

Australian British Chamber of Commerce
15 September 2010
(25 Minutes)

[SLIDE 1]

Introduction

Thank you for your kind introduction. Ladies and Gentlemen, it is with great pleasure that I join you here today to mark the centenary of the founding of the Australian British Chamber of Commerce.

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When this Chamber was established early last century, international commerce was being transformed by the emergence of new economic powers.

One hundred years ago BHP and Billiton existed, but were separate companies that looked very different to the globally diversified resources group that BHP Billiton is today. BHP this year celebrates its 125th anniversary and Billiton its 150th anniversary. Today, our company is the world's largest diversified resources company with 40,000 employees and operations in more than 25 countries. As an Australian and British listed company, and critically dependent on international trade, both the Australian British Chamber of Commerce and the ideals that it was founded upon are particularly important to us.

And now, a century on from the Chamber's foundation, economic transformation continues to take place. The rise of the BRIC economies is once again changing the balance of economic power, creating new opportunities and challenges. I want to talk to you about some of these opportunities as they relate to Australia, before turning to climate change – an issue that will profoundly affect all aspects of business and trade in the coming decades.

China and other emerging economies

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Clearly China's continued growth underpins BHP Billiton expectations of the future demand for our products, and it is also critical to expectations of future growth in the global economy. Additionally, India, Indonesia, Brazil, Russia and a host of other emerging economies have the potential to follow the same trajectory, creating huge opportunities for business and prompting significant changes to the balance of both political and economic power.

Some of the most obvious and pressing challenges will lie in managing the environmental consequences of rapidly rising living standards. New ways of addressing the world's problems and resolving its conflicts will also need to emerge, because the redistribution of wealth around the world will inevitably mean a redistribution of power and influence.

Business and government alike will have to get used to this environment and quickly learn how to work in new ways with different and more powerful partners. All of us will need to develop ways of working together in relations that reflect new realities of power, in order to address challenges like climate change. And we need to do this whilst ensuring that relations remain peaceful and harmonious.

The need for such a rethink was evident in Copenhagen last December, which provided us with a stark reminder of how difficult it is to negotiate multilateral environmental agreements.

Resources and the Australian economy

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Future success for Australia and BHP Billiton will depend on our ability to seize the opportunities offered by these dramatic economic changes. Today, the mining sector accounts for roughly half of the nation's export revenue.

In this regard I'm sure this audience would have noted our Company's recent results. While there was understandable focus on our profits, there was not as much focus on what the company returned to Australia. For every \$1 of Australian profit, BHP Billiton put \$1.30 back into Australia. We did this by committing A\$8 billion in capital investment, paying \$5.5 billion in taxes and royalties and returning A\$1.9 billion in dividends to Australian shareholders.

And, at the same time, we employed more than 40,000 staff and contractors in Australia. BHP Billiton is proud of our strong performance. We are just as proud of the contribution we are making to this nation and its people.

While Australia has the mineral and energy resources and geographic location to prosper, success is not guaranteed. Over the last decade, Australia's share of production of most commodities has stagnated or declined. To capture the full economic benefit of the higher demand for commodities, the nation requires continued investment in mines and infrastructure and extra sources of skilled labour. This cannot be funded without capital from overseas and it is vital that the investment climate remains internationally competitive.

Obviously the above comments immediately bring us to immigration, infrastructure and tax policies. I will not talk about these issues today – other than to note that they were critical points of debate in the recent election campaigns and will continue to be so into the future.

Climate Change

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There is, however, another issue that has seen considerable debate – and in my opinion will continue to generate public discussion. Australians are clearly concerned about the potential impacts of climate change - and so are we as a company.

- BHP Billiton acknowledges that the mainstream science is correct, and that we need to stabilise (and eventually reduce) the carbon concentration in the atmosphere. We are, therefore, committed to working with governments on the design of effective policies to help reduce greenhouse gas concentrations in the atmosphere. BHP Billiton is a globally significant producer, exporter and consumer of energy and we want to make a thoughtful and considered contribution to the debate.
- Historically we have expressed that our preferred solution is the introduction of an international climate framework, which includes binding commitments by all developed and major developing economies to reduce greenhouse gas emissions.
- Observing the debates around the world in recent years, we believe local actions that are eventually harmonised into unified global action is a more likely outcome than an immediate broadly supported global initiative.
- We also believe that such a global initiative will eventually come, and when it does Australia will need to have acted ahead of it to maintain its competitiveness.

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Presently, Australia has a high carbon economy; we are the eighth largest emitter of carbon, and the largest on a per capita basis in the Kyoto Annex 1 countries according to 2008 figures. To remain

competitive in a future carbon-constrained world, Australia will need turn into a lower carbon economy.

A single “silver bullet” does not exist

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Transitioning to a lower carbon economy carries a number of special considerations that make it different from the typical problems that countries face:

- Firstly – it is a long-dated problem and the nature of long-dated problems normally means that a single silver bullet does not exist to cure the ills – there are many moving parts – technology being only one of them that will change over time. Instead, governments will need to take incremental steps that build upon each other to create a mosaic of initiatives that collectively achieve the desired result.
- Secondly – many participants with varied characteristics make it a complex problem to deal with:
 - In the first place, real capital constraints exist; for example a household that does not have the savings to put a solar heating system in place, even though in the long-run from an overall pay-back perspective it is a sensible thing to do.
 - And different players have different cost of capital (for instance, research shows that the behavioural changes of consumers indicate a much higher discount rate than for businesses).

The combination of a long-dated problem that can only be tackled with many initiatives, and the different capital constraints and discount rates show clearly that a single encompassing trading system and the academically elegant economics surrounding it is not the solution.

We need to instead reconcile ourselves to a multifaceted solution, involving a combination of regulations, initiatives and market-based measures.

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I want to highlight two points that are crucial for Australia as it searches for the path forward.

The first point is really more of an observation – our relative competitive advantages have given us an economy that has traditionally and increasingly produced products for the export market that are materially carbon intensive. Simply put, economies like ours, with a growing population, face an intrinsically harder target with a fixed percentage reduction in carbon, than for example an economy with a shrinking population that is de-industrialising.

We should never forget that we have an economy that produces things for others and that in such economies reductions are more difficult to achieve. (China incidentally as the “workshop to the world” has a similar problem – which possibly explains its reticence to sign up to absolute targets, preferring intensity based targets instead).

The second point is that some choices have a long-dated impact. This is nowhere truer than in the stationary production of electricity (generation infrastructure). Each year, investment decisions are made that inherently lock-in carbon emissions for the coming 30 to 50 years. So, it is critical that we get this right.

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Let me focus on the electricity sector. While Australia’s emissions are generated across the economy, just over half comes from stationary energy (51%) followed by the agriculture (16%) and transport (14%).

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Australia's energy supply is particularly carbon intensive. In 2007 there were only 5 countries in the world with a more emissions-intensive energy supply – Bosnia Herzegovina, North Korea, Estonia, Mongolia and Poland. The emissions intensity of our electricity - that is, tons of carbon emitted per unit of energy - is the highest amongst OECD countries.

The decisions that we are taking now on power production and building infrastructure will still be with us by the time we expect a global price for carbon to be in place.

With about 90% of the carbon emissions from our electricity sector coming from coal fired power stations, Australia will need to look beyond just coal towards the full spectrum of available energy solutions. Failure to do so will place us at a competitive disadvantage in a future where carbon is priced globally.

My main point is a simple one – we need to anticipate a global price for carbon when taking decisions with long dated impact. The decisions we take now on power production will still be with us long after a global price for carbon is finally in place.

Some difficult political considerations

Electricity generation is just one dimension of the carbon emissions problem. Let's not forget that tackling carbon emissions is really an energy consumption problem and many factors drive consumption, from transportation to manufacturing to household behaviours.

Reducing Australia's carbon emissions footprint will require substantial changes in consumer (business and individual) behaviour. In short – carbon emissions need to have a cost impact in order to cause the consumer to change behaviour and favour low carbon alternatives.

We all recognise this is a politically charged subject. No government relishes telling consumers that things need to cost more through higher and more expensive standards - for example double and triple glazing of windows - and through higher fuel and

energy costs. But in this case there is really no easy answer – all of us who care about this issue need to also recognise that making a difference comes at a price.

What else do large companies think about?

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Beyond the points that I have already made, large companies like ours think about two further issues as countries contemplate their policy response to climate change:

- what happens to the money raised by pricing carbon?
- and how international trade is affected when countries act individually?

So let me try to explain these two concerns as clearly as I can:

Revenue Neutrality

Firstly, we must acknowledge that a price carbon does have an overall cost impact on the economy and that in most cases; the money raised through pricing carbon is collected by the government. Importantly, the government must avoid using those funds for general spend or to back “winning” technologies – the outcome of which will likely be disappointing emissions reduction and slower growth.

Conversely, instead of treating this income as windfall revenue, the government must find mechanisms to return this revenue to the economy – individuals and businesses – and let the markets work. I think that a price on carbon can only be effective if it is operated in a revenue neutral manner by a government.

Trade friendly

Secondly, I would like to note that in the absence of a global solution on carbon emissions reduction, the application of domestic measures could be unsuccessful if not implemented carefully.

Notably, in the absence of a global system, trade exposed products impacted by a price on carbon end up being

disadvantaged in comparison with those originating from countries that do not yet price carbon. As a result, private companies will tend to choose to transplant their facilities to more competitive locations where a carbon price doesn't hinder their margins.

Under these circumstances, the world will not be better off, as the emissions will only be relocated to a different country and the Australian economy negatively impacted.

In order to avoid such negative impact on trade exposed products, emissions costs for trade exposed industries must be rebated until a global emissions reduction system is in place.

A summary of BHP Billiton policy statements

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As I said before we do take climate change seriously and I have studied it in detail. BHP Billiton now has a clearly articulated set of policy statements on this issue that are incorporated in our Summary Sustainability report for FY2010 which will be available on our website and in hard copy shortly.

It should come as no surprise that the main points we believe any national system must adhere to reflect closely the topics I have spoken about today:

- The need for a clear price signal – ensuring that the carbon price signal reaches consumers such that consumption is reduced, and investment choices are made that favour low carbon alternatives
- The need for revenue neutrality – returning aggregate revenues raised to individuals and businesses impacted by the carbon price [for example, by a cut in taxes and individual lump sum grants] maximally offsets the impact of increased carbon costs
- The need for a system that is trade friendly – rebating emissions costs for trade exposed products during the transition to a global system prevents emissions simply being transplanted to other countries where emissions prices are lower

- The need for a broad based system – covering the broadest possible range of both carbon emission activities and low carbon energy options in any plan ensures the largest base for emissions reduction
- The need for a predictable and gradual transition – ensuring that future carbon costs are predictable facilitates investments that reduce emissions; a gradual change in price gives the economy time to adjust
- And finally, the need for a simple and effective system – a combination of a carbon tax, land use actions and limited trading system [for example for stationary electricity production only], is both easy to implement and effective

Closing

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Let me conclude by saying a little about the future. BHP Billiton is a company focused on long-term value creation through the development of natural resources. We have a clear, unchanged strategy that guides us in pursuing that objective. Sustainability is a key underpin of that strategy, and we are committed to respecting the environment and having a positive impact in the locations where we operate.

We are the world's leading resources company and we are proud to provide the world with those resources that are essential to sustain and improve the standards of life of hundreds of millions of people. The world is going through a process of rapid change, and it is only by anticipating and responding to this change, rather than resisting, that Australian businesses and the country as a whole can succeed. That is what BHP Billiton is doing.

I hope the ideas I shared with you today encourage you and others to enter the climate change conversation so we can reach the consensus needed to make effective action possible.

Thank you very much for giving me the opportunity to be here with you today. And, finally, let me wish the Australian British Chamber of Commerce another one hundred years of success.

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