

THE ARGYLE DIAMOND FLOAT

The role played by any government stake holder in the Argyle Diamond venture would be bad; it is therefore good that the Government is selling its five percent interest, and a pity that through a trust arrangement, it will retain some influence. There are disquieting features of the way the Northern Mining shares have been handled which should not be repeated with another company.

Three things are wrong with a Government holding small stakes in Western Australian ventures. First, governments are poor speculators, with an unhappy record of backing losers with taxpayers' money. One or two wins will not change the record. A gambler playing with another's money experiences the wrong incentives.

Second, the Government's influence with the Argyle management is likely to be uncommercial. Interposing a "Development Corporation" between the Government and the Company does make government influence less than inexorable, but in a tight election a diamond mine in a marginal seat is a pawn. A five percent holding acquires much more than a five percent voice when the holder is the company's landlord, tax gatherer and law giver.

Third, government should be seen to be above commerce, impartially and justly administering the law. When Argyle Diamond Mines competes with another, will everyone see this Government as a disinterested law giver ?

When the shares of Northern Mining were purchased for \$42 million it was widely said that too much was paid. In the light of the sum for which the shares are now underwritten that claim, although still unrefuted, does not sound as likely. None the less it remains against the interest of good government, which ideally rests on trust, that reputation for impartiality should be further prejudiced.

The shares now to be sold back to the public for \$60 million have acquired an unusual attribute which enhances their value. By guaranteeing investors an 8% return on their investment for seven years the State Government has, as agent for the taxpayer, accepted a contingent liability. The West Australian taxpayer is to make what would have been a speculative investment, into a one-sided bet.

The W.A. taxpayer is to carry the risk of a fall in the diamond market, excessive industrial action or just miscalculation. We can all remember that

only four years ago market specialists predicted that the OPEC cartel would continue to force the price of oil skywards; yet oil prices fell. We cannot be sure that the De Beers run diamond cartel (CSO) will be any more successful than OPEC in the face of unforeseen events.

Labor Party politicians have been highly critical of farmers who formed untaxed trusts which enabled them to retain control of assets while distributing income to others with lower marginal tax rates. Unless the Taxation Commissioner should rule that the W.A. Diamond Trust is a "device" to avoid tax, and taxes it at normal company rates, then the State Government is facilitating tax avoidance. There can be no doubt that an avoidable tax act is bad law but, please let us never hear another hypocritical squeak from the Labor politicians about the "immorality" of tax avoidance.

It should not be imagined that the Government has made a commercial profit from trading the diamond stock. The taxpayer has provided a contingent subsidy while the Government held the shares. In effect, the "profit" was a rather sneaky tax.