IMPROVING AMERICAN MINING’S COMPETITIVENESS

Thursday, December 8, 2011

Grand Hyatt, Denver, Colorado

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The Fraser Institute Mining Survey 2010/2011
(Fred McMahon and Miguel Cervantes, coordinators)

Providing valuable information to the mining industry and policy makers since 1997 on political risk by examining 15 policy areas such as taxation, regulation, land claims, etc.
The Survey

- Sent to 3,000 executives at exploration, development, and mining consulting companies
  - Asked to respond only for jurisdictions which they know
- Responses from 494 executives
- Representing $2.43 billion in exploration spending in 2010
- 79 jurisdictions rated.
Highlights: International

• Alberta is 1\textsuperscript{st}, Nevada 2\textsuperscript{nd}, and Saskatchewan 3\textsuperscript{rd}
• Chile tops Latin America and is in the top 10 globally at 8\textsuperscript{th} place.
• Also in the top 10 are Quebec, Finland, Utah, Sweden, Manitoba, and Wyoming
• Botswana tops in Africa at 14\textsuperscript{st} overall.

• What doesn’t fit?
• The worst performers are:
  Honduras, Venezuela, DR Congo, Bolivia, Guatemala, India, Madagascar, Wisconsin, Zimbabwe, and Indonesia.
The Future of Competitiveness?

US-International Comparisons
Increasing Uncertainty/Hostility Index

-100%  -80%  -60%  -40%  -20%  0%  20%  40%  60%  80%  100%
Oceania  Canada  Australia  Eurasia  USA  Africa  LatAm

Would not invest
Strong increase
Mild increase
Less Hostility
Neutral

USA

Colorado
Uncertainty/Hostility Index
A couple surprising slides
Uncertainty/Hostility Index

Better/Neutral

Worse

Less Uncertainty
Neutral
Mild increase
Strong increase
Would not invest

World

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Policy Potential Index

• A composite index of the 15 policy areas we examine

• 0 is worst policy; 100 is best
Policy Potential Index
All this is about sensible regulation and taxation structure, not political viewpoints.

Sweden is in the top 10 as was Saskatchewan, under the NDP (Canada’s Social Democrat Party), and currently NDP Manitoba.
We’ll look at US jurisdictions and a selection of international jurisdictions to make the presentation visually manageable.
Let’s Drill Down:

Individual Policy Areas

Here we look at “detriments” to mining.

So lower scores indicate mining friendly policy.
The Good, the Bad, and the Ugly

Knowledge of the problems is the key step to improving competitiveness

First the Good.
SECURITY (includes physical security due to the threat of attack by terrorists, criminals, guerrilla groups, etc.)

![Graph showing security levels for various states.

- Mild deterrent
- Strong deterrent
- Would not invest]
SECURITY (includes physical security due to the threat of attack by terrorists, criminals, guerrilla groups, etc.)

- Colorado
- Australia
- Manitoba
- Canada
- USA
- Nevada
- British Columbia
- Chile
- Botswana
- China
- Brazil
- Colombia
- Zimbabwe

- Mild deterrent
- Strong deterrent
- Would not invest
INFRASTRUCTURE (includes access to roads, power availability, etc.).
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SOCIOECONOMIC AGREEMENTS / COMMUNITY DEVELOPMENT CONDITIONS (includes local purchasing, processing requirements or supplying social infrastructure such as schools or hospitals, etc.)
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- Mild deterrent
- Strong deterrent
- Would not invest
TRADE BARRIERS
TARIFF AND NON-TARIFF BARRIERS:
RESTRICTION ON PROFIT REPATRIATION,
CURRENCY RESTRICTIONS

- Mild deterrent
- Strong deterrent
- Would not invest

Alaska South Dakota Arizona California Colorado Montana Nevada Idaho Wyoming New Mexico Washington Minnesota Utah Michigan Wisconsin

Colorado
UNCERTAINTY CONCERNING DISPUTED LAND CLAIMS.

- Mild deterrent
- Strong deterrent
- Would not invest


Colorado has the highest percentage of would not invest, followed by California and Washington.

Colorado is indicated by a specific marker on the chart.
UNCERTAINTY CONCERNING DISPUTED LAND CLAIMS.
AVAILABILITY OF LABOUR / SKILLS

- Colorado

- Mild deterrent
- Strong deterrent
- Would not invest
The Bad
Legal System
Legal processes that are fair, transparent, non-corrupt, timely, efficiently administered, etc.

[Bar chart showing a comparison of legal deterrent effectiveness across various states.]

- **Mild deterrent**
- **Strong deterrent**
- **Would not invest**


- **Colorado** indicated with a specific bar chart section.
Legal System
Legal processes that are fair, transparent, non-corrupt, timely, efficiently administered, etc.
Mining’s alternate reality: Legal System

• Miners rate Washington state’s legal system worse than Viet Nam’s (and just ahead of Romania’s)
  – Remember Gabriel
• Wisconsin is rated worse than Bulgaria (and just ahead of Mali)
  – Remember Dundee
• California is rated worse than Mexico (and just ahead of Zambia)
• Colorado does alright, between Victoria and Nunavut
TAXATION REGIME (includes personal, corporate, payroll, capital, and other taxes, and complexity of tax compliance)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Botswana  Chile  Manitoba  Canada  Nevada  Colombia  British Columbia  USA  Brazil  Colorado  Australia  China

Mild deterrent  Strong deterrent  Would not invest
QUALITY OF THE GEOLOGICAL DATABASE
(includes quality and scale of maps, ease of access to information, etc.)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Utah Nevada New Mexico Arizona Alaska Idaho Michigan Montana Colorado Wyoming Minnesota California Washington South Dakota Wisconsin
Mild deterrent Strong deterrent Would not invest

Colorado
QUALITY OF THE GEOLOGICAL DATABASE
(includes quality and scale of maps, ease of access to information, etc.)

- Mild deterrent
- Strong deterrent
- Would not invest

Countries and their Quality Levels:
- Australia: 0%
- British Columbia: 0%
- Ontario: 0%
- Canada: 0%
- Nevada: 0%
- Chile: 0%
- Colorado: 0%
- USA: 0%
- Botswana: 0%
- Brazil: 0%
- Colombia: 0%
- Zimbabwe: 0%
- China: 100%
The Ugly

Uncertainty
UNCERTAINTY REGARDING THE ADMINISTRATION, INTERPRETATION, OR ENFORCEMENT OF EXISTING REGULATIONS

Colorado

Mild deterrent  Strong deterrent  Would not invest

UNCERTAINTY REGARDING THE ADMINISTRATION, INTERPRETATION, OR ENFORCEMENT OF EXISTING REGULATIONS

- Mild deterrent
- Strong deterrent
- Would not invest

Chile Botswana Colombia Brazil Nevada Canada Australia British Columbia USA China Colorado Zimbabwe
UNCERTAINTY CONCERNING ENVIRONMENTAL REGULATIONS

Mild deterrent  Strong deterrent  Would not invest

[Bar chart showing the uncertainty concerning environmental regulations for various states. Each state is represented by a bar divided into three segments indicating mild deterrent, strong deterrent, and states would not invest.]

- Nevada
- Utah
- Alaska
- Arizona
- Idaho
- New Mexico
- Minnesota
- Michigan
- South Dakota
- Montana
- Colorado
- Washington
- California
- Wisconsin

- Colorado is highlighted with a separate indication on the chart.
UNCERTAINTY CONCERNING ENVIRONMENTAL REGULATIONS

- Mild deterrent
- Strong deterrent
- Would not invest

Countries and percentages:
- Botswana: 0%
- Chile: 10%
- China: 20%
- Nevada: 30%
- Colombia: 40%
- Brazil: 50%
- Canada: 60%
- Ontario: 70%
- Australia: 80%
- Zimbabwe: 90%
- USA: 100%
- British Columbia: 0%
- Colorado: 90%
REGULATORY DUPLICATION AND INCONSISTENCIES (includes federal/provincial, federal/state, inter-departmental overlap, etc.)
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- Botswana
- Manitoba
- Nevada
- Colombia
- Australia
- Canada
- Brazil
- Chile
- China
- USA
- British Columbia
- Colorado
- Zimbabwe

- Mild deterrent
- Strong deterrent
- Would not invest
UNCERTAINTY CONCERNING WHAT AREAS WILL BE PROTECTED AS WILDERNESS, PARKS, OR ARCHEOLOGICAL SITES

[Bar chart showing the percentage of states with varying levels of uncertainty for Colorado]
UNCERTAINTY CONCERNING WHAT AREAS WILL BE PROTECTED AS WILDERNESS, PARKS OR ARCHEOLOGICAL SITES.
The Key to Improving US Competitiveness

Reduce Uncertainty

And here’s why everyone should agree from the most gung-ho miner to the most fervent but sincere environmentalist.
Why is Mining Policy Important: An international case study
Poverty and Mining Policy

• Mining policy is often shaped by a call to help the poor and nationalize resources in their name.

• Nations that adopt such policies tend to do so for both the mining sector and for the overall economy, with suspicion of the private sector.

• Similarly, anti-mining activists, usually from rich nations, will try to mobilize local opposition to mining development on the grounds mining does not benefit the poor.
Time for Facts

So the important question for government and the mining industry is:

- What policies reduce poverty and create prosperity – in other words, what policies are most **economically and socially responsible**?

  - Free market policies that favor private investment including in the mining industry
  
  - Government directed economies and expropriation of resources “for the people”

  - Blocking mining development
A Latin America Example: Reducing Poverty

• Chile remains a world leader in the mining survey and has a market friendly economy
• Brazil, Peru, and Colombia have mediocre scores from the mining community and a weaker commitment to markets than Chile.
• Which approach has best served the people, particularly the poor?
Mining survey score

Chile  Brazil  Peru  Colombia
Commitment to free markets

- Economic Freedom index, a collaboration of institutes in 76 nations and territories, including Israel and the Gaza strip, Georgia and Russia, Colombia and Venezuela.
- Described as the “best available description … of efficient markets” by Nobel Laureate Douglass North.
- Used by the IMF as its key measure of market institutions in its report, “Building Institutions”
- So it is a strong measure of commitment to markets
Economic Freedom Score

Chile  Brazil  Peru  Colombia
So what works for economic growth and poverty reduction?

Chile’s market-friendly, mining-friendly approach?*

Or weak markets and an often mining hostile regulatory environment

* While few would approve the way market reforms were adopted in Chile, the benefits for the people of Chile have been so large that successive democratic governments have maintained these policies.
Per capita GDP: Constant US dollars

- Brazil
- Chile
- Peru
- Colombia
Free markets/mining policy achievements

• Chile began the period with about average per capita income in South America.
• For a quarter century, its relative situation did not improve and, in fact, it fell behind Brazil.
• With the reforms of the 1980s, Chile’s economic growth took off like a rocket.
But, what about the poor and other indicators of social well-being
Percent in poverty
$2 a day: 2007

Chile: 5%
Brazil: 15%
Peru: 20%
Colombia: 30%
Some history:
Percent in poverty $2 a day
(Constant dollars, so discounted for inflation)

[Graph showing the percent in poverty $2 a day for Chile, Brazil, Peru, and Colombia from 1987 to 2007.]

Well, that’s a surprise

- The most market/mining friendly economy in Latin America has achieved stellar growth.
- It’s reduction in poverty has been astonishing and swift.
- $2 a day poverty has almost disappeared in Chile.
- More progress is needed but the same good story would be seen in virtually all indicators of well-being for market/mining friendly Chile as opposed to other Latin American nations.
The best social program of all:

• A job – mining provides jobs.

• Some history of economic development—Canada, United States, Australia, New Zealand, …and now Chile and Botswana
Thank you for the Opportunity

The Fraser Institute
Annual Survey of Mining Companies

Available for free download at

www.fraserinstitute.org