that this should continue to be so. Let us examine some elements of negative sentiment about mining and ask if they can be addressed.

1. The environmental challenge

It is a very positive attribute of our times that people have become aware of, value and are concerned to maintain a healthy environment, which accommodates bio-diversity and offers people the opportunities to experience the majesty and richness of nature. I want that, and so do my kids.

Mining is often portrayed as the enemy of the environment, or at best as being in dynamic tension with green sentiment. Some of this negativity is based on a deeply flawed logic, which it is truly in the interests of all stakeholders in society to dispel.

Man and his environment are not locked into some terrible zero sum game. With conscious intent, it is entirely possible to provide for the

needs of people in the context of a diverse, healthy environment, which retains its spiritual vitality.

What this requires of all forms of human activity, including all forms of economic activity, is a clear understanding of the ways in which they either integrate or destroy that which is positive in nature.

It is clearly possible for people and nature to co-exist in a dynamic and positive relationship. Many cultures have done this for centuries. It is clearly possible to accommodate societies' economic needs within a natural environment in a way that not only does not destroy, but, indeed, enhances that environment. All you have to do is do what you do well.

Good housing developments can both protect and indeed enhance natural environments. Pueblo-style housing in pre-industrial societies is but one example. The extensively treed suburbs of Johannesburg, which have created an urban forest, with much richer flora and fauna than ever before, are another.

From office parks to recreation venues, from tourism to transport systems, the challenge is to define a form of economic activity that is environmentally positive rather than negative.

In mining, the opportunities to do this are probably greater than in many other sectors. Mines, after all, are a form of project activity. Their scope, shape and size are both coherently designed and entirely predictable, unlike aspects of tourism, or indeed informal human settlement. The impacts on mining on the environment (both positive and negative) can be predicted and can be managed.

All over the world we are approaching a moment when the needs of environmental preservation are being set up in conflict with those of economic development. This is both ironic and undesirable. It is ironic, for the very societies which most force a choice between development and environment are those which have already chosen development in times past, and which today consume huge quantities of environmental resources, much of which are now produced in poorer countries. It is undesirable, for it is both entirely unnecessary and very unwise to choose between meeting the needs of people and

the needs of a healthy environment. Good work will always embrace a healthy respect for the environmental resources it transforms and the environmental context in which it operates.

The mining industry needs to move from a defensive position in this regard. We need to assert that good mining protects and promotes good environments. We have examples enough to demonstrate this.

2. The technology challenge

A second challenge to the mining process is that it is technologically primitive. This also is, at least in part, an ill-informed perception. Mining, metallurgy and pre-eminently geology are as knowledge-intensive activities as any I know. It may well be true that we have not fully exploited all the opportunities of both the intellectual advances as well as the technology advances in the information sciences. To the extent that it is not true, it offers enormous potential to raise the productivity of our industry.

The challenge here is that our activities are as information rich and dependent as any others, and more so than many aspects of the new economy. Geology is as much about probability theory, large number mathematics and indeed uncertainty and chaos thinking as is the world of financial derivatives.

We should be at the cutting edge of an unfolding information revolution in mining. If we are not, we have only ourselves to blame.

3. The desirable career challenge

A third area of challenge is that mining no longer projects “cool careers”. Mining is not on the MBA hot list. This, too, is puzzling. When you consider the intellectual, strategic and leadership challenges facing this industry, you would think we would be drawing into it the brightest and the best. If these challenges are set out for what they are, and we are prepared to put young people to the test in our industry, I am sure that we can draw the brightest and the best.

4. The product challenge

An industrial society is based on what can be produced. An information society is based on what is chosen. It is based, that is, on customer choice. An industrial society is about production. A customer-based society is about products.

Let me illustrate this in regard to the product for which I work. Gold in Western industrial societies was money. It was produced for governments, bought by them at prices they set, and held by them as inventory. At other times in history, and indeed today in other parts of the world, gold has been in a much broader, diverse and indeed popular market place. The souk in Istanbul, the gold shop in Bangkok, and the marketplace goldsmith in Mali, are much more representative of the historical role of gold than are the vaults of Fort Knox.

Central banks will continue to hold gold. Some will reduce their gold holdings, others will increase them. However, they are not the “modal customer” of the gold industry.

Who are our customers and how well do we serve them? Like any major industry, we have a broad spectrum of customers. This includes:

- the Indian peasant farmer accumulating a gold dowry;
- the Muslim adherent in Indonesia acquiring gold coins to finance his Haj pilgrimage;
- the salaried man and woman in all industrialised societies buying gold jewellery for purpose of adornment, or as an expression of love;
- the individual investor seeking to diversify and strengthen his investment portfolio; the professional funds manager seeking to do the same with other people’s money.

Gold is fashion and gold is money. For many, where the gold value of their fashion good is significant and realisable, gold is both fashion and money. Gold is religious icon and artwork. It is and can continue to be all of these.

In well-developed markets, gold will have to compete in all of its attributes with a wide bundle of competitive offers. How well gold competes will be entirely a function of the energy, resources and creativity invested by all sectors of this industry in product excellence, retail effectiveness and the customer base itself for our product. What we have going for us is 5,000 years of very good history.

5. The country context challenge

My recent life experiences suggest that globalisation is Swahili for jetlag. And that is bad. Operating in more than your own country, as with investing in more than your own country, demands the capacity to both measure and manage risk.

Of course, all economic activity requires just this talent. We do need to remind ourselves of the fundamental truth that there is no reward without some measure of risk. The capacity of the wise investor is to be able to assess risk, that of the effective entrepreneur to manage it.

The world is an uncertain place. Recent developments on my continent, particularly in Sierra Leone and Zimbabwe, have dramatically raised the risk profile of Africa.

I can offer no perspective on Sierra Leone.

On Zimbabwe, clearly the case for land reform is compelling, complex, urgent and sadly overdue. An emphatic disrespect for the rule of law, thuggish behaviour, and racist rhetoric will achieve nothing positive and indeed, carries very great risk. The people of Zimbabwe – white and black – love their country. They cherish a better future. I am sure that they will find a way forward.

These events in two African countries have raised investor fears about all of Africa. These fears are based on a deeply flawed logic. What happens in Kosovo is not some inevitable predictor of the fate of Europe. A tourist kidnapping in Malaysia tells you nothing about the future of that region. An AngloGold official, visiting from Australia, thought his chances of getting mugged in the streets of Johannesburg were greater than in Washington. He was horribly

surprised when he was, indeed, mugged in Washington, not Johannesburg.

In the end, political reality and political risk is still most significantly denominated in nation states.

In the South African nation, State President Mbeki has indicated in the clearest possible terms that land invasions, Zimbabwe-style, will not be tolerated. Our country has plenty of challenges, combating a much too high crime rate being perhaps the most immediate one. It is also, however, building a record of solid achievement.

The rule of law, government under law, and a constitutional state are well established. Nelson Mandela was required to appear before our High Court as a witness in a court case held during his presidency. Two prominent politicians, one (Alan Boesak) from the ruling party, another from a right wing opposition grouping (Eugene Terblanche), are both serving prison sentences for common law offences (fraud and assault respectively). Laws passed in our Parliament have been found by our Constitutional Court to be invalid. Our Judiciary is fully, functionally independent of both the Executive and Legislative branches of our Government.

The South African economy has never been better managed or in better fundamental shape in my adult lifetime (and that's more than a quarter of a century!).

Inflation is well controlled; government deficits are being managed down; trade barriers have been rapidly reduced; tax rates are being lowered; exchange controls are being phased out; and economic growth is stronger than it has been in decades.

Again, economic challenges abound. Employment creation is the central concern. I am convinced that, as with the United States and now Europe, this will come with sustained growth. As with the OECD world, the nature of work is changing in South Africa, and much employment will be in medium, small and micro enterprises. The climate for the creation of such medium and small business is not as enabling as it could be, and this challenge, too, is clearly on the national agenda.

None of the above means that risks do not abound in South Africa. But then, life for a gold miner is rich in risks everywhere.

As a business person dedicated to making money out of mining and selling gold products, and as an individual citizen of this new millennium, I cannot imagine any other place where I would rather be.

In conclusion:

I have just read a fascinating book by the American historian, John Lukacs. The book describes the five days in May 1940, during which the British Government considered whether it should give up its military struggle and seek peace terms from Germany. Hitler had just achieved the most dramatic and rapid military conquests ever in European history. Holland was occupied. The King of Belgium had abdicated. The French were on the point of collapse. A British Expeditionary Force of over 300,000 men was trapped on the beaches of Dunkirk. The United States was both unwilling and unable to help in any way. The case for negotiation was more than a prudent one. It was compelling.

Not, however, for Winston Churchill. Operating almost on instinct alone, he carefully navigated the flows of defeatist sentiment until he could convince first his cabinet, then the House of Commons, then his nation, and subsequently, freedom-loving people everywhere that even defeat was preferable to surrender.

I draw two very narrow analogies with our circumstance in mining. In some ways we are embattled, beleaguered, indeed on the beaches. More importantly, this is a moment where a resilient belief in our process, our product and the countries which we serve, requires us to engage our challenges with confidence. That, surely, is what future generations would expect of us.