A business perspective on voluntary standards

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A Business Perspective on Voluntary Standards

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Introduction

Thank you for the introduction and for the opportunity to speak today.

BHP Billiton has been given access to mineral resources and we recognise that with this privilege comes an obligation to protect the people and the environment in the areas where we operate.

So in the short time that we have today, I'd like to answer two key questions that will provide a perspective of BHP Billiton's views on the value of Voluntary Standards. These two questions are:

1) What is the business case for industry involvement in Voluntary Standards?

2) What makes for an effective Voluntary Standard from an industry perspective?

In answering these questions I will draw on several examples to illustrate what happens in practice in the resources sector.

What is the business case for industry involvement in Voluntary Standards?

BHP Billiton supports a selective number of voluntary standards. These standards include the International Council of Mining and Metal's Sustainable

Development Framework , the UN Global Compact, the Voluntary Principles of Security and Human Rights, and the Global Reporting Initiative.
Our corporate objective includes the creation of long-term value through the discovery, development and conversion of natural resources. We believe that supporting these standards is important if we are to deliver on our business objectives. How then do the standards help us?

1. License to operate

To create long term value we must ensure access to resources. We earn a license to operate from the communities and governments in whose countries we operate. If we and our peers do not adhere to reasonable standards around health, safety, environment and impact on communities, then we will lose our license to operate and, possibly, therefore our entire business.

2. Talent attraction and retention

Society as whole and, in particular, the younger generation, are increasingly aware of the contribution of industry sectors to overall social goals. If an industry is perceived to be lagging in its obligations to broader society then I believe that that industry will struggle to attract the best and brightest talent into the industry and its performance will suffer in the long term.

3. Gaining of competitive advantage as a preferred partner

Adherence to voluntary standards and implementation of initiatives designed to promote sustainable social, environmental and economic development can also make a company a more attractive business partner for governments and local communities. As governments and local communities generally own or control the resources, they decide who has the privilege to develop them.

So, our bottom-line performance is dependent on ensuring access to resources and securing and maintaining our licence to operate and grow. But industries' role has practical limits and boundaries.

Without a profitable business, companies will not invest in projects and the benefits to society from that investment, will not eventuate. Further, the role of government and industry are not the same. Obligations of governments should not be placed at the feet of industry, as it is poorly equipped to deal effectively with those issues. The business of business, is after all business.

What is BHP Billiton doing practically in this regard?

BHP Billiton's internal commitment, over and above our payments of taxes and royalties, is to spend 1% of our pre-tax profits on community development initiatives. In FY ended June 2007, this amount totalled over US$100 million.[1]

As part of our commitment to the UN Global Compact, we map this community investment spend against the UN Millennium Development Goals. We recognise that the intent of the Millennium Development Goals aligns with long term sustainability. It also presents a consistent global framework for measuring tangible progress in this area.

It is worth noting that of the US$103 million spent in the year to June 2007, about one-third - was spent on projects that can be accredited with helping to achieve the UN Millennium Development Goals.[2] Importantly, the majority of this spend was also at a local level in areas that directly benefit the communities in which we operate.

Key examples of this spend are our HIV/AIDS and Malaria programs in Southern Africa. By working collaboratively with governments, non-government organisations and industry we have helped to alleviate the local impact of two of the world's greatest health scourges.

Another useful illustration is our commitment to the Voluntary Principles on Security and Human Rights. The nature of some of the environments in which we

[1] Taken from BHP Billiton 2007 Sustainability Report, http://bhpbilliton.com/bb/sustainableDevelopment/socialResponsibility/2007Performance/communityInvestment.jsp
[2] Taken from BHP Billiton 2007 Sustainability Report, http://bhpbilliton.com/bb/sustainableDevelopment/socialResponsibility/2007Performance/communityInvestment.jsp

operate sees us needing to engage both public and private security forces to ensure the safety of our people and assets. However in protecting these key assets, it is also vital to ensure that the human rights of local community members are respected, and that protective services are administered without risk of abuse or excessive use of force.

In Colombia, for example, BHP Billiton has been involved in the training of security personnel at our Cerrejon joint venture coal mine to ensure that they understand and respect the principles of human rights and our commitments under the Voluntary Principles.

Another illustration of the benefits of voluntary commitments is our involvement in the International Council for Mining and Metals' Resource Endowment Initiative.

Many countries with an abundance of natural resources still tend to have less economic growth than countries without these natural resources. Many different reasons may be behind this and the Resource Endowment Initiative is designed to help identify and understand the factors that either inhibit or promote social and economic development linked to large-scale mining projects.

By supporting development initiatives in an environment of strong transparency, good governance and effective stakeholder engagement, we create the potential for new growth opportunities to be opened up. This benefits both our business and the local community.

In addition to the benefits experienced by our local communities, adherence to voluntary standards can also support improved operational performance and efficiency.

For example, improving energy efficiencies at our operations reduces both costs and greenhouse gases. This helps us to achieve Principle 8 of the UN Global Compact – that businesses should undertake initiatives to promote greater environmental responsibility.- while improving our company's bottom-line. One example of this at BHP Billiton has been has been the word's first project to demonstrate commercial power generation from mine ventilation air containing dilute methane.

This plant, which generates power from the combustion of methane collected from the ventilation air, was officially opened in New South Wales, Australia in September 2007. It will reduce greenhouse gas emissions by 250 000 tonnes of carbon dioxide equivalent per year.[3]

While these examples clearly present the benefits to our organisation from supporting voluntary standards; such support also brings with it challenges in developing effective standards, a topic which I would like to turn to now.

What makes for an effective Voluntary Standard?

In order for any voluntary collaborative attempt to be successful, I believe we need to achieve some basic objectives.

We need:

- a critical mass of companies to sign up
- industry, governments and society to believe that the standards chosen are appropriate
- some way of ensuring that standards committed to are actually adhered to on a consistent basis
- stable standards and rules and
- standards which are part and parcel of the core values of a company.

1. Critical mass of companies signing up

[3] See: http://www.bhpbilliton.com/bb/ourBusinesses/metallurgicalCoal/illawarraCoal/aboutillawarracoal/westvamp.jsp

In order to involve as many key players as possible there has to be broad agreement that it is in the collective business interests of that industry group to set and apply a set of standards. I have already discussed what I consider to be the business case on an individual company basis.

As it is generally the case that compliance raises operating and capital costs, if standards are applied inconsistently across the industry, economic disincentives for companies seeking to comply can be created. If the entire industry faces the same costs, the playing field is level, and adhering to standards will not create a competitive disadvantage.

2. Societal acceptance of standards

Standards must be set that are sufficiently high to meet societies objectives but are not overly harsh and create unnecessary obligations and delays for industry. The only way to achieve this is to ensure that there is a proper dialogue between industry players and society and government. If industry develops a voluntary code on its own there is a risk that the lowest common denominator may be chosen.

It is also true that if a voluntary standard is chosen by industry alone and it is too weak or not applied properly then governments or society may reject the concept of voluntary standards and seek to apply mandatory standards.

At this point the chance of an open dialogue which would lead to a fair outcome for both sides is significantly reduced. This in turn may stifle investment and innovation and all parties may become losers as a result of it. It is critical that there be engagement by civil society in the development of standards.

3. Discipline in application

If there is no regulation or discipline in accurate reporting, some companies may also choose to sign up to voluntary standards for public relations reasons without intending to ever really implement them.

When this happens, the credibility of the whole initiative is questioned, placing its value to both industry and society at stake.

Those against the notion of voluntary standards will argue that only mandatory standards will help to ensure a minimum amount of buy-in and disclosure while those for voluntary standards will argue that mandatory standards are often viewed as creating obligations that are overly onerous, discourage open dialogue around issues and stifle innovation. As I argued above, I believe that this then creates the scenario where insufficient sincere adherence to codes, whether mandatory or voluntary, is achieved, thus rendering the standard ineffective.

The outcome is that it's not an "either or" position but rather ensuring there is active and informed dialogue between society, government and industry so as to find the balance between regulation in certain high public risk or high public impact areas and allowing industry associations or individual companies to make decisions in other areas.

It is important to recognise that voluntary standards are not intended to replace a system of vigorous law enforcement.

While voluntary standards seek to ensure collaboration and engagement by a range of players across or within sectors, there is still a need for a solid regulatory base that ensures minimum standards will be met by all, regardless of their involvement with voluntary initiatives.

If governments are able to provide a basic regulatory framework that ensures minimum standards, voluntary codes can often add to and enhance social, environmental and economic performance by imposing standards of behaviour over and above the provisions of local laws.

4. Consistency of application

Exploration for and development of resources is a risky, capital intensive business. Pay backs are generally very long term and capital is invested upfront.

Thus the stability of the regulatory environment in whatever form it takes is very important to create a predictable background for making investment decisions. If regulations are changed regularly and without proper consultation, companies tend to increase the risk hurdle, which in turn discourages investment.

Having multiple stakeholders involved in the creation and adherence of both regulation and voluntary codes helps to increase the stability of both the social and regulatory landscape. This, in turn, helps businesses and governments alike to be better informed, more decisive and pursue growth opportunities with increased confidence.

5. Standards as part of the core values

The final point to consider is the importance of not separating the endorsement of voluntary standards from the core values of the organisation committing to them.

The most effective organisations are those based on shared values which are consistently applied across the organisation.

At BHP Billiton, our Charter expresses the core values of the Company and these values include integrity or “doing what we say that we will do”. In this context, that means we will only sign up to initiatives that we are fully prepared to implement. By being selective about these commitments, we ensure that our whole organisation can be committed to meeting these objectives.

At BHP Billiton, our Company Charter forms the basis for everything we do. Underpinning the values contained in the Charter is our Guide to Business Conduct.

The Guide is applicable throughout the Company, regardless of location or role, and is provided to employees and contractors, as well as to our key stakeholders (including, suppliers, business partners and governments). It clearly articulates our approach to appropriate business conduct. Our Charter and our Guide show that we care as much about how results are achieved as we do about the results themselves.

The Guide in turn is supported by a range of mandatory Company-wide policies, standards and procedures, including our Sustainable Development Policy and Health, Safety, Environment and Community, or “HSEC”, Management Standards. All our external commitments are mapped within the performance requirements of our HSEC Management Standards in order to ensure compliance by our sites. Site compliance is then regularly assessed through our rigorous internal auditing process.

Most importantly, our leadership is firmly committed to the values in our Charter and our Guide to Business Conduct. The demonstration of this commitment in behaviours is a critical factor for effectiveness. To be successful the behaviours demanded in voluntary codes must be lived constantly throughout the organisations that commit to them.

Conclusion

In summing up, we believe that, the business case for industry adherence to voluntary codes and initiatives is strategically vital and very compelling. While many may choose to frame the objectives of stakeholder engagement, sustainable development, community health and local economic development in moral terms, the reality for industry players is that they simply make good business sense.

Effective voluntary standards can add significantly to the achievement of the business case. However, standards must meet the objectives of both companies and society whilst at the same time being practical, consistent and universal in their application. The standards will never replace regulatory standards but can enhance the basic regulatory framework.

By proactively engaging with our host communities, governments and other key stakeholders and demonstrating our commitments in all that we do, business can strive to improve local conditions and opportunities in the areas in which we operate, and can also ensure robust and stable business performance.