

Sir Willis Connolly Memorial Medal Acceptance Speech

Ladies and Gentlemen,

I am honored to be the recipient of the Sir Willis Connolly Medal for 2006.
Thank you Peter for your kind words of introduction and citation.

Willis Connolly was a hero of the post-war mining industry in Australia. In an illustrious career spanning 50 years he distinguished himself as an electrical engineer of reknown, as a leader of the management of global energy resources, and in his contribution to Australian science and engineering education, particularly in Victoria where he was the foundation President of the Victorian Institute of Colleges (VIC). His CV is jammed with leadership credentials and awards for his contributions to science and engineering in this country.

So not only is it an honor to receive an award named for such an outstanding contributor to our profession but I am doubly honored when I see the names of some of my own heroes—Sir Arvi Parbo, Sir Frank Espie and Professor Geoffrey Blainey—on the list of the 20 previous medalists. They were all characterized by a breadth of vision and an ability to communicate the issues of their times, particularly the important role which the minerals industry plays within wider Australian society.

I am delighted to see Prof Blainey is with us today along with John Reynolds, Jim Whitehead, Dick Carter, Norm Dalton and Ian Gould, all previous recipients of this medal.

While a lot has changed since Sir Willis Connolly's day there is still no free lunch. So I will be your entertainment today.

Introduction

My return to Australia in early 2002, after nearly 20 years overseas with Newmont, coincided with the beginning of the current resources boom.

And returning as CEO of Australia's largest gold producer gave me plenty of opportunities to observe and publicly comment on the minerals industry and the challenges it faced.

Today I thought I would review the minerals industry's performance over four years of boom times and see what we might have learned and what challenges we still face.

In 2002, only four years ago and as hard as it sometimes seems to believe, we were saddled with:

- (i) historically low commodity prices (gold just back above US\$300/oz; copper around \$0.75/lb; nickel at \$3.00/lb, zinc below \$0.50/lb).
- (ii) the graduates of 2000 and 2001 struggled to find jobs as mining companies continued to treat their human resources as just another commodity

- (iii) exploration in Australia was at a low ebb and falling, and
- (iv) there seemed to be no strategic plan that suggested this industry had any faith in its long-term future.

About that time the Chinese economy spilled out over the rest of the world when internal Chinese mines could no longer supply domestic demand. It took the resources industry a while to see that this was not a temporary phenomenon and that the Chinese economy had in fact been growing at double digit rates for most of the previous ten years. But now, after four years of soaring commodity prices fuelled by ongoing Chinese domestic demand, this boom continues to run so strongly that it is now being described as a “super-cycle”.
With all this action, of course, came the challenges of being unprepared.

In 2002, on returning to Australia, I was staggered that a notoriously cyclic industry was not preparing in the down times for an inevitable upturn in the cycle. It disappointed me, as an explorer, that the well-documented longer-term rhythms of our business were being ignored by most of the major mining companies, who willfully allowed their exploration spending to slide in the interests of achieving other shorter-term financial goals.

I remember, for example, going toe-to-toe with a prominent mining CEO as he argued that spending free cash now on exploration would make no sense to a market which at that time was only interested in meeting quarterly earnings predictions. Short-term he was right but mining executives, particularly CEOs and their Boards need to remember that their businesses require a balance between short-term investor needs and a longer-term obligation to replace reserves depleted annually by mining to meet the needs of future investors. About the only benefit of such short-term thinking may be that the underinvestment in exploration over the past five years will mean fewer major new deposits will be found in the next five years and the super-cycle will be prolonged.

So let’s take a look at the implications of this lack of preparation.

Human Resources

In the Human Resources arena blinkered short-term thinking was why we were not employing new graduates in 2002 and why undergraduate student enrolments were so low. Schools of mining engineering, metallurgy and earth science were either closing or amalgamating with other departments and Federal funding for minerals education continued to decline as a percentage of the total cost of delivering such courses. Hard to imagine isn’t it?

Boom times have of course changed some of these dynamics favorably. Undergraduate enrolments are now at record levels in the specialist schools as the prospect of a sustained boom and high starting salaries works its usual magic on first-year enrolments. Mining companies now recognize that human resources are a much more strategic resource as a combination of industry expansions and baby-boomer retirements continue to keep pressure on the supply of professional skills.

There is an almost unseemly scramble for new graduates with generous starting salaries and graduate development programs now the norm in a fierce competition for talent.

But other, perhaps more serious, stresses are emerging. Academic salaries have not kept pace with industry to the point where new engineering graduates are taking jobs in their first year out of Uni at salaries equivalent to or higher than the career “Senior Lecturer” level of many of their teachers. Retaining academic staff in these circumstances is tough enough but recruiting new staff to fill the gaps created by poaching and retirement is nearly impossible.

At the same time the Federal government continues a policy of funding minerals education at levels below the cost of its delivery and it seems to be unmoved by the overtures of industry lobbyists such as the AusIMM, the Minerals Council of Australia, and the Universities themselves, to do anything about it. Moving the rate of funding for mining engineering and metallurgy from cluster 8 to cluster 10, which is where agricultural education is funded, would be a good start. It would at least permit mining schools to cover current teaching costs.

The Federal government has challenged this industry to make what has been described as “an unbeatable case” for such a funding increase. With mining contributing more than 35% of total Australian export earnings (far in excess of agriculture) and forecast to require 70,000 new jobs over the next ten years, you wonder what an “unbeatable case” might look like.

Exploration

The second great issue of this boom has revolved around exploration and the failure to replenish Australia’s national mineral inventory.

In 2002, as Australian expenditure on mineral exploration dipped to a multi-year low, and as our share of global expenditure continued to slide, two major enquiries were set up by the WA Govt and the Federal Govt to find out why. The Federal Government’s Prosser Enquiry and the WA Government’s Bowler Enquiry quickly pointed to a variety of impediments to the conduct of exploration. These included a combination of reduced access to prospective lands (indigenous land rights, parks and reserves impediments), a shortage of pre-competitive geoscience data in more remote areas of the country, particularly in covered terrains, and the lack of any real financial incentive for explorers to step out beyond the brownfields environment and search for brand-new deposits. The point was forcefully made that Australian miners were living off discoveries made, in some cases, decades ago and that without major new discoveries there would be an inevitable decline in the ability of the Australian mining sector to sustain its contribution to Australia’s standard of living. Both of these enquiries also pointed to the human resources challenges already mentioned.

The Prosser Enquiry, which led to the Minerals Exploration Action Agenda-Implementation Group which I chaired, highlighted some fundamental challenges for this industry.

This Action Agenda contained all the key players—industry lobby groups (MCA, AMEC, AusIMM), the Chambers of Mines of WA and NT and the Directors General of Mines from WA and Qld along with senior staff from the DITR. It held meetings with all the key players in Federal Government and evaluated implementation strategies for 14 action areas which had emerged from the Prosser Enquiry.

While there was good progress on some of the lower profile recommendations, the Federal Government failed to accept a key recommendation to introduce Flow-Through Shares based on the highly successful Canadian model, a crucial move which would have directly stimulated greenfields exploration in Australia.

The MEAA was conceived at the bottom of a trough in exploration funding in 2002 and was wrapped up this year with the industry going gangbusters, a development which allowed the Feds to avoid taking a longer-term look at what was really happening.

Yes, commodity prices are high across the board, and yes there seems to be a new uranium float hitting the market every week, and global exploration is back and running strongly. But Australia's share of the global spend on exploration still continues to slide and we are still not doing anywhere near enough greenfields exploration. Again short-term excitement obscures the need for a longer-term strategic plan.

From my perspective the MEAA was very frustrating.

At a personal level I know that Minister Macfarlane understood the arguments, I know that Peter Costello and Nick Minchin understood the rationale for stimulating greenfields exploration and I suspect the Prime Minister had the widest of all views. But in the end it was too easy to trivialise flow-through shares as unnecessary in a market where enormous corporate profits were being reported. Why would you need to stimulate an industry which appeared to be on fire?

To me this was a failure not of rational argument nor communication but rather of a lobbying effort which lacked sufficient political strength to be taken more seriously. In the end the Federal Government could afford to do nothing and put its political attention elsewhere.

Replenishment of our national minerals inventory is of course still crucial for Australia and we must find a way to keep it on the political agenda.

Social License to Operate

The third issue of this boom has been one in which miners have shown more strategic thinking and they have had more success.

Four years ago the words “social license to operate” formed part of a new approach to community and stakeholder engagement which had been embraced by the world's leading mining companies.

Since then, booming conditions and a rush to implement mine expansions have sometimes been at odds with the time required to build meaningful stakeholder engagement. But the concept of SLTO (the social license to operate) is taking hold and the importance of actively engaging the communities around our mine sites is much more of a mainstream activity today. The concept is still in its infancy and there is still a shortage of practical social license training opportunities for mining executives.

But the stronger focus on community has come at the right time as mining becomes more important to Australia's standard of living.

Looking forward

So after four years of incredible wealth creation for companies, shareholders and governments what are the big issues which still remain?

There are of course many other issues beyond the three I have concentrated on today.

We still have infrastructure bottlenecks in getting our products to market, particularly if we are using government-owned railways and ports.

There is the question of expanded uranium mining and nuclear power generation in Australia which promises to get mining back onto the political pages.

And for coal miners, and I suspect this is a matter dear to the hearts of the Barbarians here today, there is the escalating debate about the impact of anthropogenic carbon in the atmosphere and its impact on global warming as you heard from Prof Ian Plimer who was last year's medallist.

I wonder if our generation will throw up another Willis Connolly to provide the kind of leadership required on energy issues to get the right outcome for Australia?

But for me the two largest issues remain the skills shortages and the replacement of the national mineral inventory. We continue to face these problems because they both require strategic longer-term thinking rather than expedient short-term action.

For most people the long term is not where life is lived.

The ongoing skills shortage

On the HR issue it is my contention that dealing with the skills shortage should move from the direct needs of the companies themselves to emphasizing the needs of academia and to the rebuilding of the education infrastructure which nurtures the minerals industry.

We need to directly deal with the funding of minerals industry education, we need to make academic salaries more competitive and we need to get mining companies much more actively engaged in the training of their future employees.

In addition there are a number of practical steps which should be pursued:

(i) We need to start recruiting outside the minerals industry and beyond the traditional sources of talent, particularly for the softer skills which this industry needs

(ii) We need to find ways to encourage more women into mining and then persuade those women who do become miners to stay beyond marriage and maternity.

(iii) We need to get creative about delaying executive retirement. At a time of growing need the last thing we need is for all that experience to go walking out the door.

All of these challenges will require a more laterally thoughtful approach to the skills shortage so that it is not so easy for people like me to step away.

In his excellent summary of the leadership challenges facing miners in the future Don Larkin has warned that we will have to get used to doing more with fewer staff. But there's a sleeping issue inherent in this concept that we need to deal with.

In a normal career, competent technical people—engineers and scientists—can expect to make the progression from initial technical roles in a company to jobs requiring different competencies and greater levels of leadership and strategic thinking. They will move from jobs for which they have been vocationally trained to more senior roles for which most of them will have received little or no formal training. With time, these skills can be acquired by on-the-job training.

But the impending retirement of baby-boomer senior executives will thrust leadership responsibilities onto the next generation of managers too early for them to have developed the necessary executive leadership competencies. So if we are going to have to do more with less then we had better start exposing our younger executives to the kinds of executive competencies they will need much earlier in their careers.

The continuing crisis in Greenfields exploration

The other great issue continues to be the crisis in greenfields exploration.

As I have said already we need to continue to press for better pre-competitive geoscience data, better access to land and for the introduction of a Flow-Through Shares scheme to stimulate the greenfields end of the exploration business.

This really is becoming an issue of national priority because we are losing our leadership to Canada and other countries with a longer perspective.

Ensuring a sustainable future

The principles of sustainable development require us to behave today in ways which do not compromise the rights of future generations of Australians. To ensure there is a mining industry in Australia's future we must reinvest some of the wealth created today.

The areas of minerals education and greenfields education are obvious enough.

But I think this industry needs to start thinking differently, to stop being so inward-looking and to start taking our messages to a wider external audience.

We must continue to build community credibility and start to build political legitimacy if we are to ensure that future Governments take this industry more seriously.

In the 1980s the minerals industry became more aware of its environmental responsibilities.

In the 1990s we dramatically improved our safety performance.

Since the turn of this decade we have become much more tuned into social and community issues and the importance of engaging the wider community around our mine sites to build our social licence to operate—our SLTO

Perhaps the next decade will finally see this industry recognize that it needs to be more active politically. What we need now is a political licence to operate—a PLTO if you like.

As an industry we already contribute significantly to the wider Australian economy and to the standard of living of ordinary Australians. The longer this boom runs the more Australians will come to see where the wealth is really being created.

Farmers recognized their clout long ago when they formed the National Party.

The Greens recognized that if they were ever to achieve their environmental goals they needed to organize politically.

It seems to me that rational intellectual scientific arguments don't count for squat with politicians if they are not also backed by some political muscle. Perhaps now is the time to add more overt political pressure to the polite, behind-the-scenes advocacy which industry lobby groups such as the AusIMM have traditionally used to date.

There are 350,000 Australians employed in this industry, many of them in rural electorates. Think about the impact we could have if we would only get off our butts and make a bit more noise politically.

There has been a glimmer of hope with AMEC convincing the WA Nationals to take a Flow-Through-Shares policy to their recent party conference in Canberra. This is the kind of grassroots political action which we should be supporting and I am encouraged to see this development. Perhaps this is the first stirring of more overt political action within our industry.

In Sir Willis Connolly's day the captains of the minerals industry seem to have been more politically influential. They appear to have mixed and mingled more readily with the political leaders of the time and by so doing perhaps communicated a better understanding of the structural and strategic needs of the Australian minerals industry.

Today, as we remember a hero of our past, we need to find ways to encourage our current leaders to recapture some of that political energy and commitment.

This industry is far too important to the longer term health and sustainability of the Australian economy to rely solely on a non-political approach to advocacy.

Ladies and gentlemen,

I am delighted to have been awarded the Sir Willis Connolly medal for 2006.

John Dow
St Barbara Day Luncheon
Melbourne
8 December 2006