



13 September 2005

Dr Anthony Marinac
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600

Dear Dr Marinac,

JOINT PARLIAMENTARY INQUIRY INTO CORPORATE RESPONSIBILITY

Thank you for providing Xstrata with the opportunity to make a submission regarding the above.

In summary Xstrata's purpose in making this submission is

- To provide the committee with an outline of the activities Xstrata currently undertakes on a voluntary basis in Australia;
- To provide a perspective on how regulation of stakeholder engagement and Corporate Social Responsibility (CSR) would be viewed by Xstrata, as a foreign company with significant investments and responsibilities in Australia.

As our submission outlines, Xstrata believes that the Group is able to adopt a dynamic and flexible approach to CSR, driven by feedback and engagement with local stakeholders rather than by regulation.

Xstrata's businesses are currently able to respond directly to stakeholders through ongoing engagement, in a manner that is appropriate for the local communities in which we operate. The introduction of regulation would, we believe, encourage companies to be more prescriptive in their approach to community initiatives, in order to adhere to specific regulations and may lead to a "compliance only" attitude to CSR.

In addition, Xstrata believes that the introduction of regulations prescribing either the quantum of funds or focus of CSR activities, rather than reporting obligations alone, would be perceived negatively by the international investment markets and potential foreign investors in Australia.

Please do not hesitate to contact me if you have any further queries regarding Xstrata's CSR activities in Australia, our reporting mechanisms for such activities or our views regarding potential regulation.

Yours sincerely,

Sue Sara
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SUBMISSION TO THE JOINT PARLIAMENTARY INQUIRY INTO CORPORATE RESPONSIBILITY

Executive Summary

Xstrata is a global diversified mining group with over 50% of its net assets in Australia. The Group's purpose in making this submission is:

- *To provide the committee with an outline of the activities Xstrata currently undertakes on a voluntary basis in Australia;*
- *To provide a perspective on how regulation of stakeholder engagement and Corporate Social Responsibility (CSR) would be viewed by Xstrata, as a foreign company with significant investments and responsibilities in Australia.*

Xstrata has a strong commitment to CSR, contributing a minimum of 1% of its pre-tax profits to CSR activities in local communities, which it undertakes voluntarily in Australia. These funds are allocated according to the social and community needs in the regions in which Xstrata operates.

Xstrata's global commitment to Corporate Social Involvement (CSI) in 2004 totalled US\$10.5 million (A\$13.8 million), a 57% increase over total 2003 expenditure of US\$6.7 million (A\$8.8 million). Xstrata's recent CSI initiatives in Australia include the Xstrata Community Partnership Program in north Queensland worth A\$4 million over three years and the 2005 Xstrata Coal CSI Programme contributing A\$1.3 million towards social initiatives in both New South Wales and Queensland.

Xstrata also reports extensively on these activities via its website www.xstrata.com and annually via its Sustainability Report. In addition, and in keeping with the Minerals Council of Australia (MCA) Enduring Value framework, from 2005 it will report on these activities in Australia via site Sustainability Reports.

Xstrata believes that, unencumbered by regulation, the Group is able to adopt a dynamic and flexible approach to CSI, driven by feedback and engagement with local stakeholders rather than by regulation. Xstrata's businesses are currently able to respond directly to stakeholders through ongoing engagement, in a manner that is appropriate for the local communities in which we operate. The introduction of regulation would, we believe, encourage companies to be more prescriptive in their approach to community initiatives, in order to adhere to specific regulations and may lead to a "compliance only" attitude to CSR. In addition, Xstrata believes that the introduction of regulations prescribing either the quantum of funds or focus of CSR activities, rather than reporting obligations alone, would be perceived negatively by the international investment markets and potential foreign investors in Australia.

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About Xstrata

Xstrata is a major global diversified mining group, listed on the London and Swiss stock exchanges. The Group is headquartered in Zug, Switzerland and has around 24,000 employees worldwide, including contractors.

Xstrata maintains a meaningful position in six major international commodity markets: copper, coking coal, thermal coal, ferrochrome, vanadium and zinc, with additional exposures to gold, lead and silver. The Group's operations and projects span four continents and seven countries: Australia, South Africa, Spain, Germany, Argentina, Peru and the UK.

Xstrata in Australia

In Australia, Xstrata has around 8,400 employees and contractors at 25 sites, and more than 20,000 others rely on our operations for the majority of their incomes.

Over 50% of Xstrata's net assets are located in Australia comprising thermal and coking coal, copper, and zinc-lead mining and processing operations in New South Wales, Queensland and the Northern Territory.

The headquarters of three of Xstrata's global business units are located in Australia: namely Xstrata Coal (Peter Coates, Chief Executive) in Sydney, Xstrata Copper (Charlie Sartain, Chief Executive) and Xstrata Technology (Joe Pease, General Manager) in Brisbane.

Examples of Xstrata's contributions to the Australian economy include:

- Investing over A\$8.5 billion in Australia since 2002
- More than A\$1.9 billion of capital expenditure committed at its Australian operations over the next three years
- Average annual exploration expenditure of more than A\$28 million in Australia over the next three years, including a doubling of exploration expenditure in 2005 in north Queensland
- An annual wages bill in excess of A\$660 million
- Annual spend of A\$1.25 billion purchasing regional goods and services
- A\$230 million paid to Governments in taxes and charges
- A\$94 million in port charges (Xstrata Coal)
- A\$215 million in rail freight charges
- A\$15 million on annual rates to local councils

Xstrata has also been widely recognised by Federal and State MPs, unions and community groups for its contribution to the rejuvenation of Mount Isa in north-west Queensland.

Xstrata's approach

Xstrata's approach and ethical framework for managing its businesses and responsibilities around the world are set out in the Group Business Principles, a copy of which is enclosed with this submission (Appendix 1).

Our mission statement recognises that Xstrata can only create value for its shareholders if we create genuine partnerships with employees, local communities, customers and other stakeholders. In particular our Business Principles set out our commitment to ensuring a safe and healthy environment for our employees, to minimising the Group's impact on the environment and to having a positive impact on the communities that support and host our operations and employees.

Commitment to Corporate Social Involvement (CSI) and Corporate Social Responsibility (CSR)

Xstrata commits a minimum of 1% of its total profit before tax to provide support for local communities.

Xstrata's global commitment to CSI in 2004 totalled US\$10.5 million (A\$13.8 million), a 57% increase over total 2003 expenditure of US\$6.7 million (A\$8.8 million).

During 2004, Xstrata established appropriate funding structures in the key countries or regions where it operates, in order to distribute the allocated CSI funds to projects which meet the company's policy requirements. Funding decisions are made by a committee comprising the chief executives of the relevant commodity businesses with the General Manager - Corporate Affairs, who has overall responsibility for coordinating the Group's CSI expenditure.

In February 2005, Xstrata Coal and Xstrata Copper both became signatories to the Minerals Council of Australia (MCA) *Enduring Value – the Australian Minerals Industry Framework for Sustainable Development*. Refer Appendices 8 and 9. This commitment includes the progressive implementation of International Council on Mining and Metals (ICMM) Principles and Elements, the global industry's commitment to manage social, health, safety, environmental and economic issues in order to deliver sustainable shareholder value. Xstrata's own set of sustainability standards are totally aligned with those of the ICMM. The *Enduring Value* framework also includes public reporting of site level performance on a minimum annual basis and assessment of the systems used to manage key operational risks.

Xstrata's recent CSI initiatives in Australia have included the launch of the Xstrata Community Partnership Program in north Queensland worth A\$4 million over three years and the 2005 Xstrata Coal CSI Programme contributing A\$1.3 million towards social initiatives in both New South Wales and Queensland. Details of these activities are provided in more detail in the attached Appendices 5, 6 and 7, with a brief overview of the programs provided below.

Xstrata in North Queensland

During 2004, Xstrata focused on bringing about much needed performance improvements in the north Queensland copper and zinc-lead operations. The company also demonstrated an increased commitment to sharing the benefits of its improved business performance with its local communities.

In December 2004, at a function in Mount Isa the Hon. Tony McGrady, MP, Minister for State Development and Innovation and Member for Mount Isa launched the Xstrata Community Partnership Program in north Queensland.

This program will contribute A\$4 million over the next three years to improving services and facilities in the north Queensland communities of Mount Isa, Cloncurry, Townsville and Bowen where Xstrata's employees and their families live.

The launch was attended by over 120 people, including representatives from Xstrata and the community and government partner organisations in north Queensland.

In launching the program, Mr McGrady said he was pleased to welcome Xstrata as a partner in the Queensland Government's commitment to build a better State with stronger communities.

Mount Isa Mayor Cr Ron McCullough said the program was a most welcome display of corporate responsibility as well as a demonstration of Xstrata's commitment to local communities.

The Xstrata Community Partnership Program in north Queensland includes the A\$1 million commitment to the Buchanan Park redevelopment project in Mount Isa announced by Xstrata plc's Chairman Willy Strothotte on 6 October, 2004.

The program is in addition to the A\$460,000 to be spent by Xstrata in 2005 in the north Queensland communities on sponsorships, donations and other community support initiatives.

The Xstrata Community Partnership Program in north Queensland was developed following extensive consultation with local groups and residents over the past twelve months.

This process allowed Xstrata to identify the areas of greatest need in the north Queensland communities where we operate, with a particular focus on education and health, and to develop partnerships with local groups and government to address them.

The program addresses six key areas, namely enterprise and job creation, education, environment, social and community, health, and arts and culture. A full list of the 34 initiatives and the community partners is contained in Appendix 5.

It also includes a substantial commitment to addressing the skills shortage in the mining industry in north Queensland with a tripling of the apprenticeship intake over the next three years, and more traineeships, bursaries and scholarships. The funding for this skills initiative will be in addition to the A\$4 million Community Partnership funding.

Xstrata Coal in New South Wales and Queensland

In April 2005, Xstrata Coal launched its 2005 Corporate Social Involvement (CSI) Programme contributing A\$1.3 million towards social initiatives in both New South Wales and Queensland, particularly in the company's local communities.

The official launch was held in Sydney and attended by representatives of the Programme's partners, as well as members of the business community, government and employees.

The Xstrata Coal CSI Programme involves 10 partners in six key areas namely: arts and culture; education, enterprise and job creation; environment; health; and social and community. Refer Appendix 6 for further programme details. These key areas reflect Xstrata's CSI policy which sets out a commitment to support initiatives that benefit the communities that host our operations, employees and their families.

Since acquiring MIM in June 2003, Xstrata Coal has also implemented an active community development program in the towns of Tieri and Glenden in central Queensland with an annual spend of A\$18 million on town facilities (including schools, infrastructure etc.)

Xstrata Zinc in the Northern Territory

McArthur River Mining, 900 kilometres south-east of Darwin in the Northern Territory, brings benefits to traditional owners and the local community through

- Jobs and training opportunities for local Aboriginal people such as school work experience programs, pre-vocational training traineeships and apprenticeships;
- Revenue generated by a local community business partnership for export of concentrate from nearby Bing Bong port – Carpentaria Shipping Service was established in 1995 as a joint venture between Mawurli and Wirriwangkuma Aboriginal Association (MAWA) and P&O.
- Sponsorships and donations valued at around A\$50,000 per annum supporting a number of local education and environmental research projects, as well as community events and fishing groups

- A commitment of A\$600,000 in August 2005 towards a community swimming pool in the nearby town of Borroloola.

Committed to sustainable development

Across its global operations there is a total commitment within Xstrata to maintaining a safe and healthy workplace. Parallel to this, is an unwavering focus on effective environmental management and community engagement.

Xstrata Coal, for example, has developed a comprehensive climate change strategy aimed at reducing greenhouse gas emissions. It is investing A\$9 million in clean coal technology and carbon capture and storage research over five years, addressing power, fuels and fleet efficiency and utilizing coal seam methane in the generation of electricity.

The company is a participant in Australia's COAL 21 programme, a collaborative partnership between federal and state governments, the coal and electricity generation industries and the research community, aimed at fully realizing the potential of advanced technologies to reduce or eliminate greenhouse gas emissions associated with the use of coal in power generation.

Xstrata Coal contributes funds and expertise to significant Australian research programmes, including the Cooperative Research Centre for Coal in Sustainable Development and the Cooperative Research Centre for Greenhouse Gas Technologies.

Additional funds have been provided to these CRCs for a feasibility study into a near zero emission technology which if proven viable, will have global application in reducing greenhouse gas emissions from coal-fired power plants and for a pilot project for the storage of CO₂. Xstrata Coal also contributes substantial funds to the Australian Coal Association Research Programme for research, development and demonstration of technologies that lead to the safe, sustainable production and utilization of coal, including greenhouse gas mitigation.

Impact of regulation

Xstrata believes that the introduction of regulation to require companies to donate or set aside a certain proportion of profits to community initiatives would be viewed by the international investment market and by direct foreign investors as effectively an additional tax or royalty associated with operating in Australia. This would therefore be likely to impact negatively on Australia's continuing initiatives to attract foreign investment.

The voluntary adoption of CSR initiatives allows:

- greater innovation as companies strive for a leadership position in their industry; and
- a more flexible approach encompassing a wide range of responses tailored to different stakeholders and allowing companies to identify and seek to gain the business benefits associated with relevant and sustainable CSR programmes.

Appendices, available from the following website URLs

1. Xstrata plc Business Principles:
http://www.xstrata.com/reports/doc/x_bp_english_04.pdf
2. Xstrata plc 2005 Interim Report: http://www.xstrata.com/reports/doc/xta-ir2005_en.pdf
3. Xstrata plc 2004 Sustainability Report: <http://www.xstrata.com/hsec.php?s=2>
4. Xstrata North Queensland Sustainability Report 2004:
http://www.xstrata.com/reports/doc/xcu_qld_sus_2004.pdf
5. Xstrata Community Partnership Program North Queensland:
http://www.xstrata.com/reports/doc/xcu_hsec_community_partnership_program_2004.pdf
6. Xstrata Coal Launches its Corporate Social Involvement Programme (News Release, 20/4/05): <http://www.xstrata.com/news/200504201.en.pdf>
7. McArthur River Mining, Fact Sheet 4 – Open Cut Project: What it means for the NT:
<http://www.mcarthurriver.com.au/publications.html>
8. Minerals Council of Australia (MCA) Enduring Value Framework:
http://www.minerals.org.au/_data/assets/pdf_file/5514/19187_MCA_ev_booklet.pdf
9. MCA Enduring Value Guidance for Implementation:
http://www.minerals.org.au/_data/assets/pdf_file/5515/19520_MCA_ev_impl_booklet.pdf

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