Rio Tinto

Infrastructure and Innovation: Africa's pathway through the commodities cycle

Alan Davies, chief executive, Diamonds & Minerals
Mining Indaba, Cape Town

8 February 2016

Check against delivery

It's great to be back in Cape Town for Mining Indaba.

I would like to start today by noting that, despite the economic conditions we're all facing, I remain convinced that the extractives industry in Africa can serve as a powerful catalyst for broad-based economic transformation and long-term growth.

I say this because Rio Tinto has been doing business across Africa for many, many decades. And during this span, we have seen a lot of ups and downs. We have witnessed how the industry can succeed, even in extraordinary circumstances such as these.

In fact, later this year, we will be celebrating our 40 year anniversary at both our Rössing operations in Namibia and at our Richards Bay Minerals operation right here in South Africa.

That's something we're very proud of and it is directly correlated to the strength of the partnerships we have formed with many of the people sitting in this hall today.

As the Rio Tinto executive with responsibility for the African region, I get to spend a lot of time on the continent. I am constantly reminded of Africa's dynamism, resilience, and opportunity.

However, I think we can all agree that the economic volatility of the last year have been challenging. Particularly, for those of us that support the thesis that Africa can leverage its resource wealth to achieve strong growth.

But, the current economic reality must be recognized. Commodity prices are at decade lows, global investment in mining projects is slowing, and everyone is becoming more risk adverse.

Therein lays the issue I want to address today: at a time when it is easy to retreat to our individual corners given the extraordinary markets, we can tend to lose sight of building a foundation for tomorrow.

African companies, global investors, operators like Rio Tinto, international financial institutions and African governments all need to innovate more than we have so far.

That means transforming the way we do business, the way we assess and manage risk, the way we partner, and the way we govern.

And I suggest that the pathway for success across Africa will be focused on three issues of longstanding and critical importance: investment certainty, infrastructure and innovation.

Before I elaborate on those points, let me first expand a little more upon the current economic environment.

Almost every tradable commodity has declined over the last twelve months and the World Bank recently lowered its 2016 forecasts for 37 of 46 commodity prices.

This is translating into lower earnings for companies and lower GDP and collections of revenue by producer governments.

Whether you are a mining company doing business in Africa, a government that depends on resource revenue, or an African entrepreneur investing or supplying goods or services, we are all confronting the same challenges, together.

So, while the short-term situation is difficult, our shared objective remains the same – sustainable, broad-based growth in Africa.

And I firmly believe that strong partnerships between government and the private sector will be the key to ensuring we achieve that common objective for the long-term.

So let's lift our heads from the daily ticker for a moment and remind ourselves of some basic aspects of the world we live in today and the outlook for the future.

Much has been said about the changes occurring in China's economy.

Yet if you take a longer view, China remains an engine of demand in our sector. And, in many respects, it is following the path of other developed countries.

Moreover, China and Africa's path will continue to converge. This was made clear at the recent Forum of China-Africa Cooperation summit in Johannesburg where Chinese President Xi Jinping announced that China is offering $60 billion in loans and aid in Africa to spur development.

Yes, China is experiencing slower growth today, but better quality growth as it goes through reforms and shifts to a more consumer-centric economy. While it may be a smaller growth percentage, it is growing in absolute terms.

In the longer run we see China continuing to transition away from investment towards consumption which will gradually reduce its potential rate of economic growth. We expect China's GDP growth to slow towards 6 per cent by 2020 and gradually move to between 4 per cent and 5 per cent by 2030.

I visited China many times last year and I'm optimistic about the long-term economic story: consumption is contributing to about 60 per cent of China's economic growth and new areas of growth are emerging.

Looking beyond the middle kingdom the global drivers of long-term demand for Africa's minerals all point in the right direction.

The world population is growing. By 2050 it will increase by a third to 9.5 billion people requiring more housing, more infrastructure, more energy, more resources.

This is especially true in Africa, where the United Nations predicts population growth from 1.2 billion in 2015 to 2.5 in 2050.

To put that into perspective, Nigeria will have a population of 400 million in 2050 – which could surpass the entire United States.

In other words, there will be a need for the metals and minerals that make modern life work.

That is why Rio Tinto, which currently has nearly 5000 employees and contractors in Africa, continues to invest and explore the continent for future opportunities. In particular, our exploration team is looking at potential projects in Botswana and Namibia.

Even in the face of lower commodity prices, Africa remains a global growth hub.

Capital is flowing into sectors including agribusiness, manufacturing, infrastructure and particularly in the Information and communications technology sector.

So while there is plenty of opportunity, we have to be collaborative in how we solve today's problems in a very tough operating environment.

And we have a clear choice: wring our hands and gnash our teeth or work together to figure out what we must do to get through the storm.

Let me offer a few ideas on the path forward for the private sector and for governments.

The path forward for private companies is difficult.

In such tough times, companies are going to have to make very tough decisions and get back to core objectives. It is only a tight ship that rides through the storm.

We have seen tough measures already, such as the closure of operations or significant employee lay-offs. Not just tough for companies, but also for families, communities and governments.

While the level of investment on the continent will be lower than expected, even more than what we thought at last year's Indaba, it cannot be overlooked that mining is continuing to provide jobs and revenues across Africa.

Mining investments and operations remain a strong catalyst for growth.

However, the reality of the market dictates that companies need to conserve cash and cut costs.

In 2012, Rio Tinto began to prepare for the industry changes we are now witnessing and with renewed business discipline.

Since then we have trimmed our global capex by billions of dollars, cut costs substantially, and focused on delivering the products customers' need.

We've done all this while still paying our taxes to governments, respecting agreements and working hard to ensure the health and safety of our employees.

For example, we remain committed to capacity building at the community level at Richards Bay Minerals.

At RBM we are training our employees for future projects with broader construction skills. We have developed training programmes for young people from our host communities.

Last year, 81 people from four communities near the mine received short-course construction skills training. Hundreds more young people are expected to undergo training over the next few years.

So while the private sector leaders will be making tough choices, we need to do so with communities and partners' interests in mind.

While I have described the necessity for the private sector to be more efficient, committed and innovative during the downturn, governments must similarly do more to remain competitive for scarce global investment capital.

Projects in countries deemed to be more stable, more reliable and more consistent will win the race for investment capital.

Many African government leaders understand this dynamic. The new Minister of Mines in the Republic of Guinea, Minister Magassouba acknowledged the competitive dynamic in his first remarks as Minister earlier this year.

To paraphrase the Minister:

Investors should be treated with the greatest respect in order to make projects that create jobs for our people and wealth for partners and for the entire nation. This is only possible in a protective environment and investments within a framework of mutually beneficial partnerships.

Collectively, we need to think about what will allow us to survive today, and thrive tomorrow.

So what are the attributes of an attractive operating environment that limits risk?

I think it involves three major components, or planks, if you will – Investment certainty, Infrastructure and Innovation.

In some areas, governments will need to lead, but there is a role for all of us to play.

The first plank is: investment certainty and ease of doing business.

Businesses will only invest where a government has demonstrated long-term commitment to honouring contracts, to the rule of law and tax regimes that don't constantly change.

Geologists can find amazing resources, but given the enormous capital cost for mining projects, if the investment environment is not secure and improving, many great deposits remain just a glimmer in the geologists' eye.

African nations that reduce trade barriers and forge international investment agreements will find a quicker route to success. Rule of law, tax certainty and transparency are the building blocks of these agreements and a focus on them in the short-term will pay benefits for Africa's prosperity in the long-term.

The good news is that improvements to the business environment that will attract international mining are the same as those needed for local business to grow – they are compatible.

One of the best investments that countries can make in terms of competitiveness is in enhancing their business environment and interaction between the private sector and government.

That means improving tax customs clearance, permitting and legal systems.

Speeding-up, streamlining and re-orienting government interaction with the private sector will massively improve the environment for both international firms and local entrepreneurial ventures and establish investment certainty.

More specifically, especially during these tough times, governments need to help the private sector adjust their cost base through productivity and other direct cost reductions.

This can come in the form of labour productivity, electricity and power costs, and reduced bureaucracy.

And by focusing more on these types of improvements, governments will improve their operating environment, simplify their systems to attract new investment, help new businesses, and improve their competitiveness.

The second platform for growth is investment in infrastructure.

Infrastructure is the lifeblood of countries, the backbone of industries and the trade pathway of home-grown entrepreneurs and regional development.

Many of Africa's most promising mining assets are in remote regions. If Africans are to see the benefits of those resources, they have to be able to get those assets to global markets, and that sometimes means crossing national boundaries.

Governments will attract more investment and yield more benefit for their citizens when they make it easy for goods to get to markets.

And it's not just about mining. Agriculture is a huge opportunity, but can be stranded without the infrastructure to move a product to market.

We all recognise infrastructure is a pressing issue for Africa. The infrastructure deficit is large, and needs to be a focus for governments and financiers.

But that's not to say it should be tackled by nations on their own. We need regional integration and cooperation.

We have seen it across the continent – large infrastructure projects are catalysts for transformative change and growth.

Borders should not get in the way when contemplating projects – and governments and the private sector need to work together and think innovatively to bring them to fruition.

The African Development Bank (ADB) has estimated that more than $360 billion is needed by 2040 with 51 priority projects costing $68 billion required by 2020.

At the ADB first ever Programme for Infrastructure Development in Africa last fall in Abidjan, Rhoda Peace Tumusiime, African Union's Commissioner for rural economy and agriculture said "I see a lot of connectedness between infrastructure, agriculture, rural development and trade".

She went on to say that "Infrastructure has increased intra-African trade from 11 to 16 per cent in the past few years."

Infrastructure catalyses additional investment, risk taking, and development. African nations are at the start of that journey, but you can already see it from East to West.

For example, Kenya's ambitious growth plan called Vision 2030 included plans for improvements in transit infrastructure including road, rail and port. They published plans to improve the port at Lamu and the standard gauge railway (or SGR) between Mombasa and Nairobi.

Successive administrations put them out to bid and actually completed the work. Both projects come online this year, and the World Bank predicts they will anchor a 5.7 per cent national GDP growth rate this year, and growth of over 6 per cent next year.

And we at Rio Tinto have seen first-hand the great benefits new infrastructure can bring such as the deep water Ehoala Port near Fort Dauphin, on the south east tip of the island of Madagascar.

The port was built as a partnership between Rio Tinto, the World Bank, the European Union and the Malagasy government to export ilmenite from Rio Tinto's QMM operation.

This port is not just for our product – it also welcomes cruise liners, container ships and refrigeration vessels, which create further employment opportunity and the prospect of new customers for local businesses and entrepreneurs.

But, projects like the Ehoala Port are admittedly difficult and require the public and private sectors to work together for mutual benefit. Compromise, collaboration and innovative thinking are all needed to catalyse infrastructure development.

Which brings me to the last point – that of innovation and entrepreneurialism.

While today's market is volatile, Africa's future growth will be driven by the resources sector, regardless of the current economic malaise.

The private sector must do its part to innovate and develop the products and jobs of tomorrow.

At Rio Tinto we are employing the best technologies from driverless trucks, to drones, and positioning ourselves on a technical side and a production side for a potential spurt in demand for 3D printing powder.

In the new economy, there will be a role for all to play – the private sector, governments and entrepreneurs.

This past July, I attended the Global Entrepreneurial Summit in Nairobi, jointly hosted by Kenyan President Kenyatta and US President Barack Obama.

There were hundreds of entrepreneurs in attendance.

These young innovators are introducing and leveraging technology across Africa to reshape the continent, deliver value to consumers and drive huge change.

It was a great reminder that ultimately, it's the innovation and risk taking of those entrepreneurs that will realize Africa's full potential.

A robust entrepreneurial class – one that is willing to take risk, provide value to customers and innovate – is the key to broad-based growth that is sustainable.

African entrepreneurs have proven that they have all three of these ingredients.

But they also need the right environment in which to thrive.

I mentioned a few moments ago investment certainty and ease of doing business.

The principles are the same whether you are an international miner or budding young entrepreneur.

Last year the Tony Elumelu Foundation did some important work on the topic of transforming the continent through entrepreneurship.

An Entrepreneurship Bootcamp representing more than 1000 entrepreneurs identified a number of practical, low-cost recommendations for governments:

- **One Stop Shops** for permitting so aspiring entrepreneurs can find and file all necessary paperwork in order to legally register. And all online, to reduce the cost, time, and prevalence of corruption
- **Rule of Law/Arbitration** of legally binding alternative dispute resolution mechanisms to avoid the complex and inefficient traditional judicial system
- **Better Government Contracting** sometimes small businesses awarded such contracts are usually required to pay the taxes well before they receive payment from the government, forcing entrepreneurs to borrow at high rates in order to pay the taxes
- **Education:** Entrepreneurs suggested that education institutions formally develop and incorporate entrepreneurship instruction and training into their curricula.

It was also suggested that academia partner with businesses in order to adjust their courses so they provide training that is more aligned with the workforce needs of the private sector.

It is clear both private investors like Rio Tinto and governments need to work together to create the right environment to develop Africa’s entrepreneurs.

We are often one of the first employers or customers of entrepreneurs and become customers of local SMEs. But we need governments to build ecosystems of innovation where we do business.

Specifically, we are seeking to do our part through local procurement and business development centres in the communities in which we operate from Rössing in Namibia, to Madagascar, to Richards Bay.

In 2015 Rio Tinto spent 8.3 million dollars in with local companies in Fort Dauphin and in South Africa we spent 202 million Rand in the community around RBM – with 66.5 per cent of our external expenditures spent with black empowered suppliers.

At Richards Bay we established the Business Development Centre, or BDC to provide skills to local residents – everything from basic literacy to vocational skills training.

One of the companies that has benefited is Sibize A.R.M Projects, a company that was started in 2010 to repair furniture.

Sibize was enrolled our Supplier Development Programme in 2014 and was then awarded one of RBM's essential contracts in 2015, supplying chocks and flags for our rail operations.

The company has now moved from a small home business, to a professional services provider with seven employees.

Research shows that African business or ventures that have established a partnership with a multinational company secure 150 per cent more capital on average, and are 57 per cent more likely to break-even by their third year of operation.

That's a fantastic fact about the power of these types of partnerships.

The Global Entrepreneurial Summit, and work by Tony Elumelu Foundation are reminders that governments need to implement policies that nurture, encourage and grow home-grown entrepreneurs.

A lot of this ties back to improving the operating environment and making it easier for entrepreneurs to start a business – to build sustainable communities which is the environment large companies and infrastructure financiers are also looking for.

So in closing, we all recognize that we are in a difficult time for creating growth.

But there are pathways to getting through the storm and obtaining our common objective: sustainable, broad-based economic growth.

It needs to be ground in the reality of today and focused on the things that will make all business, all communities, and all economies more resilient:

- a commitment to investment certainty and easing the administrative burden of business,
- recognition that infrastructure is the catalyst for investments to follow, and
- a focus on innovation and entrepreneurialism to broaden economic growth.

It is a challenging climate at the moment, no doubt about it. But the focus must be on the long term and the conditions that create and underpin development, regardless of what point of the cycle we are in.

I am confident that together we can rise to the challenge.

Thank you.

RioTinto

Contacts

media.enquiries@riotinto.com

www.riotinto.com

Follow @RioTinto on Twitter

Media Relations, EMEA/Americas
Illtud Harri
T +44 20 7781 1152
M +44 7920 503 600

David Outhwaite
T +44 20 7781 1623
M +44 7787 597 493

David Luff
T +44 20 7781 1177
M +44 7780 226 422

Media Relations, Australia/Asia
Ben Mitchell
T +61 3 9283 3620
M +61 419 850 212

Bruce Tobin
T +61 3 9283 3612
M +61 419 103 454

Matthew Klar
T +61 7 3625 4244
M +61 457 525 578

Investor Relations, EMEA/Americas
John Smelt
T +44 20 7781 1654
M +44 7879 642 675

David Ovington
T +44 20 7781 2051
M +44 7920 010 978

Grant Donald
T +44 20 7781 1262
M +44 7920 587 805

Investor Relations, Australia/Asia
Natalie Worley
T +61 3 9283 3063
M +61 409 210 462

Rachel Storrs
T +61 3 9283 3628
M +61 417 401 018

Rio Tinto plc
6 St James's Square
London SW1Y 4AD
United Kingdom

T +44 20 7781 2000
Registered in England
No. 719885

Rio Tinto Limited
120 Collins Street
Melbourne 3000
Australia

T +61 3 9283 3333
Registered in Australia
ABN 96 004 458 404