

## **"AUSTRALIA'S LATEST EXPORT INDUSTRY : JOBS"**

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Let me open with some world perspective I think will interest you.

"If we could shrink the Earth's population to a village of precisely 100 people with all existing human rations remaining the same, it would look like this:

51 would be female; 49 would be male.

70 would be non-white; 39 white

70 would be non-Christian, 30 Christian

50% of the entire world's wealth would be in the hands of only 6 people, and all 6 would be citizens of the United States.

80 would live in substandard housing.

70 would be unable to read.

50 would suffer from malnutrition.

1 would be near death, 1 would be near birth.

Only 2 would have a college education.

No one would own a computer."

Anonymous

Economic progress depends on reasonable political stability combined with adequate individual freedom and protection of private property rights/investment capital. This introductory perspective on world conditions clearly suggests huge potential and reinforces my long term bullishness.

I have been asked to make some comments about "the global mining community from an Australian's view" and as a businessman I know that for Australia to receive a benefit from the global community, it must first make a contribution.

Only the government can reap without sowing. We must sow before we can reap.

Any country like Australia with a strong mining culture and heritage should have much to contribute to this value-adding process.

Mining really kicked Australia off in the middle of last Century and came to the West of Australia with the sensational gold finds of the 1890's. This precipitated a remarkable boom in Western Australian mining shares.

In 1895 alone, £50,000,000 was subscribed for Western Australia mining companies, which were being floated in London at the rate of one per day, for two years.

Converted into 1997 dollars, that one year's "raising" would be equivalent to around US\$13 billion.

Adding to the original gold booms we have subsequently had iron ore, nickel, coal and oil booms and the growing belief that Australia was destined for mineral greatness was reinforced in 1968 by the publication of Sir Harold Raggatt's "Mountains of Ore". Sir Harold was an enthusiast for the mining industry, having predicted in 1975 that mineral exports would overtake wool within a decade as Australia's major foreign-exchange earner. In the preface of his book he wrote: "I hope this book helps many Australians to catch something of the pioneering spirit that drives the mining men who are changing the face and economy of our country. We cannot all be pioneers in the same way as the miners, but we can support them by investing in exploration and mining companies. Every Australian who has money to spare for investment should have a stake in our mineral industry".

Hundreds of thousands of Australian investors have been more than happy with their mining investments in Australia and now with fierce competition from the emerging nations for development and exploration dollars, I'm tipping that the Australian Governments will ultimately be forced to abolish all policies that discourage investment in Australia, and this will set in motion the "mother" of all Australian mining booms.

Even with current policy impediments, Australia is doing reasonably well and it is interesting to consider what we could be achieving with good policy.

Australia recently passed the US to become the second largest gold producer in the world, with exports to reach 333 tonnes, worth A\$5.4 Billion (US\$4.2 Billion) in the financial year to June '97.

**AUSTRALIA'S GOLDEN GROWTH**

**3 tonnes in 1981**

**275 tonnes in 1996**

**3313 tonnes in 1997 (est.)**

figure 1.

Have you ever wondered where all this gold goes?

One surprising market is Dubai.

### **Where Does The Gold Go?**

**One source, DUBAI**

**took :-**

**37 tonnes in 1992**

**.316 tonnes in 1996**

figure 2.

The Australian Financial Review (March 11'97) reported on where some of Australia's gold goes.

Meanwhile, the Indian market was emerging as a large factor in demand. The amount of gold which can be imported by non-Indians has gone from 5kg every six months to 10kg. The result was a surge of imports, particularly from the Gulf ports (like Dubai), traditionally a source of gold for India.

"Passengers on commercial aircraft travelling from the Middle East to India are now being weighed to ensure that the planes can take off".

To maintain Australia's present rate of growth across so many diversified minerals, our industry is having to learn how to stand up and defend itself against the never-ending attack on property rights and economic freedoms. A principled defence of property rights requires the intellectual virtue of knowledge about liberty's "First Principles". It also demands the moral virtue of courage.

That's why our industry needs to develop many more, effective leaders who live by principle rather than living by the rules. Those who live by principle, know what's right without reading the fine print.

In that way our mining entrepreneurs, in addition to generating wealth, will also be continuing their great historical role as defenders of liberty in this quest to open up new markets in a competitive environment.

If we don't develop some such leadership quickly our present rate of success could be torpedoed by the "enemy within". Native Title, over-regulation and taxation in Australia are currently limiting exploration to safe mining titles around

existing operations and directing greenfields exploration for new mines to off-shore locations.

With that background, let me suggest a suitable alternative title for my comments :

"Governments on trial."

### Property Rights

Capitalism, or the free-market economy as it is often called, with its emphasis on personal responsibility, respect for individuals' rights, and protection for the fruits of one's labor, makes moral as well as economic sense. For an expanded study on this topic please refer to "The Morality of Capitalism" Ed. By Mark W Hendrickson (Foundation for Economic Education Inc N.Y.).

Both Socialist and free-market countries have property rights. The difference is that in socialist countries, the government owns and assigns them. In free-market countries, individuals have them and - what is especially important - can transfer them voluntarily through mutual agreement (refer guest editor Jane S. Shaw in the "Freeman" magazine whose Feb '97 issue examines property rights).

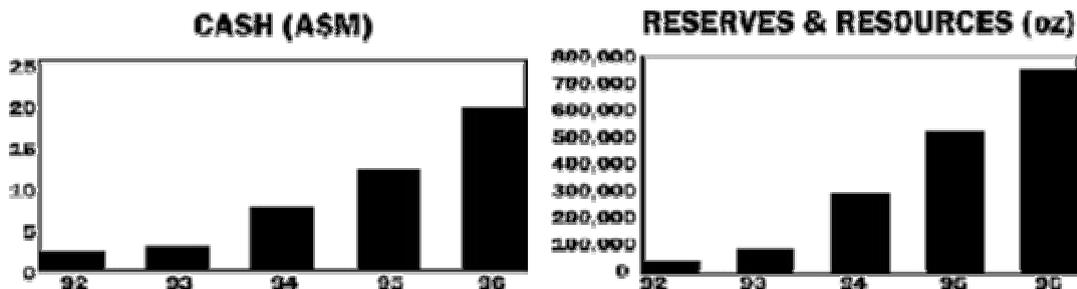
In the above context it is interesting to consider the Western Australian Mining Act which permits transfer of mining titles only with "consent by the Minister". An unfortunate inclusion in an otherwise excellent Mining Act that has been the model for several "emerging nations". Interesting to contemplate how this clause could be misused at the whim of "the Minister".

My comments explain why Australia will be more successful with this global-push, compared with earlier efforts in the 1970's.

We will look at two interesting books that are essential reading for all those interested in exploring or investing globally. Some criteria for selecting countries can be raised and we can ask what it is that makes certain nations wealthy ?

We will examine the tremendous responsibility resting on the shoulders of our industry, "to get it right", with our global activity, as we are amongst the most visible ambassadors of the free-enterprise system. We know that the economic benefits of the free-enterprise system, over socialism are obvious, but we will need to explain the moral benefits, and to demonstrate them to host countries.

But first, a quick word about Croesus Mining NL, a company that ten years ago developed out of my longer term prospecting activities. (See Figure 3).



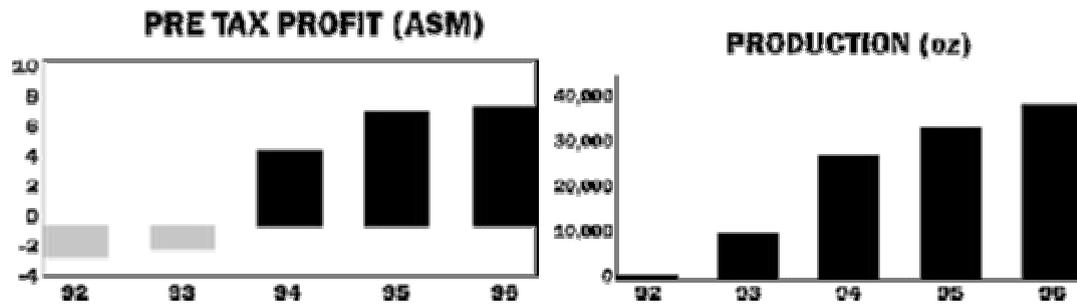


figure 3.

This good performance is now being threatened by the unworkable Native Title Act. Let me summarise its effect on us by quoting in part from my letter sent to Premier Richard Court.

Dear Premier

**RE: NATIVE TITLE AND THE COST TO OUR STATE**

Thank you for granting me an appointment last Wednesday. As requested I confirm in writing, my discussion with you, as follows:

**Brief Background**

Croesus Mining NL was formed by me 11 years ago and since formation it has been my total preoccupation to create a permanent contributor to our State's economy.

We have recruited an excellent management and technical team and we currently stand with eight years of economic gold ore reserves, 68 employees, 150 contractors, annual expenditure in WA of \$26M per annum (\$500 000 per week).

We have completed that design for a \$21M mill on site at Binduli, capital has been raised and this project has been publicly announced.

It can be said that we have done everything correctly to this point of time and to ensure our continuing success we have an annual exploration budget of \$7.2M

**The Snag**

All this exploration and planning and our shareholders investments are being diminished as our corporate strategy is being dismembered by Native Title problems.

The attached media release dated two days after our meeting explains that our project has been torpedoed due to "unresolved matters among members of one of the Native Title claimants". I explained to you the internal legal dispute between members of that group and the cause.

Premier, our story is only one of dozens throughout the State and my call for urgent political leadership in this matter is because my credibility, our Company's credibility and our States credibility are being damaged by this farcical situation.

I am being asked why we have spent \$10M in exploration and mill design on ground, on which we had legal and legitimate title from the State, but because of Native Title now impairing our title we are unable to prudently risk further shareholder funds. I am coming under attack from overseas shareholders in particular, who cannot understand how this impediment is allowed to stall projects at a time when they understand that Australia's unemployment rate is at unacceptable levels.

Our Company has taken every conceivable step to conclude negotiations with the various groups, even to the point of lengthy negotiations and considerable cash offers, however, their own internal problems prevent any resolution.

We are just grinding to a halt and last week 12 people were retrenched from our mine site and they understand clearly the reason.

The night before our meeting I spent some time with Senator Warwick Parer (Federal Minister for Resources) and my comments to him are summarised on the attached page. I left this meeting without holding any high hopes for political leadership to come from our Prime Minister or Federal Cabinet within a time frame that would encourage continued investment in mineral exploration in our country.

In the Kalgoorlie region I am aware of at least three mining projects about to close down because of Native Title complications.

From observing some of the heavy handed negotiating tactics it seems that mining projects are being hijacked, in much the same way that aircraft are often hijacked by terrorists. It is all about money, and how to extract more without earning it.

I have looked at the definition of "reconciliation" and nowhere can I find that it involves one group putting another group out of business.

In the longer term this hijacking of mining projects will have a detrimental effect on reconciliation.

One of the causes of the Native Title Act being unworkable is that it lacks a definition of "What is Native Title".

Some people interpret it to be the "right to hunt and gather" whilst other people interpret it to mean "the right to loot and plunder".

The net result is that Native Title problems are simply driving our industry's exploration effort offshore and my question is "How long will this nonsense continue?".

### **What Makes Certain Nations Wealthy?**

In my study of the "Comedy of Contradictions" on "how governments usually achieve the opposite to their intent", I find that governments usually ask the wrong questions.

In 1776, Adam Smith in his book "The Wealth of Nation's" turned his enquiring

mind to what it is that makes certain nations wealthy?

Smith didn't ask the question asked by governments ie "What is the cause of poverty, so we can declare war on it?".

He knew that poverty was the absence of wealth and the solution was to actively encourage wealth creation.

Now 220 years later this freely available knowledge still awaits discovery by so many governments.

On the same subject Hernando de Soto, the Peruvian Economist (Economist Magazine September 11 1993) explains why property rights are necessary before market economies can overcome poverty.

More recently the Washington Post published a four-page series (Jan '97) profiling the astonishing success of foreign private investment in improving the lives of the world's poor, highlighting the fact that economic liberty, not coercive redistribution, is the cure for poverty.

What amazes the Washington Post is that the multinational companies do not deliberately aim at creating a more prosperous world, this just happens as a "by-product" of their profit-seeking behaviour. Harvard Professor Debora Spar, dubs them "Accidental Ambassadors" of progress. "Just by virtue of doing what they do, setting up profit making enterprises, Spar notes multinationals improve labor conditions, economic conditions, and possibly even human rights".

## **Going Global**

As you can see, Croesus is actually a very parochial but profitable Australian mining company with a growth strategy in place. We can hardly be called "global", however we now have the people, the cash and the relationships to enable us to participate in these many new opportunities.

Incidentally Croesus has a remarkably international spread of shareholders, covering 35 countries.

Our largest shareholder is the Canadian based Eldorado Gold Corporation and our second largest shareholder is a South African living in New Zealand.

Of our 3,840 shareholders the country spread is :

Australia

HK\*/Singapore/Malaysia

UK/Europe

North America.

- One of our most interesting shareholders is the Hong Kong RSPCA (Royal Society For The Prevention Of Cruelty To Animals).

Last year one of my very good friends, one of Hong Kong's best-known financial commentators, Leon Richardson, died and left his Croesus shares to a bunch of sick dogs, in preference to letting his wife get her hands on them.

This is currently the subject of a very strenuous and very public legal dispute. (They say that any publicity is good publicity.)

Canadians and US miners may think they invented global strategies but many Australian mining companies were out there, blazing away back in the early 1970's.

This was at a time Australians were confronted with an aggressive socialist government and it was not uncommon to see a sign hanging in offices throughout the land;

"Will the last businessman leaving Australia, please turn out the lights".

The failure rate for these intrepid explorers was very high, for three reasons :-

- There was no mining legislation in many of these countries.
- There was no security of land tenure, and little understanding of property rights.
- The various governments actually didn't want us there.

I spent a fair bit of time in Indonesia in the mid seventies and can recall the difficulties being experienced by Australian companies in the South East Asian region, however times have changed and whilst many mining companies in that first push, may not have succeeded, the hordes of Australian consultants and contractors who left during those difficult years have flourished and expanded their networks worldwide.

Now you can't visit a mining centre anywhere in the world without being confronted with that characteristic Australian accent.

These consultants and contractors are Australia's front-line ambassadors and they make it so easy for, even Australian junior mining companies, to venture off-shore with a greater degree of confidence in this new wave of globalisation.

The three impediments from the 1970's have largely been removed in so many countries where they now have :

- New mining legislation.
- Security of title.
- The various governments of these emerging countries have clearly recognised that the real welfare and prosperity of their citizens is best served by encouraging investment and development. These emerging countries have seen by example that the phoney state-welfare schemes of so-called developed countries are failing miserably and have opted instead to actively encourage investment and development.

That's why this 1990's push overseas by Australians will be far more successful than the 1970's experience.

Australians have always excelled at innovation and this will strengthen their global efforts.

Globalisation is also the process of learning from each other.

When the temporary Australian impediments to investment and exploration became obvious to us in 1995 we realised we had to open our options and look elsewhere, without losing our main goal of expanding our Australian operations.

Simultaneously Eldorado and Gencor saw the time as being right to develop an increasing presence in Australia, as an ongoing process.

This relationship has been good for Croesus and Eldorado. Croesus has assisted Eldorado with an introduction to the peculiarities of dealing in Australia, and who better than the Eldorado/Gencor Canadian or South African combination could Croesus have chosen, to introduce us to the concept of globalisation...

### **Why Are Australians And Their Money Leaving Australia?**

Last year to June 1996 43% of Australia's exploration funds was diverted overseas, and it is estimated this year that it could be up to 62%.

This doesn't make sense when Australia has large tracts of relatively unexplored exciting geology, and large areas of old exploration areas that are responding favorably to modern techniques.

This doesn't make sense when we have a mining tradition and excellent State mining legislation.

This doesn't make sense when we have an unemployment rate of 10% and our youth unemployment rate is up to 30%.

This doesn't make sense when we have a record high level of bankruptcies, and especially those in the small business sector would welcome some encouragement to investment and development in Australia.

In the past we have been successful at overcoming all of nature's hardships, extremes of temperature, starvation and all natural disasters, but this time around we are confronted with a whole heap of man-made hurdles, so in a sense we are doing it to ourselves.

We are simply being driven out of our own country by bad policy, perhaps some of it being generated by well-meaning people who have no idea of the damage they are doing. Intentionally or unintentionally they are the enemies of development.

They range from left-wing editors and broadcasters right through to High Court Judges, who sometimes have great knowledge but little wisdom.

Unfortunately after many years of political indulgence, our High Court has too many Judges who do not take into account the link between what they decide and the prosperity of the nation.

I heard a joke recently...

Why are some High Court Judges like Halley's Comet?"

*"Because they too have spun out of touch with the real world."*

These people, collectively could be termed "enemies of industry". It involves all those promoting government regulation, high taxation and many special interest groups, usually government funded, who are very active in the indoctrination of the public.

They all remind me of World War II bomber aircrews; they simply pass by, drop their bombs and fly back home, without having much idea of the damage they have done. After all, those puffs of smoke, look harmless from a distance.

All their active intervention is like "plaster of Paris", if you put enough on, in the end, nothing moves.

In our industry, before any new project is contemplated, we need to conduct a "Government Penalty Impact Study".

If you add up all the costs and time involved in finding your way through the morass and on-costs of the 48 taxes we currently pay to Federal, State and Local Governments, and sift through the various approval processes, we sometimes find that there would be no money left to drill a few holes, and that, in the end is what our industry is all about,

Let me touch briefly on three particular impediments to production:

- Native Title Legislation (Mabo, or L.E.)
- Tax
- Royalties

### **Native Title Act (Mabo, Wik)**

Australia's exploration industry is suffering the consequences of the current conflict between the interpretation of the Native Title Act and the objectives of our various State Mining Acts. This conflict has serious implications for the resource industry, particularly in Western Australia.

Although the plot has been a long time hatching, the current crisis was caused by a High Court judgement in 1992 which declared a Native Title claim by one group of Aboriginal people to be common law. Following on from this ruling, the rights of Aboriginals in regard to land issues was later entrenched into the Statutes by the Native Title Act of 1993. As it is being enacted at present in Western Australia, the Native Title Act takes precedence over the Mining Act of 1978, except where a full Mining Lease has already been granted, in which case any Native Title claim is effectively extinguished.

The two main exploration tenements, the Prospecting Licence and Exploration Licence, now risk being invalidated by subsequent claims of Native Title. This is a serious retroactive attack on property rights, where funds have been raised and exploration proceeded with in good faith, and legitimate title.

There is a current back-log of about 6,000 Native Title claims awaiting processing.

The Native Title Act does not differentiate between vexatious, and false claims, as each is to be investigated.

Ever since the Mabo madness was invented, I've been running a file on it. I currently have two archive boxes full of material, but in summary it doesn't seem to make much sense as it hasn't helped anyone but the politicians (to get votes) and the lawyers (to get rich).

The Mabo native title legislation is probably another example of the Government achieving the opposite of their intent. The very people they set out to assist : the Aborigines, have been adversely affected.

Those Aborigines who have worked hard over many years to earn positions in productive Australia, have been knocked back down the ladder by the confrontationalist, compulsory nature of the Native Title Act.

Let me ask two simple questions:

1. How did it all start?
2. Can it possibly be "made to work"?

Trevor Sykes, one of Australia's most astute observers answered the first question in his Pierpont column (Australian Financial Review)

*The Native Title Act, introduced in a great rush so that El Presidente (the then Prime Minister Keating) could claim a bit part in the Year of the Indigenous People without worrying whether it was workable. The Native Title Tribunal is still trying to unravel the legislation.*

On the second question on whether such imperfect legislation can ever be made to work, let me refer you to the words of one of this Century's leading economic thinkers; Professor F A Hayek, when he was speaking of human attempts to rectify social injustices.

Hayek's judgement on political philosophers who abuse language is severe, but he acknowledges that the great majority of people who use the term "social justice" believe it is no more than an innocent expression of goodwill toward the less fortunate. Hayek contends that it is no such thing. Ultimately social justice is :

*Based throughout on the atrocious idea that political power ought to determine the material position of the different individuals or groups.*

*Most importantly Hayek acknowledges that past injustice can be rectified but he holds that unless such injustice is clear and recent, it will generally be impracticable to correct it.*

*In July 1996 the more recent Prime Minister Howard, sent his specially appointed Senator Nick Minchin to Western Australia on a fact-finding visit to investigate the adverse affect of the Native Title Act on Australia's mining industry, Australia's Aborigines and the Australian nation in general.*

*My submission to the Senator was as follows :-*

*"Whilst our mining industry is generally reluctant to "tell it as it is" for fear of creating an exodus of shareholders from our companies, we will be quite frank in our comments to yourself.*

*We have diverted a great deal of time and effort away from productive pursuits, in trying to understand this unworkable Native Title Act, which does not even give us a definition of what the Federal Government means by Native Title. This Native Title Act is adversely affecting the very people that it is supposed to assist. This ill-considered legislation is having the same effect as similar Canadian legislation, resulting in Canadian companies exploring everywhere in the world except Canada.*

*We still haven't managed to get this message through to our Prime Minister and Parliament. They still don't realise that exploration dollars and people are extremely portable.*

*Without some prompt action from Canberra, all Australians will be poorer as a result of Australia's mineral exploration dollars going elsewhere.*

*Let me make two personal observations.*

*Whoever drafted the Native Title Act obviously doesn't know much about training dogs.*

*Any person with a dog understands that punishment for a misdeed is only effective if such misdeed is clear and recent, otherwise you are wasting your time.*

*In the case of the Native Title Act, in their efforts to punish the Mining Industry it is certainly not clear what injustice with which we may have been involved and it is certainly not recent, so efforts to correct any perceived problem are entirely impractical and it is being inflicted at great cost to productive Australians.*

*The Mining Industry also objects to Canberra's efforts, through the Native Title Act, to shift this entire welfare burden onto the Mining Industry. All we ask of Canberra is to leave us with the freedom to mine and generate some urgently required export earning income for the nation.*

*At our company, Croesus Mining, each one of our team has generated over \$½ million of export earning income for Australia this year, so they are certainly doing their part to undo the damage being done by Canberra's heavy taxing and spending.*

*In my second personal observation, I note that there are less Aborigines productively employed in this region than there were in the mid-1950's and this tells me that expanding these welfare programs is not the answer.*

*What our company specialises in is a system of mentoring young people from all races and countries to increase their effectiveness.*

*We would like to see a greater number of newsworthy success stories evolve in respect to our Aboriginal population and we would be pleased to put some serious effort into a voluntary system of mentoring, rather than be part of this existing non-productive welfare charade.*

*We would welcome the opportunity of continuing a positive and constructive dialog with you, on this subject".*

*Of course, no positive and constructive dialog resulted.*

*Let me make it clear that my comments here, are not passing judgement on whether Native Title, (whatever it is), is good or bad, (we won't know until we find out what it is). I am simply stating that the legislation confronting Australia is unworkable and has degenerated from some supposedly high moral objective, to a form of economic terrorism.*

*We all know that going global exposes us to risks such as terrorism, whether it be physical terrorism or economic terrorism. In Australia we can be part of this economic terrorism without even leaving home.*

*In reality there is not much difference between hijacking an airliner and hijacking a mining project.*

*It's all about money, and how to get more of it without earning it.*

*There is a growing number of mining projects that have been hijacked in Australia and our nation and its people are much poorer as a result of the bad policy that has caused this.*

*The good news is that there has recently been another High Court decision, this time called the Wik decision. This one initially affected the farmers in the Australian State of Queensland. Its affect on all Australians is now becoming apparent (see Three stage Australian Map) So now we have miners and farmers confronting these problems. Hopefully the next High Court decision may involve golf-courses and football fields and then the average Australian will really become involved.*

*Footnote regarding the Native Title Act*

*"The Australian" March 27 '97 reports;*

*The former governor general, Mr Bill Hayden, has launched a denunciation of the Native Title Act, branding it as unreasonable, open to abuse and misuse and prone to generate jealousy and mistrust, warning that it will cause "national economic detriment".*

*Mr Hayden's considered remarks, drawing upon his experience of the act as chief negotiator in respect of the Century Zinc mineral project, are contained in an eight-page letter written to the Queensland Premier, Mr Borbidge, on March 21.*

*Mr Hayden warns that on these matters, "there is more anger and alienation out in the community than most politicians and media commentators appear to recognise".*

*"The Australian Financial Review" of the same date reports;*

*"In his March 21 letter, Mr Hayden said the present system gave "unrepresentative" native title claimants powers which "come perilously close at times to being extortion".*

## **Taxation**

*It is possible for Australians to pay up to 84% of their income as taxation in various forms.*

On the mining front Coopers & Lybrand have published figures showing that mining companies pay 48% of their profits in taxation.

This is a far cry from Bolivia's 13% top rate.

Some countries governments have heard that the factors of global competition are forcing tax gatherers to strike competitive rates. Even in Hong Kong where the corporate tax rate of 16.5% and personal top tax rate of 15% is now deemed to be an economic deterrent in the highly competitive Asian region.

At a budget briefing last March the Hong Kong government was urged by accounting firm Deloitte's to lower the corporate rate to 15% to stay competitive, because Singapore and Malaysia were offering concessions that effectively provided rates as low as 10% for some sectors.

Price Waterhouse and Arthur Andersen also submitted detailed proposals along the same lines.

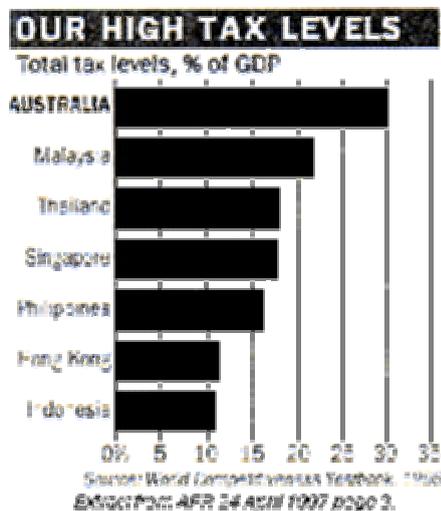


figure 5.

Graph from the Financial Review, Thursday April 24, 1997

Some of our governments don't know it yet, but competition between governments is here to stay and it is no longer mining companies who are on trial, it is governments who are trial today, as the pace of international bidding for investment and development dollars intensifies.

The Australian Government's response to being competitive in these issues is to compile a "Hit List" of Australia's wealthiest people, who they suspect may contemplate investing overseas, and subject these people to intense investigation.

Again, like most government actions it will only achieve the opposite to their intent. Government actions usually follow the law of "Perverse Consequences".

Our Government's recent action in declaring all Asian countries (other than Japan) to be Tax Havens and bringing any Australian dealing with them, under

*suspicion of tax avoidance, is as if to say "How dare you try to keep some of your own money".*

*About the only achievement governments of all kinds in Australia have made on the taxation front, is to make the taxation system so complicated that only the rich can afford to avoid it.*

*Their definition of the word "rich" is someone who can afford to avoid tax. Another more appropriate definition of "rich" is "financially unchallenged".*

*In all fairness to our taxation department they recently made a ruling that has raised some eyebrows.*

*In a burst of misplaced enlightenment last February they have ruled that bribes are tax deductible. (as long as you get a receipt)*

*This has astonished many observers who see it as discriminatory that bribes paid overseas are tax deductible whilst similar payments made in relation to Native Title issues remain non-tax deductible.*

*Discriminating against local bribes is almost unpatriotic.*

*To briefly summarise the taxation position let me state that no country can encourage a work ethic when its top marginal rates cut in so close to average weekly earnings, as they do in Australia. The dedication of tax authorities to make everything as complicated as possible is paralysing commerce generally and mesmerising our accounting fraternity, whose true role in life should be creating better business performance.*

## **Royalties**

*Most of us understand the concept of paying "royalties" to prospectors or companies who introduce prospects to our company. That all makes sense because without these people, we wouldn't have these particular projects. It is comfortable to make payments when value has been received.*

*In some countries Governments claim "royalties" or a share of equity in lieu of taxation, as a revenue-earner. That's OK as long as it's all out in the open and the rules are established before the game starts.*

*Where we must be careful is when we already see a dangerous level of taxation with yet further taxes being imposed.*

*In addition to the 48 taxes already paid by mining companies in Australia, the West Australian State Government is introducing yet another tax. This time they are pretending that it's not a tax, by calling it a royalty.*

*I think it was Shakespeare who said that :*

*"A tax by any other name still stinketh as much".*

*Most State and Federal Governments today spread the propaganda that the "people" own the resources of the nation or state and they, the party in power, as custodians of the resources of the "people", are entitled to charge a royalty for the use of the resource.*

*What this means is that Governments wish to claim even more tax.*

*Royalties are a hang-over from the old Feudal days when the King allegedly owned everything. In those days a Knight of the realm could lose his entire estate if he displeased the King. A peasant could lose his head if he displeased his Knight.*

*In the bad old days, there was not much in the way of mining done. Any such activity was only allowed if a royalty was paid to the Crown - and the Crown decided upon the amount of the royalty. It is easy to see why nothing much happened. Anybody who commenced to do well was soon put out of business by the Crown.*

*Let me give you a quick historical briefing on how royalties came to be abolished.*

*In England, soon after the death of Elizabeth, the struggle began between King and parliament. This culminated when William III and Mary became joint rulers, with their powers limited by a bill of rights, which later became the model for the American bill of rights.*

*Then the ascendancy of the House of Commons over the House of Lords followed, as well as the rise to power of the Whig party over the Tory party. The beginning of cabinet government followed as well as the independence of judges, regular meetings of parliament, the freedom of religious worship, parliamentary budget control of taxes and expenditures and in 1695 independence of the press.*

*The Whigs contemplated a government whose interventions on the individual should be purely negative in character. It should attend to national defence, safeguard the individual in his civil rights, maintain outward order and decency, enforce obligations of contract, punish crimes and make justice cheap and easily accessible. Beyond these negative interventions it should not go; it should have no coercive power to enforce any active interventions whatever upon the individual.*

*They worked steadily towards curbing government's coercive power over the individual; and with such an effect, as history shows, that by the middle of the eighteenth century Englishmen had simply forgotten that there was ever a time when the full "liberty of the subject" was not theirs to enjoy. In this connection the thing to be remembered is that the Whigs proceeded by the negative method of repealing existing laws, not by the active method of making new ones. They combed the statute book when they found a statute which bore against "the liberty of the subject" they simply repealed it and left the page blank. This purge of bad laws ran into the thousands. In fact, in 1873, the secretary of the Law Society estimated that out of the 18 110 acts which had been passed since the reign of Henry III, four fifths had been wholly or partially repealed - about 14 500.*

*Thus was the curse of royalties levied by the crown abolished.*

*It was the wisdom of the Whigs and their successors the Classical Liberals and their policies of negative interventionism, which was instrumental in turning a society of serfs into a nation of free men. The freest men in all of history. The repeal of the corrosive laws of active interventionism by the state, prying into ever facet of men's lives was one of the key factors which turned tiny England into Great Britain. It made them, through competition and free trade, the most*

*productive people in the world, they also became the most prosperous people in all of history, until 1914.*

*These were the fundamental elements of Australian and Canadian law on which our nations were founded.*

*But today, in the space of only a few generations certain "intellectuals" under the influence of Rousseau, Marx, the Fabians and Keynes and their disciples have made the about-turn complete. And today, not only in Australia, all over the world we have the people of almost every nation on earth suffering from the results of active government intervention, some from intervention in its most virulent form, socialism, which is total active interventionism.*

*Now the so called Liberal Government of West Australia is attempting to foist upon the gold mining industry, tired old cliches of socialism; "The people are entitled to something from the wealth which flows out of the ground of West Australia" says Energy and Minerals Minister Barnett. People like Mr Barnett want to build monuments to themselves in highly populated areas, to win votes from a grateful and subservient population. Build enough pyramids and you can destroy any society.*

*Let me tell you that any impediment in the form of tax, - any sort of tax or royalty - impedes this vital process. Tax the industry and the entrepreneurs beyond the point of endurance and the gold and other minerals stay in the ground, and jobs leave on the next flight. Resources don't benefit the world until somebody discovers them and then can profitably extract, process and sell them.*

### **THE BENEFITS OF FREE TRADE AND LOW TAXATION**

*To the theorists who promote the arguments of special interest groups, we can say, with impunity, that as well, in practice the classical liberal philosophy, of free trade, brings great benefits to the population of all countries or states.*

*There is no better instance than the relative barren granite island of Hong Kong. Hong Kong is only 1 072 sq. km (414 square miles), with a population of about six million. Hong Kong has no tariffs, no protection of any kind and no incentives other than free trade and low taxation. Its taxation rates have been 15% for individuals and 17.5% for companies. In 1991 Hong Kong exported \$US98 billion worth of goods.*

*Another great example is Singapore with only 620 sq. km (239 square miles) and about three million people, Singapore exported \$59 billion worth of goods, in 1991.*

*Let us compare this with Australia's three million square miles and 16 million people. A large and wonderful continent with many natural resources, and many industrious people. But Australia is loaded down with bureaucracy, tariff "protection" bounties, inflation, Qangos, special interest groups which monopolise privilege in many forms, union monopoly of coercion, heavy taxation etc, etc. Australia exported only \$US41 billion in 1991. Less than half of Hong Kong's exports, and \$18 billion less than Singapore.*

*Hong Kong and Singapore together, in fact, in 1991 out produced Sweden, Saudia Arabia, Mexico, Denmark and Norway, as well as Australia. And Hong*

*Kong alone, even out produced the U.S.S.R., Taiwan, China, Korea and Switzerland.*

*There is the result of the practical application of what liberation of trade and small efficient low taxing government can do for a country and its people.*

*Ronald Kitching*

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*El Mercurio de Calama. Antofagasta Chile 06/12/92*

### **The Good News**

*The good news is that this intense global competition for development funds will drive tax rates down and I draw your attention to two excellent books that give comparative statistics on taxation and all criteria for economic freedoms.*

*"1997 Index of Economic Freedom" and "Economic Freedom of the World"*

*No company or individual who is contemplating investing or exploring abroad should leave home without both of these books.*

*One is available from the Heritage Foundation in Washington and the Wall Street Journal and the other available from the Fraser Institute in Vancouver. (In Australia from the Institute of Public Affairs , facsimile number +61 3 9650 7627).*

*A study of books like these in conjunction with knowledge of how modern technology is allowing the instantaneous movement of wealth around the world is most encouraging. It shows how this will accelerate the growing trend of governments competing to attract and hold capital by lowering taxes, privatising state owned enterprises and de-regulating economies.*

*More Governments will seek the prize of bringing more wealth to their people.*

*Our Australian Government's can't afford to remain aloof from market forces for much longer and that is why we should never lose touch with the reality of retaining some good ground at home.*

*When the cycle turns and when investment funds start flowing back again we wouldn't look too smart if we couldn't dust-off some good drilling targets and participate to the full.*

*In closing, let me remind you of the importance of what you are all doing. i.e. Being Productive & Creating Wealth*

*Through your very portable expertise and investment funds you have the ability and opportunity to create wealth for people in every part of the world.*

*Enlightened governments that recognise the importance of wealth generation, instead of attempting to carve up an ever diminishing pie, will see you as true agents of change in this coming libertarian revolution.*

*As agents of change you are capable of becoming true artists, and as Aristotle once said;*

*"The business of every art is to bring something into existence".*

*What you are doing is more important than you realise, and the world we all share, wishes you every success.*

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