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"The Global Financial Crisis – What Prospects for Mining?"

Paper for Keynote Address

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[SLIDE 1]

Mr Chairman, HE Dr Ir **Purnomo** Yusgiantoro, Indonesian Minister of Energy and Mineral Resoruces; Dr Ir Bambang, Director-General Ministry of Energy and Mineral Resources; His Excellency, Bill Farmer, Australian Ambassador to Indonesia; Ms Maurine Lam, Senior Trade Commissioner, Austrade; Mr Craig Senger, Trade Commissioner, Austrade; distinguished guests, conference delegates.....

By way of background, for those of you not familiar with the Minerals Council of Australia, I will open with a brief snapshot of our organisation, the industry we represent and what we do, which I hope provides you with some perspective or context for what you have asked me to address.

[SLIDE 2, 3, 4]

Mr Chairman, you have asked me to examine the global mining industry's future prospects looking through the prism of the current turmoil and volatility in global capital and product markets and the global economy.

[SLIDE 5]

Overview...

I am going to try to do that by addressing three key factors:

- the cause and effects of the "perfect economic storm";
- implications for the underlying fundamentals of demand and supply; and
- the policy imperatives for recovery and growth in minerals-rich countries.

It's a massive, complex and challenging topic, and even more so for those of us who are not economists!

The art of economics is to predict the way forward by looking in the rear vision mirror. And the rear view is so far back as to be almost indistinguishable. We are in unchartered waters. Every respected commentator tells us that we have not seen anything like the current economic turmoil since WWII, and even back to the Great Depression of the 1930s – and none of us in this room were around back then.

Notwithstanding this, there were clear indicators, long before the crisis hit, that the global economy was on very shaky ground – more obvious to some economists than others.

Indeed, many commentators late in 2007 were warning that fundamental issues affecting liquidity in global credit markets were being ignored. And some much earlier than that.

At the Australia-Japan Business Council in Nagoya, Japan, September 2005, I shared a platform with Mr Toyoo Gyohten, President of the International Institute of Monetary Affairs, who then identified four key risks to the global economy:

- the structural imbalance within the US economy – the twin deficits of trade and budget and the ballooning current account deficit, and the inflated asset market bubble which he considered then was on the verge of collapse;
- the extraordinary expansion of the global financial market, its fluidity and lack of governance;
- the geopolitical risk in the middle east, North Korea and international terrorism; and
- the price of oil.

[SLIDE 6]

The Perfect Economic Storm...

Now, with the wisdom of hindsight, we can identify the confluence of events that have delivered us the "perfect economic storm" that shook the global financial system to the brink of collapse – when the "bubble burst" on that fateful weekend of September 14-15 last year, when Lehman's Brothers crashed, the world's largest insurer, AIG, announced it was on the brink of collapse, and the Bank of America bought out the seriously troubled Merrill Lynch, rescuing it from oblivion.

[SLIDE 7]

What created that "shock" was when the structural imbalances of a slowing global economy met dramatically a structurally flawed global financial system.

Let me address these two key elements of this "perfect storm" – for if we understand the cause we are likely better equipped to manage the effects within our businesses and in advocating policies and measures for correction.

Slowing global growth….

[SLIDE 8]

Global economic growth was already slowing before the advent of the "global financial credit crisis".

Global industrial production and commodity demand had been falling, principally in the 7 major [G7] developed economies, but also the emerging economies and notably in China and the other so-called BRICs economies – Brazil, Russia and India.

This was on account of the structural weaknesses in the US economy. The US was headed for a "structural recession" gradually and significantly undermining US and global growth. So too Japan – its fundamentals had been poor for some time including high budget deficits and weaknesses in the banking system.

So, the US and Japan were systematically going nowhere – they were verging on a structural recession – the "rest of the world", and particularly the OECD economies, had started on a business cyclical down-turn – Western Europe was floundering, Britain was primed to go into recession.

[SLIDE 9]

And, the major emerging economies were managing a slow-down, notably China, and to a lesser extent, India, who was grappling with high inflation. Their Governments had introduced "measures" to slow their economies to mitigate risks of overheating - they were engineering a slow-down – tightening monetary policy and thus increasing official interest rates, and introducing other measures to dampen economic activity and stifle inflation – right up to the eve of the "financial credit crisis".

US structural recession…

The US's structural recession had been "on the cards" for some time on account of the systemic structural imbalances within its economy. These imbalances were the symptoms of fundamental policy failings in the US.

The US Federal Reserve's primary response to external "shocks" - Asian financial crisis, the dot com crash and September 11 – was to keep credit cheap – between January 2001 and June 2003, there were 13 interest rate cuts to the remarkably low level of 1% - and to let the US financial system run rampant, which I will come back to shortly.

The product of the US' policy failings was low interest rates, unprecedented levels of liquidity, artificially inflated asset values, artificial growth and twin Budget and trade deficits.

The US has endured trade and budget "twin deficits" for some time, although substantially camouflaged by the monetary policies of the Asian economies responding to the Asian financial crisis of the late 1990s .

The US current account deficit (CAD) is structural, driven on one hand by domestic consumption without the backing of a strong industrial base in the US to produce consumer goods – and on the other hand, Asian savings where Asian central banks deliberately accumulated foreign exchange reserves to offset currency risks in the aftermath of the "Asian financial crisis".

Asian economies determined to accumulate foreign exchange reserves (in US dollars) to offset currency risks, artificially peg exchange rates, increase international trade competitiveness and build current account surpluses – with the particular aim of avoiding the need to call on the IMF in any subsequent crisis..

Asian central banks were buying US bonds/bills increasing the price of those instruments and reducing the yields, which artificially lowered interest rates in the USA, increasing access to capital, artificially underpinning the growth in asset values and reducing debt servicing requirements.

China in particular adopted a policy of artificially pegging its exchange rate significantly undervaluing it, which removed the "brake" on a surge in exports from China to the US. The upshot was that the cost of imports would have been higher without the artificially lower exchange rate, which would have increased inflation, increased interest rates and gone some way to spiking excesses in the US consumption and the asset bubble.

So, the US current account was intermediating between Asian savings on the one hand and US financial markets (and hence US consumers) on the other.

The savings of the rest of the world has been supporting a US current account deficit, which increased from less than 1% of GDP in 1991, to nearly 7% of GDP at its peak in the first quarter of 2006 [4.8% third quarter 2008].

So, as the US teetered on the brink of recession and Europe and Japan stagnated, all "global growth eyes" were focussed on the extent to which the emerging economies growth, and particularly the so-called BRICs economies – Brazil, Russia, India and China – would offset the decline in growth in the OECD economies.

China's managed economy...

China has been deliberately managing its way through long-term political and structural reforms in a carefully planned and calculated manner.

[SLIDE 10]

Just as China's growth was planned on the upside, so too its slowing and "rebalancing" of growth, and now its "re-correction measures."

Prior to the "global financial crisis", China's deliberate policies of slowing the economy contributed to a rising cost base particularly on the Chinese eastern seaboard, a revaluation of the exchange rate to stem capital inflows and reduce foreign held reserves, and to increase consumer purchasing power to rebalance the economy to consumption, more than production, driven growth.

And, China removed a dozen subsidies that promoted exports and discouraged imports of steel, wood products, information technology, and other manufactured goods.

The impact was profound. China slowed sharply, albeit off a high growth rate. What began as a deliberately engineered slow-down became caught up in the global downturn. Industrial production fell back sharply and both exports and imports slowed as world growth declined.

Construction demand declined further than expected, the property market had deteriorated in the main cities, the share market had lost half its value since the start of the 2008 year, retail sales were depressed, car sales had fallen for the first time in two years, and the construction sector was barely marking time. Tens of thousands of factories across the manufacturing belt for which "Made in China" has become symbolic clothing and footwear, textiles, toys and watches, electronics and whitegoods, had the worst year in 2008 they have experienced for some time.

Given that the primary economic drivers of China's economy are domestic demand – investment and consumption – these developments are significant in the context of a weakening Chinese economy and prospects for their recovery and their impact on global growth.

In response to this downturn, China had, before the impact of the global financial crisis, already commenced a program of "rebalancing growth" through government moves to raise infrastructure spending, lower interest rates, increase export rebates and ease restrictions on property ownership – lowering interest rates on mortgages, transaction fees/taxes, and reducing down payments – measures designed to boost construction, manufacturing and consumer spending.

All this, before the recently announced $US855 billion further fiscal stimulus package in response to the crisis.

India's growth path...

India's growth was similarly slowing (to China) – reducing from 9.3% in 2007 to 7.3% in 2008, but for different reasons. India's growth was dragged down by large current account and Government/Budget deficits and relatively higher inflation, which restricted the capacity of authorities to pursue expansionary policies such as lower interest rates and fiscal stimulus to counter a slowing in output growth even before the financial crisis.

The key message here is that the impending structural recession in the USA and Japan, and the cyclical and managed downturn in other major developed and emerging economies, produced the only synchronised global downturn among the major economies since World War II – even before the dramatic impact of the financial credit crisis.

[SLIDE 11]

Global financial markets "out of control"...

To the theme of the "perfect economic storm" – it was when this global economic slow-down collided dramatically with the extraordinary expansion of the global financial markets, its financial instruments, the mobility of its financial capital, a lack of real management of risk and the absence of proper transparency and governance.

No question that globalisation has delivered unprecedented growth and integration of global capital markets, transmitting capital and market sentiment almost instantaneously, dramatically increasing global financial assets as a proportion of world GDP. The financial industry has grown to represent around 25% of stock market capitalisation in the US and even higher in some other countries – including Australia.

That's the good news – the bad news is that that unprecedented growth has been virtually without "check" – without transparency and appropriate governance akin to existing corporate governance.

There has been a lack of real management of risk. Because interest rates were artificially depressed and because markets had essentially stopped charging for risk, the discount factor on expected future earnings in determining net present values was similarly artificial – giving rise to unrealistic earnings and asset values.

There has been uncontrolled proliferation of "financial engineering", involving the creation of increasingly sophisticated financial instruments in the form of securities or derivatives. The product of which can be justifiably described as "casino chicanery" in leveraging credit and "managing" risk in order to increase profit without regard for the inevitable consequences when the bubble burst.

The Australian newspaper editorial described it as "a financial flummery of dubious loans, packaged for sale and re-sale and complicated schemes based on betting on the price of commodities – investments that have as much connection to the real economy as a trip to the local betting agency".

And, banks and other financial institutions changed the way they account for loans and related contractual obligations, and therefore assets and liabilities on their books.

Loans used to be brought to book on the balance sheet of the originating or lending institution which was exposed to the credit risk, to market risk through interest rate charges, and to liquidity risk, ie. long-maturity loans funded through shorter-maturity deposits – and it was for all to see.

With the growth of "financial engineering", including [as Associate Professor Brown of the University of Melbourne describes] the advent of the securitisation markets in the US, banks could "sell" their mortgage loans into government sponsored securitisation vehicles such as Fannie Mae and Freddie Mac and other institutions, and/or third parties wholly or partially owned by the originating institution – in 1990, 10% of US mortgages were securitised compared with 70% in 2007.

What is really significant is that this form of financial derivative meant that these assets and liabilities were "off the balance sheet" of the originating institution/bank. The audited assets were not showing where the institution bore the ultimate risk for those assets and liabilities held by "third parties" – there could be no transparency and accountability until the ultimate liability was realised, with [and not always] recourse to the originating institution.

This engineering reached such heights of complexity that the regulators could no longer calculate the risks and came to rely on the risk management models of the financial institutions themselves.

Sadly, much the same could be said of the CEOs of the thirty major global financial institutions which have failed or been bailed out in 2008.

Quite simply, there is a profound lack of understanding of the non-reconciling of these financial instruments with the normal or traditional corporate lending behaviour and risk exposure – it is little more than taking a bet in the casino – what I referred to earlier as "financial flummery" – but more akin to "casino chicanery", where the bet is for or against the prospects of a boom or bust of the participating institutions in the financial instruments.
When you add together a slowing global economy with this extraordinary "financial engineering" - creating sophisticated financial derivatives – a lack of transparency and accountability in their governance, and a *laissez-faire* approach to accounting for risk - is it any wonder that such conduct of the global financial system precipitated the boom and bust economic contagion across the globe?

[SLIDE 12]

Effects of "the storm"….

...the product of which is the "perfect economic storm" – what the International Monetary Fund (IMF) describes as a "pernicious feed-back loop between real economic activity and financial markets".

In my words, this "storm" is a vicious vortex between the global financial sector and the real economies in many countries.

The initial credit crisis precipitated a crisis of confidence in capital markets and sharp decrease in capital.
Investors withdrew funds, banks lost confidence in each other's financial worth and credit flows froze, the London Inter-Bank Offered Rate *(Libor*), which is essentially an indicator of the level of trust amongst banks, doubled in October from 2.5% to 5.1%, credit was rationed for many businesses and consumers, severely curtailing available operating capital and investment.

This in turn undermined the value of financial assets, leading to more deleveraging, more asset sales, further weakening of asset prices and bank balance sheets, further aggravating the lack of liquidity in capital markets, as institutions were either unable or not willing to lend – added to which is increasing prospect of credit defaults - and prospectively in credit card, auto sales, and business debt.

The crisis of confidence in the capital markets is matched by a crisis of confidence among the consumers and businesses of the globe, who, faced with deteriorating assets values on household balance sheets, are increasing savings and cutting back discretionary expenditure, in turn curtailing demand and consumption.

This precipitated sharply deteriorating global economic growth and recession in developed economies, expected to endure over the short to medium term.

- the IMF projected global growth in projected to slow to just 0.5% in 2009 the lowest rate since WWII and well below that of the 1991 recession when global GDP growth fell to 1.5%;
- the G7 countries – the US, Germany, Italy, France, Canada, Britain, Japan – are all in recession, so too significant parts of Asia - Taiwan, South Korea, Singapore, Thailand, New Zealand and Malaysia.
- and, of Australasia, New Zealand is already in recession and Australia is doing its very best to stave off recession with growth forecasts in the order of 1% for 2009 and increasing through 2010.
- emerging economies growth is unlikely to off-set the recession and growth decline in developed economies – the deep slow-downs in the advanced economies is rapidly and profoundly spreading to major emerging markets of the BRICs economies – Brazil is expected to slow from 5.3% in 2008 to 1.8% in 2009, Russia to go into recession from 6.7% growth in 2008 to a contraction of -0.7% in 2009, India to further slow from 6.2% to 5.1% and China from 9% in 2008 to 6.7% in 2009.

[SLIDES 13 and 14]

In the minerals sector, with the notable exception of gold, prices have more than halved, investment projects have been delayed or cut, production reduced and substantial employment cuts announced.

In the global minerals industry we were surprised by the speed with which commodity prices reduced, leaving many companies faced with high, unsustainable, and even "structured" production costs, and high capital commitments, particularly where they were heavily-leveraged or geared.

[SLIDE 15]

The outlook...

To get any real perspective on the outlook for the global minerals sector – minerals-rich countries – we need to consider three fundamental determinants.

The first is the strength or endurance of the underlying structural adjustments in the global economy and the global minerals industry that had contributed to a new global economic paradigm, and a super-cycle of demand for minerals products, and the global industry's commitment to sustainable development – the confluence of which significantly transformed the minerals industry's socio-economic circumstances.

The second determinant is the strength of an individual country's balance sheet, its macro-economic management and free market public policies, and

The third – which is where the real global focus and debate is currently centred is the policy response of governments around the world.

I will briefly address each.

[SLIDE 16]

The underlying fundamentals...

To the first - we have previously identified on many occasions four key underlying structural adjustments that have contributed to the fundamentals for growth over the economic super-cycle – in my view, these remain largely uncontested, though severely checked in the short term in the face of the current financial crisis, because:

- the rebalancing of global economic development and strategic power is no short term phenomenon and is unlikely to be derailed over the medium to longer term.
- the rationalisation, consolidation, and increased global integration of the industry will continue and likely intensify – and may even accelerate on the back of this crisis, enhancing the industry's ability to better manage supply
- the business case underpinning the mineral's industry's practical commitment to sustainable development has not materially changed – it has been fundamental to the transformation in the industry's stewardship of the environmental and resources assets under its care and to maintaining its social licence to operate, and
- two decades of domestic economic reforms in Australia and other minerals-rich countries are solid foundation to economic stimulus programs as governments seek to fill the gap in consumer and business spending and investment created by the deterioration in confidence. Though, this is an area of reform, in all countries, that I am nervous about.

Let me give you my reasons for each conclusion.

[SLIDE 17]

The new global order...

We are witness to a rebalancing of global economic development and strategic power from developed economies to emerging economies – the world is going to look more like it used to for the first 1800 years of the so-called "common era" – and other than for a "pause" in response to the current economic turmoil, I do not see this trend changing.

The rapid industrialisation and urbanisation of developing economies will continue – half the world is going through an industrial revolution comparable to that in the US in the 1890s and Japan in the immediate post-war period.

[SLIDE 18]

China is projected by the World Bank to be the largest trading nation by 2020 and the largest economy by 2030; though this slide suggests that might be achieved even earlier in 2025. In 2030 the Bank also projects that India's economy will be larger than the current US economy, in purchasing parity terms.

The centres of industrial production and associated developments such as urbanisation and manufacturing, and rising incomes/consumer purchasing power, and thus global growth, will increasingly shift to the emerging economies.

[SLIDE 19]

During this decade to date, the US has directly contributed about a tenth of global growth, China has accounted for about a third, and Western Europe about a twelfth.

Developing economies now account for more than half of the global economy and since early 2007, a remarkable almost three-quarters of global growth – and expected to continue this trend.

[SLIDE 20]

The real question is the extent to which the emerging economies growth will offset the decline in developed economies growth, the duration of the economic turmoil, and the rate and depth of recovery, and the extent to which that will be a drag on materials demand.

[SLIDE 21]

Metals intensities…

Per capita metals and energy intensities, which of course increase as countries develop and income per capita increases, are but a mere blip in emerging economies compared with developed economies - there is significant upside demand growth even when modified for current corrections, product substitution and other moderating factors.

Although developing economies account for in excess of 50% of the world's metals consumption, per capita use is only a fraction of developed countries – the materials intensity of developed economies is five times that of emerging economies.

[SLIDE 22]

Energy intensities…

Energy demand, just as with minerals and metals use, is strongly correlated with economic growth, particularly growth in industrial production and associated developments such as urbanisation and manufacturing, and rising incomes and quality of life.

[SLIDE 23]

Australia's "trade boomerang"…

All of this means that Australia's "trade boomerang" is still a good indicator of the potential for Australia, and I suggest other minerals rich countries, to supply countries moving through the phase of economic development and an exponential growth in their demand for minerals and metals products, just as the USA, Japan and other developed economies move through that cycle in the course of the last century.

This graph plots the various stages of countries economic development (as measured by income per capita) and their demand for raw materials (measured as the intensity of Australia's merchandise export trade) – The MCA refers to this as Australia's Trade Boomerang.

As countries begin their economic development, demand for basic inputs or raw materials to fuel their industrialisation/urbanisation rises rapidly. Demand tapers off as those countries reach economic maturity.

There is a **point of inflexion** where the demand for raw materials increases at a decreasing rate as per capita income rises. That is, there is a saturation point of metals and energy requirements to maintain the pace of economic development, as

these nations graduate from being "smokestacks" to being producers of elaborately transformed manufacturers – eg. high tech gadgetry in Japan's case.

USA and Japan went through this cycle in the 1890s and immediate post-war period respectively, eg. Japan traversed the lower part of the boomerang curve in the 1950s to the point of inflexion around the 1970s and at about US$7,500 per capita income, to its position at the upper left of the curve today, joining other developed economies.

Of these major trading partners there are **less than 1 billion** people on the "low opportunity" upper wing and bend of the boomerang. That is, their relative need for Australian exports is tapering.

On the other side of the curve, nearly 3 billion people are on the "high opportunity" bottom wing – and they are in markets in close proximity to Australia.

In this context of course, the focus is on the BRICs countries – and China and India in particular.

[SLIDE 24]

China and India's underlying fundamentals…

China has enormous financial resources and low inflation. China has one of the strongest (in the world) school-educated, low- and high-skilled demographic profiles (15-60 years) likely to sustain industry competitiveness until 2050. And China has the social and political imperative to grow.

Further, investment to GDP ratio although high, is mostly equity and not debt, more wealth generating than consumption and less exposed to a flight of capital that characterised the Asian financial crisis in the mid-1990s.

[SLIDE 25]

China and India have transitioned from a production driven export economy to an economy far more driven by capital spending and domestic consumption, the principle growth drivers being urbanisation, housing, rising incomes, high value manufacturing, rural development and structural reform.

These emerging economies are increasingly less reliant on export growth than domestic demand growth in the form of consumption and investment.

But, they are more reliant on intra-Asian trade than they are trade with OECD countries – witness the emergence of the "Asia factory" – where components are sourced from Japan, South Korea ,Taiwan and Indonesia, assembled in China and India and then either internally consumed or exported globally, principally to the US and the EU and other developed economies.

As economist David Hale has said: "40% of (China's) GDP is export, 20% of that goes to America. That looks very high risk, but only 20% of the value of Chinese exports accrues to Chinese companies. 80% goes to countries elsewhere in Asia that supply China with intermediate goods and components to produce finished goods for America and Europe. So the reality is that only around 2% of China's GDP depends upon the USA."

But this significantly understates the real impact of the slow-down in demand for exports from China's two major markets, the US and the European Union – the knock-on effects to the Asia factory are profound. In the wake of the global financial crisis, intra-Asian trade went into free-fall:

- Japan's shipments to China fell by 35.5% in December – Japan's trade surplus with the rest of the world for 2008 declined by an unprecedented 80% on the previous year
- South Korea reported its worst economic growth figures for 11 years with exports to China dropping 30% in December
- Taiwan shipments to China were down 44% in December compared with a year earlier

[SLIDE 26]

India is following much the same growth path as China.

India currently accounts for some 17% of the world's population and will retain a commanding share of the global workforce in the coming decades. A very large proportion of India's demographic will become of 'working age' in the short term, and it won't experience the same ageing population problems currently seen in developed countries and anticipated in China (as a result of its one child policy). India appears on track to overtake China as the world's most populous nation before 2030.

With this, India's household income distribution is expected to change markedly. This chart demonstrates that the percentage India's 'middle class' (ie those earning between $4,000 - $18,000 per annum) will increase from 20% in 1995-96, to 38% in 2006-07 – 80 million households equivalent to 480 million people.

Since the global economic crisis began, the Indian Government has introduced two monetary packages to help underpin the economy. Inflation has fallen from 12.9% in the middle of the year to 5.6%, giving the Reserve Bank of India room to ease monetary policy.

India's demographic make-up, with a large young population in need of employment, means that India, like China, cannot tolerate lower rates of growth for too long. As Citigroup India economist Rohini Malkani notes: "Whilst growth estimates may appear high relative to those of developed economies, given India's demographic changes, the pressure on employment, confidence and price levels would be more burdensome than the past."

[SLIDE 27]

Rationalisation…

To the second of my four underlying structural adjustments – the rationalisation, consolidation and increasing global integration of the industry will continue and may even accelerate.

The Australian minerals industry has long contended with, and been sensitive to, significant changes in global economic growth and in turn industrial production, fluctuating demand, volatile prices and variable exchange rates.

Mining has evolved from its nationalised local roots into a truly globally integrated industry, as companies pursue economies of scale, product diversity, greater inventory and supply control, pricing discipline, stable cash flow through the commodity cycle, greater options in risk management and better strategic deployment of capital.

This structural adjustment within the industry improved its capacity to manage its way through economic cycles – it has enabled the industry to increase productivity as real prices decreased, real costs increased, ore grades declined and environmental and social stewardship responsibilities increased.

This, particularly during the difficult decade of the 1990s, when the industry was in essence, "dis-investing", barely able to recover the cost of its investment capital – and, when productivity gains were almost entirely transferred to customers in the form of lower real prices on account of intense competition between minerals companies.

You can see from this slide the acceleration in the rate of mergers and acquisitions to the point where, as a generalisation, the top five producers are supplying somewhere in the order of 40-80 % of the market and probably control a higher percentage of inventory in major product lines.

[SLIDE 28]

At the start of this century, there was still a strong spread of local, regional and/or integrated single commodity companies across key geographies.

[SLIDE 29]

By 2008, there has been a profound shift to heavily diversified global companies built on a combination of mergers and acquisitions and organic growth, concentrating their efforts on high productivity tier one projects – current operations and those in the "growth pipeline".

The rationalisation and consolidation of the industry will continue and may even accelerate as some companies face financial equity constraints in accessing capital to grow the business and/or sustain it in periods of negative cash flow.

This may be more pronounced among the small to mid-caps, those operating with tier two and three projects and/or operating in the higher end of the long-run average cost curve. The key drivers of this "shake-out" are likely to be a combination of:

- costs remain inflated – companies coming off the back of double-digit inflation on operating costs – 60% increase over the last 4 years - inflated operating costs are increasingly "structured" in the long run operating cost curve
- deflationary impacts are likely to be "lag" in their effect on plant and equipment, slowing wages growth and variable costs, notwithstanding some immediate impacts, eg. 80% reduction in international shipping freight rates
- less economic projects/operations with low grade high cash costs – projects in the upper end of the operating cash cost curve are likely to be scaled down, shelved and/or cancelled, in addition to companies deferring or shelving investment in new production. This has implications for employment and supply, particularly in base metals (lead, zinc and nickel in particular) and iron ore (especially low grade high cost small to mid caps)
- service industries, notably Engineering, Procurement, Construction Management [EPCM] companies encountering project delays and/or cancellations - looking to offset discretionary expenditure, employees and un-economic projects
- the sharp drop in spot commodity prices, mostly metals (copper, aluminium, cobalt, tin, silver, and iron ore) and energy (thermal coal and uranium) – gold fluctuating – current spot prices are likely to translate into contract prices next year

Supply effects….

All of which indicates a severe contraction in supply.

And, yet, supply is the great unmentioned in the current debate about the minerals' industry's prospects – demand has figured prominently and it is only latterly that supply has even started to register.

New supply takes a long time to develop, but not all that long to slow down, especially at the margins, as we are currently witnessing, as companies move to reduce production to better proximate the current and anticipated slowdown in demand.

On the basis of what I have been through today in terms of the strength of the underlying fundamentals, it is not unreasonable to conclude that demand will kick back to or exceed supply.

And, commodity prices are very sensitive to international stock levels.

If stock levels increase only marginally prices can come down more quickly than the reduction in stocks suggests, but if stock levels are low, price increases can be quite dramatic – as we have witnessed over the past half decade.

The point being that when demand kicks back in to or above supply, prices are likely to move rapidly and the challenge for each minerals-rich country is to ensure that we do not revisit the supply capacity constraints of the past. The rapid increase in global demand over the past 5 years sponsored higher prices moreso than additional supply

[SLIDE 30]

This was because of supply capacity constraints which limited the industry's ability to fully capitalise on the strongest global growth we had experienced in a generation.

These will continue to hamper our capacity to work through the current economic turmoil and will, unless remedied, limit our capacity to respond to the inevitable re-correction in the market.

[SLIDE 31]

Further, just as it was over the expansion of the last five years, so too will it be that minerals-rich countries' international competitiveness will be increasingly determined by its ability to address capacity constraints in human resources, export corridors, excessive and costly regulation, and a lack of institutional and intellectual capacity in education and training systems and the social infrastructure to sustain remote and regional communities.

[SLIDE 32]

Sustainable development…

To my third structural adjustment, the industry's practical commitment to its contribution to sustainable development is not materially changed, albeit a more acute focus.

As recently as a decade ago, we were an industry under siege by communities increasingly disenfranchised from our activities and alienated by our performance and our failure to recognise our stewardship responsibilities for the environmental, social and physical assets under our care.

We were at serious risk of losing our social licence to operate – the unwritten social contract with those communities in which the company operates – it is complementary to governments' regulatory licence and likely more enduring – it is the industry's interpretation of corporate social responsibility.

Today, the success of a modern minerals operation in contributing to society's wealth and prosperity, is measured in terms of the triple bottom line – social, environmental and financial dividends.

Further, the industry considers the intergenerational benefits of natural resource development should extend beyond the life of our mining operations.

That is, that the wealth we generate from the conversion of natural capital into societal capital should be enduring within and between generations.

Hence, we consider our future inseparable from the global pursuit of sustainable development.

This commitment to sustainable development has been foundation to the remarkable transformation over the past decade in the Australian industry's stewardship of the environment, its people and its operating communities.

[SLIDE 33]

Social dividends…

In terms of social stewardship, the Australian industry has transitioned:

- from one of the worst industrial safety records of any sector in Australia to one of the best, though we are frustrated in achieving our goal of zero harm;
- from an adversarial, litigious approach to native title to building mutually beneficial agreements for land access and sustainable Indigenous communities – indeed, there are some 400 agreements in place, not one of which contests native title;
- from a culture of decide, announce, defend to one of engage, listen and learn – this, principally with our host communities;
- from the creation of jobs to the creation of careers – reflective of the high-tech, innovative and multi-disciplinary nature of our business, and we directly invest considerably; and,
- from confrontationist, arms-length industrial relations to direct relationships between employers and employees for mutually beneficial workplace arrangements, instilling a stronger sense of each parties' rights and responsibilities.

Environmental dividends…

Similarly, the industry's environmental management has changed markedly, even our ecological footprint is less than the combined area of the carparks of Australia's hotels - we have shifted:

- from merely after the fact environmental remediation of mine sites and emissions to land, air and water, [otherwise known as end of pipe remedies], to before the fact risk based prevention and management;
- from the rehabilitation and reclamation of used mine sites to a beyond life of mine, longer term management for sustainable ecosystems;
- from being publicly condemned as central to the global climate change problem and labelled "the carbon lobby", to being part of the solution, proactive in promoting a suite of policies for a longer term global solution, and particularly in the development and deployment of low emission clean coal technologies;
- from a minerals production focus to a new platform of minerals stewardship where participants in the lifecycle of materials bear a shared responsibility for minerals resource use efficiency and recycling; and,

- From a culture of regulatory compliance to a platform of co-regulation embracing industry's voluntary initiatives for continuous improvement aligned with host communities' expectations

This commitment to sustainable development has been fundamental to recovering the industry's *social lic*ence to operate.

I doubt few companies in the minerals industry for the long haul would countenance any significant backsliding on their commitment to sustainable development. The justification for sustainable development is founded in the business case not in altruism or welfare – even though the business case will undoubtedly become even more acute during this tumultuous economic period, it remains justifiable.

Macro-economic management – the "2 trade booms"…

My fourth and final conclusion of the strength of the underlying fundamentals to demand – is that the strength of an individual country's balance sheet, its macro-economic management and free market public policies are solid foundation to an economic stimulus package aimed at restoring confidence and filling the gap in spending and investment.

Australia is a good example of such a country.

But it wasn't always so – indeed we were very nearly a victim of the "resource curse" believing the rhetoric of others that we were the "lucky country".

As many of you know, the "resource curse" is where countries who are naturally endowed in minerals tend to concentrate on the exploitation of those resources at the expense of the development of other economic activity and the investment of the proceeds of that wealth for future generations.

Australia's relative prosperity is as much a function of its sound macro-economic management and free market, trade and investment policies as our natural endowment in minerals resources.

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If Australia had maintained the "macro-economic policy activism" of the 1970s terms of trade minerals boom, we would not be in the position we are today.

Back then, the Government was in direct control of all arms of macro-economic policy including the value of the exchange rate, the conduct of monetary policy, the regulation of labour and the centralisation of wages, and manufacturing industry was heavily protected through a combination of tariffs and subsidies - quite simply, the economy was protected and regulated, recession-prone, with high unemployment, high inflation and high interest rates.

Two decades of reform transformed the Australian economy – significantly reduced barriers to trade and foreign direct investment, deregulated the labour and financial markets, floated the exchange rate, established the independence of Australia's central bank, the Reserve Bank of Australia, and introduced domestic competition policy reforms, major taxation reforms, and compulsory saving through superannuation.

The result is that Australia is a country with a strong balance sheet heading into this global financial crisis – a strong and stable fiscal position - no Federal Government debt - a forecast Budget Surplus in excess of $20bn (2% of GDP) - 16 consecutive years of above-trend growth in GDP - the strongest terms of trade since WWII, and the lowest unemployment rate in decades.

Importantly, the significant increase in national income on account of the "minerals boom" was distributed more so across the economy as a whole than the mining sector specifically. Only about one-third of the improvement of the nation's strong positive terms of trade - the higher price a nation gets for its exports over what it pays for imports – has gone to minerals industry in terms of higher profits…

… most of which went to jobs moreso than wages and to tax cuts. Indeed, the Australian minerals industry contributed some $55bn over the past 4 years in company taxes alone (not including royalties and other charges) which exceeded the $47bn in tax cuts made over the same period.

This is a key point. The "commodity boom" of this decade is starkly different from the comparable terms of trade boom in the 1970s. The economic reforms of the past decades not only delivered the Australian economy a strong balance sheet

and a greater resilience to external shocks, but also delivered an open economy with the capacity to wash through the economy the benefits of the substantial increase in terms of trade and national income from the "minerals boom". This significantly reduces the risk of over-heating the economy, on the way up, and significantly reduces the risk of under-heating the economy on the way down.

Hence, the impact of the global turmoil will likely be mediated between a substantial hit to profits across sectors of the economy, and to, generally, slower wage growth and jobs – providing a buffer to the negative impacts to specific sectors.

For fear you think this is an Australia-centric phenomenon, let me reassure you that we are in good company amongst minerals-rich countries who have fundamentally reformed their economies.

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Resource endowment or "resource curse"?...

The recent "Resource Endowment Project" undertaken by the International Council of Mining and Metals, of which the MCA is an Association Member, examined, *inter alia,* 4 country case studies of mineral-rich developing economies – Ghana, Tanzania, Peru and Chile.

The objective was to identify the key contributors in ensuring that Resource Endowments foster sustainable socio-economic development in the individual country. These were:

- sound macro-economic management - systematic policies of macro-economic stabilisation and structural adjustment to remove protectionist barriers to trade and investment
- free market public policies – for open and competitive markets and minimum effective regulation
- improved public expenditures management increasing the transparency of revenues and expenditure,
- strong governance at local and national levels, variously differentiated for local conditions to optimise social and economic interactions,
- reduced sovereign risk - fiscal stability and taxation and royalty certainty; the rule of law and legal certainty in commercial contracts and commerce,
- mining legislation and secure and transferable property rights - critical to security of tenure and investment security,
- mining companies' strong and continuing engagement of local and host communities – critical to an enduring "social licence" to operate.
- mining companies supporting, in cooperation with the host Government and local communities, a diverse range of related investments in social and economic infrastructure.

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Policy responses...

Finally, Mr Chairman, let me turn to the third part of this address – the policy responses of Governments around the world – this will be the critical determinant of the depth and length of the current crisis of confidence in capital and product markets and the global economy as a whole.

If you accept the reality of globalisation that the world's trade and commerce is strongly inter-dependent –

... if you accept therefore, that no individual country can escape the economic contagion of the failure of the global financial system even if it was not of their making [generated principally in the United States and the European Union];

... if you accept the necessity for Governments to provide a fiscal stimulus to consumption and demand;

... if you accept that fiscal measures are unlikely to be enduring unless they are accompanied by complementary reforms to failed financial markets that stabilise and strengthen the financial system;

... if you accept that the cash injection of those fiscal measures will be short-lived with the real risk of fiscal fade and a double-dip recession unless accompanied by policies that promote national capacity, specifically in social and physical infrastructure;

... if you accept that the principal role of Governments in regulating markets is to ensure that markets operate efficiently and effectively, and to correct the serious market failures of the world's failed financial systems without dismantling the economic reforms of the last 30 years, that have so profoundly improved the affluence of the world's people and the efficiency of its economies.

... if you accept that trade and investment liberalisation is the "Holy Grail" of economic development – that trade and foreign direct investment lowers costs, ensures a more appropriate and effective use of resources, increases choice, encourages innovation and technology transfer, raises productivity, increases growth and raises living standards.

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... if you accept all of this, then you accept that the perfect economic storm that shook the global financial system:

- is a global problem that requires a global solution,
- it demands international cooperation and coordination,
- it requires a suite of complementary monetary and fiscal measures, policies and regulatory reforms that restore business and consumer confidence and promote investment, productivity and competitiveness,
- that continuing trade and investment liberalisation is the best long-term enduring economic stimulus.

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Let me be more specific...:

Fiscal measures...

With **fiscal measures**, as the IMF describes – they should be measures that produce credible loan loss recognition; sort financial companies according to their medium-run viability; and provide Government support to viable institutions by injecting capital and carving out bad assets – the success of which we consider is dependent upon:

- providing the fiscal stimulus to fill the gap in spending and investment created by a lack of confidence in the business sector;
- how quickly and comprehensively individual governments put their balance sheets on the line – that is, be prepared to move into Budget Deficits with a plan to move back into surplus over the life of the economic cycle;
- providing tax payers with real equity in the risk reward equation than just simply a sop to those who caused the problem in the first place;
- providing sufficient capital to banks and other institutions to properly write down the value of "toxic assets" to something realistic, without destroying value and capacity to lend – the persistent roadblock to getting the financial system operating normally is the large quantity of toxic and hard-to-value assets that remain on banks' balance sheets – Governments have to get these assets off bank balance sheets one way or another; and,
- guaranteeing inter-bank and inter-financial institution loans and customer deposits – various forms of Government insurance against loss on bank lending;

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Policy measures...

With respect to **policy measures** we advocate that these should address the underlying systemic policy failures of the financial system and build growth capacity for the future vis:

- regulatory reform of the financial markets and institutions to stabilise and strengthen the global financial system
- enhance productivity, investment and the competitiveness of industry – specifically in addressing capacity constraints to growth in social and physical infrastructure – education and training, health and social welfare, transport and export corridors, information technology and communications, water and energy utilities etc
- are likely enduring in their effect in building national capacity supportive of aggregate demand, employment, and sustainable investment and development
- that provide foundation to longer-term fiscal stability – attempts to encourage consumers to spend their way out of the crisis are not long-term solutions
- continue the process of pro-competitive, open market economic reforms with government regulation that is the minimum and most effective in ensuring that markets operate efficiently and effectively, correcting markets failures where Governments can and should successfully intervene.

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Trade and investment policies...

Trade and investment policies that promote open and competitive markets domestically and internationally are critical. Trade must be allowed to play its essential role in the concerted policy response to the global financial and economic crisis.

The world trading system underpinned by the multilateral rules of the WTO is not perfect, but it is an example of where international cooperation and confidence has been created and reinforced.

The rules based system was established with the formation of the GATT (the WTOs predecessor) in 1947 and was born out of the crises of the 1930s and has served the world well. It has supported and fostered trade liberalisation which has fuelled growth and rising living standards around the world

Over the past six decades the rate of growth in world trade (6 per cent per year) has been almost double the rate of world GDP growth (3.7 per cent) – in other words trade has been the engine of growth which has lifted hundreds of millions of people around the world out of poverty.

Trade lowers costs, ensures a more appropriate and effective use of resources, increases choice, encourages innovation and technology transfer, raises productivity, increases growth and raises living standards.

The enormity of the challenge...

But, the enormity of this comprehensive global policy challenge is almost overwhelming...

Willem Buiter, an economic authority in Britain, has estimated that the total value of the balance sheets of British banks as at June last year was 440% of annual British GDP – and the Brown Government is well on the way to guaranteeing it, in turn, increasing the Government Bonds issued and the interest rates to finance it.

Nouriel Roubini, an American economist, estimates financial losses from the credit crunch may reach USD3.6 trillion, which, given that the capital of the US banking system is around USD1.4 trillion, means the US banking system is effectively insolvent.

In response to the crisis, the USA has cut interest rates sharply and introduced a series of fiscal stimulus packages - of around $US150 billion in November, followed by $US 700 billion ('Troubled Assets Relief Program' passed by the Congress in early October 2008, and a second fiscal stimulus package of over $US 800 billion which, "would constitute the largest peacetime boost ever for the US economy", according to the Peterson Institute for International Economics.

The US' policy responses to date, while essential, have not yet restored confidence in the US and the real economy continues to contract, largely on account of their failure to address the key constraints facing the US economy.

First, consumption spending was at the heart of the "twin deficit" problem in the US, so attempts to encourage consumers to spend their way out of the crisis are not long term solutions.

Second, the need to rebuild savings over time will limit US growth potential.

Third, this is a global recession: the US cannot rely on exports to generate growth. The "structural" problems in particular will continue to hamper recovery in 2009 and into 2010. The US deficit for the fiscal year that began in October 2008 will approach US$1 trillion, more than double the US$450 billion for 2007-08. This would be by far the largest nominal deficit ever incurred by any nation and would represent 7.5 percent of U.S. GDP, a level previously seen only during the world wars.[1]

Japan's economic slowdown is accelerating, with leading indicators pointing to worse to come – Japan recorded a December 2008 quarter negative 3% GDP growth which is an amazing annualised reduction in GDP growth of 12%.

The Government's handling of the crisis has been stilted. Of the US$150 billion in stimulus packages proposed by the Government, only a quarter have been implemented because of political deadlock and because of the opposition to cash hand-outs to individuals. There is agreement on an even bigger package, as much as US$360 billion which emphasises investment in infrastructure more than consumption.

The IMF is now forecasting GDP in Japan to fall by 4% in 2009 – a contraction twice as severe as in America and Europe.

As I said earlier, Japan has had systemic or fundamental problems for some time, but the combination of a sharp appreciation in the yen and slowing growth in trading partners in the "Asia factory" is impacting further on the demand for Japanese exports. Given that backdrop, official interest rates are now back close to the Zero Interest Rate Policy (ZIRP) of earlier years.

Europe's businesses are reducing capital expenditure plans amid signs the global downturn is cutting both profits and export sales. In Europe asset prices did not increase as much as in other developed economies, so the saving levels did not fall as far.

In Europe (as in much of Asia) the slowdown in growth is cyclical, and while recovery will hampered by slow recovery in the rest of the world, Europe may not face an extended severe downturn, as higher saving rates mean that its consumers will be in a position to spend earlier than in some other nations. Hence, even though Europe will face a weak 2009, chances are Europe will recover ahead of other OECD countries, especially the US, and suffer less lingering damage to its growth.

The crisis management by the **United Kingdom** Government and the Bank of England has been good, including an early focus on the importance of putting fresh capital into the ailing banking system, cutting interest rates fast, and raising spending while cutting some key taxes. However, even official forecasts expect the economy will continue to shrink through most of 2009, and 2010 may not see much of a recovery.

Understandably, there is close scrutiny of **China's** reassurances that "it would continue to effectively implement policies and measures promoting growth, stimulating demand".

There is some encouragement from the resilience of fixed-asset investment and domestic consumption – primary drivers of China's economy - overlaying significantly weaker exports and a manufacturing sector struggling with weakening demand and over-capacity.

In response to this down-turn, China has already commenced a program of "rebalancing" growth through government moves to raise infrastructure spending, lower interest rates, increase export rebates and ease restrictions on property ownership.

These measures were designed to boost construction, manufacturing and consumer spending to raise domestic demand and reduce China's dependence on export led growth.

China announced a further fiscal stimulus package of US$855billion late last year. Chinese authorities estimate the spending was about 1.6% of GDP in the closing months of 2008, building to a cumulative 16% of GDP by end-2010. However, as the sheer size of those figures suggests, the package contains some double counting of existing expenditures.

The package is expected to translate into a fiscal stimulus of about 1.5% to 1.7% of GDP, which will support growth in the order of 7.6%, which could go as low as 7.2% (*ref. Deutsche Bank and UBS respectively).* It also relies on some matching of funds from regional governments which may or may not be forthcoming (or not on a timely basis).

[1] Roger C. Altman The Great Crash, 2008. A Geopolitical Setback for the West. *Foreign Affairs*, January/February 2009

Australia's Mid-Year Economic and Fiscal Outlook revised the growth forecasts of the Chinese economy down to 9.75% in 2008 and 8.5% in 2009, and the IMF forecasts subsequently to 6.7% - other economists are in the 7%-8%, which most commentators consider to be the technical point below which China would move into significant contraction impacting social and political stability.

In **India**, expected output growth in 2009 is falling, although inflation is moderating, as oil and other commodity prices decline. Relatively higher inflation in India (wholesale prices rose 8.3% in the year to November 2008 down from more than 11% in mid 2008) restricts the capacity of authorities to pursue expansionary policies such as lower interest rates and fiscal stimulus. India's large current account and government deficits also mean that it has less room to manoeuvre than other economies. The IMF forecasts Indian GDP growth to fall to 5.1% in 2009 (from 9.3 % in 2007 and 7.3% in 2008).

Other important **Asian economies** are also facing slower growth in 2009. Domestic demand has held up better than most regions to date, and the fall in commodity prices aids many of the these economies, but the sharp slowing in global demand (including global demand for electronics) is starting to take its toll.

The IMF is forecasting growth in the 'newly-industrialised Asian economies' (Korea, Singapore and Taiwan) to fall by 3.9% in 2009. Singapore is officially in recession and real GDP in Korea fell 5.6% in the December quarter, with the exports of both economies falling sharply.

Large current account deficits and the earlier rapid pace of credit expansion point to risks in each of Indonesia, Thailand and Malaysia. The latter two have already announced fiscal stimulus packages, while the fall in oil prices is hurting Indonesia's export receipts.

Overall the IMF is forecasting output in **developing economies** to slow from 6.25% in 2008 to 3.25% in 2009. Lower commodity prices and the continuing constraints in global credit markets will affect growth, but the IMF also points out that the "stronger economic frameworks in many emerging economies have provided more room for policy support to growth than in the past, helping to cushion the impact of this unprecedented external shock".[2]

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Encouraging signs…

As I said, whilst all this is quite overwhelming, there are indicators that the worst of the financial crisis may have passed, but, and it is a big but, it is in any way over. Saul Eslake, Chief Economist with the Australia & New Zealand Banking Group, cites four main reasons:

- the scale of the carnage appears to be diminishing, with losses and write-downs reported by banks and other financial institutions in the December quarter at a much lower level than those reported in each of the four preceding quarters
- some of the key measures of funding strains have lessened appreciably in response to the decisive policy measures taken by Governments and Central Banks since mid-October – the three-month inter-bank borrowing rate (Libor) narrowed from a peak of over 340 basis points in mid-October to less than 100 basis points in late January
- other measures of extreme market distress have eased substantially since late 2008 – the measure of implied SU equity market volatility derived from options on S&P 500 futures contracts (the so-called VIX Index) has declined from a peak of over 80% on two occasions on October and November last year to an average of about 45% in January (still well above the pre-crisis levels of typically 10-15%)
- that most equity markets have remained above their 20 November lows despite the uniformly negative data. On average, global markets were, by late January, still some 7% above their November lows. This suggests an awful lot of the "bad news" still to come may have already been "priced" by investors.

And discouraging signs – protectionism…

But, there is also an undercurrent of risk that could well de-rail the combined efforts of Government stimulus packages if Governments make the mistakes of the 1930s in response to the Great Depression and revert to protectionism.

[2] Ibid.,

Significantly and dangerously, there are worrying signs of increasing protectionist pressures emerging despite standstill commitments from leaders at the G-20 summit in Washington and the APEC summit in Lima in November to avoid new restrictions on trade and investment.

Any reversion to protectionism at any time is bad, but in the current economic circumstances would be a disaster – serving only to severely deepen and prolong the current crisis.

Turning to protectionism will destroy jobs not create them, by threatening to destabilize trade and capital flows, it risks turning a global recession into a 1930s-style depression.

In 1930, just as the world economy was in a downturn as it is today, the US Congress passed the Smoot-Hawley Tariff Act, essentially shutting off imports into the US

Smoot-Hawley led to a halving of US imports between 1929 and 1933. Exports however also fell dramatically, and unemployment grew from 3.2 percent in 1929 to 8.7 percent in 1930 and 24.9 percent in 1933.

- other countries retaliated through "beggar-thy-neighbour" policies and world trade collapsed.
- this destructive protectionism contributed importantly to the severity of the world-wide Depression.

The trade wars in the 1930s are proof of how protectionism can easily plunge countries into a situation where no one wins and everyone loses.

In a globalised world, the economic vitality of countries is linked through trade and investment, the need for all nations to maintain open markets is crucial in helping the global economy recover and return to a path of growth.

And yet...

...in some countries, market access barriers have been raised, subsidies increased and protectionist measures flagged and parochial sentiment inflamed. Experienced commentators warn of a new combination of financial mercantilism and economic nationalism where exports are good, and imports are bad.

Witness recent developments...

- Argentina, Australia, Canada, China, France, Germany, Russia, Sweden and the US have all introduced packages to support domestic automakers. Specific provisions include consumer incentives, higher duties on car imports, as well as loans and tax cuts or exemptions for automakers and dealers;
- the EU has announced the reinstatement of export subsidies on some dairy products;
- India restricted imports and increased duties on some steel products in November;
- The US Congress has flagged a "Buy American" campaign as part of its fiscal stimulus package, notably the requirement for supported infrastructure projects to only use US steel;
- As part of the US stimulus package the US Senate voted on 6 February to restrict banks and other financial institutions that receive taxpayer bailout money from hiring high-skilled immigrants on temporary work permits known as H-1B visas.
- The British Prime Minister flagged a "Britain campaign of British jobs for British workers" – British workers went out on strike because Italian and Portuguese workers "taking" British jobs.
- The French Government is stipulating that it will only lend to French banks that are supporting French industry
- Indonesia's new mining laws, which although have received Presidential Decree, are yet to be supported by implementing regulations, stand to significantly limit the extent to which foreign companies are able to provide goods and services to Indonesian exploration and mining and foreign direct investment.
- Indonesia has also restricted the number of ports and airports that can accept international imports;
- Russia has introduced 28 measures to raise tariffs and subsidise its own exports

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Conclusions…

So, Mr Chairman, in conclusion, my take-home messages are:

- that the current turmoil in the global economy, its product and capital markets, was an economic storm waiting to happen;
- but, within this storm, while there will be some damage, even wreckage, and few really know how long it is expected to rage;
- though, there are signs that the worst of the carnage has passed though the impacts are far from over, but we are into a clean-up and rebuilding phase;
- we are confident that the underlying fundamentals of the economic super-cycle are checked but not compromised, and thus underlying demand for minerals products remains sound;
- demand for minerals will kick back to or exceed supply, prices are likely to move rapidly and the challenge for minerals-rich countries is to ensure that we are well-positioned to work through the slow-down and to capitalise on the inevitable correction;
- coherent and decisive policy measures will be required to restore business and consumer confidence;
- countries cannot spend their way out of the crisis, rather, they need to have policy reforms that address the systemic failures of their economies and their financial system and provide a platform for wealth-generating capacity building;
- international cooperation will be essential in designing and implementing such a policy response ;
- keeping markets open must be an absolute priority for all policy makers if the world is to rebuild confidence and capacity in the global financial system, not further erode it;
- trade and foreign direct investment is a fundamental economic stimulus with a proven track record;
- If minerals-rich countries are to fully capitalise on what we expect will be a "re-correction" in the market, then this presents an opportunity for government and industry in partnership to remedy the supply capacity constraints which will otherwise restrict industries' international competitiveness and growth, and in turn the minerals industry's contribution to the global pursuit of sustainable development.

MITCHELL H HOOKE
CHIEF EXECUTIVE
24 February 2009