



# IMPROVING AMERICAN MINING'S COMPETITIVENESS

**Thursday, December 8, 2011**

**Grand Hyatt, Denver, Colorado**



Fred McMahon

Vice-President Research, International

The Fraser Institute



# 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



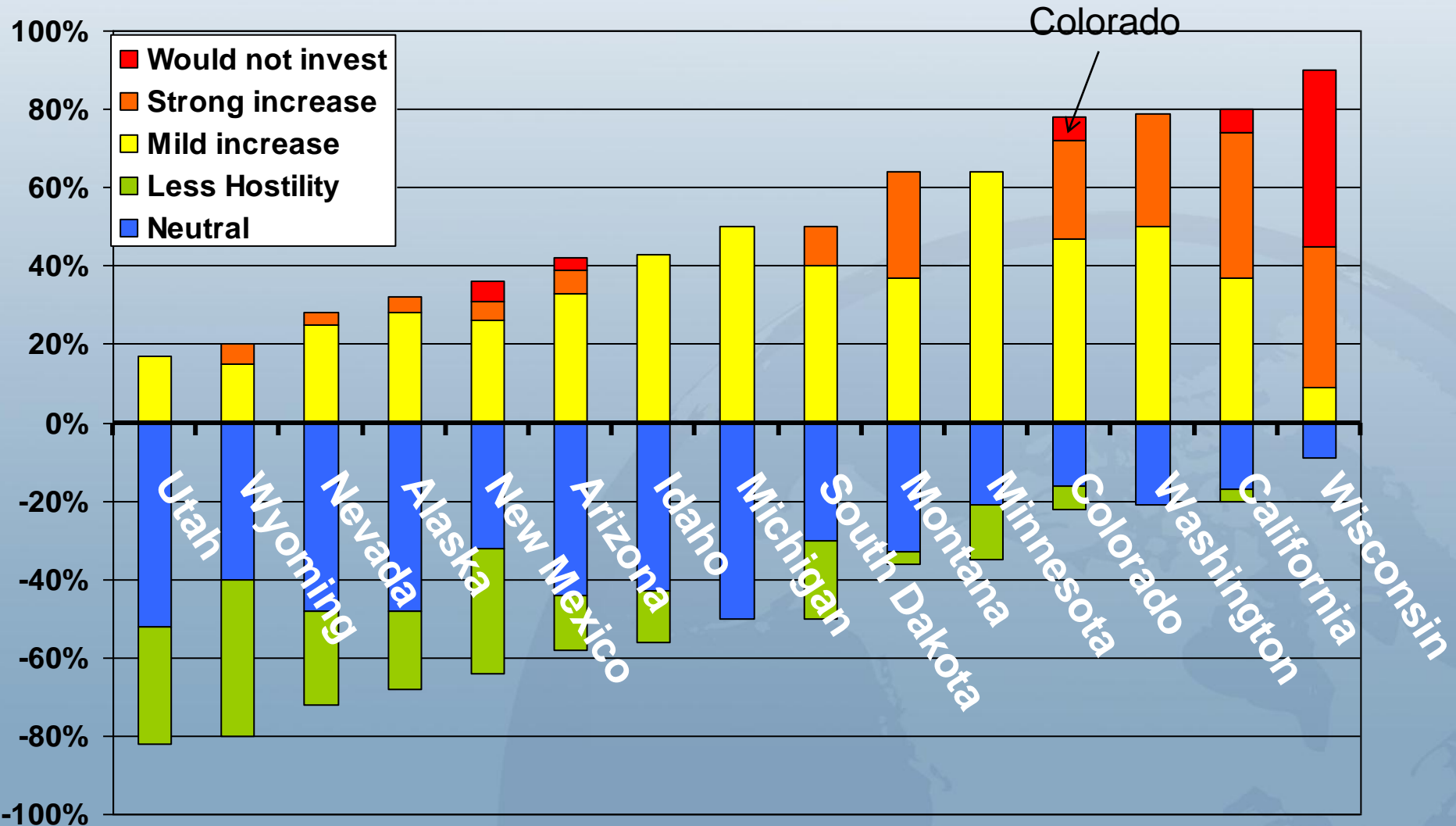
- Alberta is 1<sup>st</sup>, Nevada 2<sup>nd</sup>, and Saskatchewan 3<sup>rd</sup>
- Chile tops Latin America and is in the top 10 globally at 8<sup>th</sup> place.
- Also in the top 10 are Quebec, Finland, Utah, Sweden, Manitoba, and Wyoming
- Botswana tops in Africa at 14<sup>st</sup> overall.
- What doesn't fit?
- The worst performers are:  
Honduras, Venezuela, DR Congo, Bolivia, Guatemala, India, Madagascar, Wisconsin, Zimbabwe, and Indonesia.

# The Future of Competitiveness?

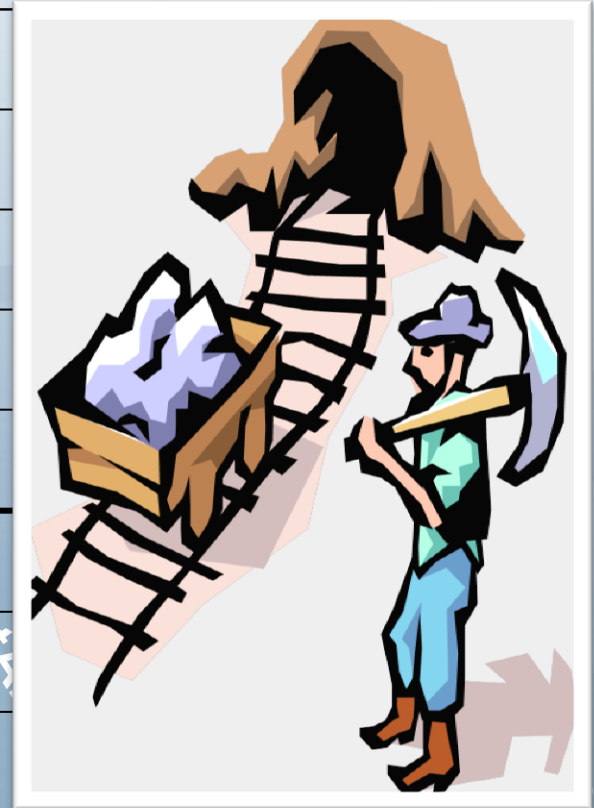
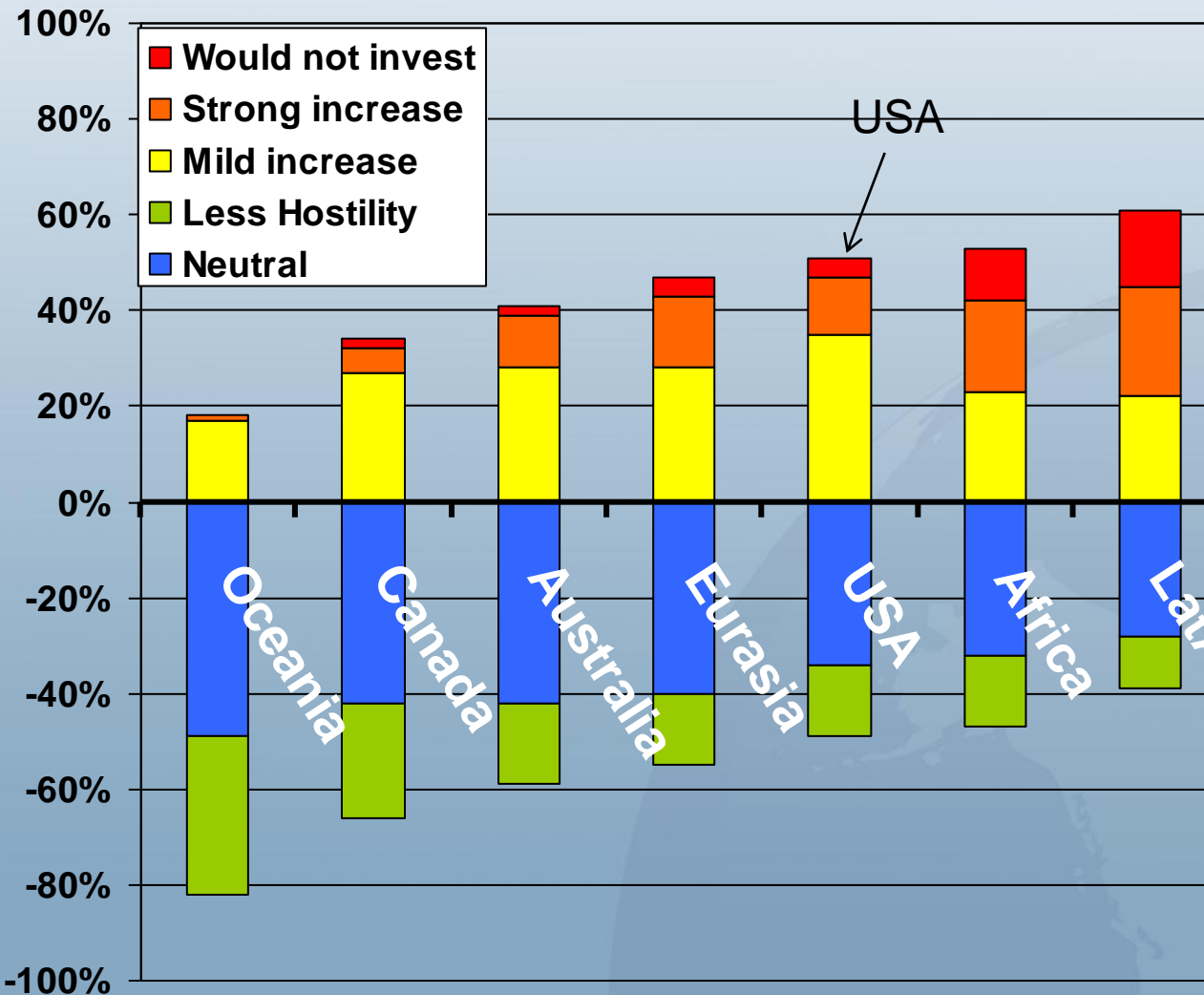
## US-International Comparisons

A faint, light blue world map is visible in the background, centered behind the text. It shows the outlines of continents and is partially obscured by the text.

# Increasing Uncertainty/Hostility Index



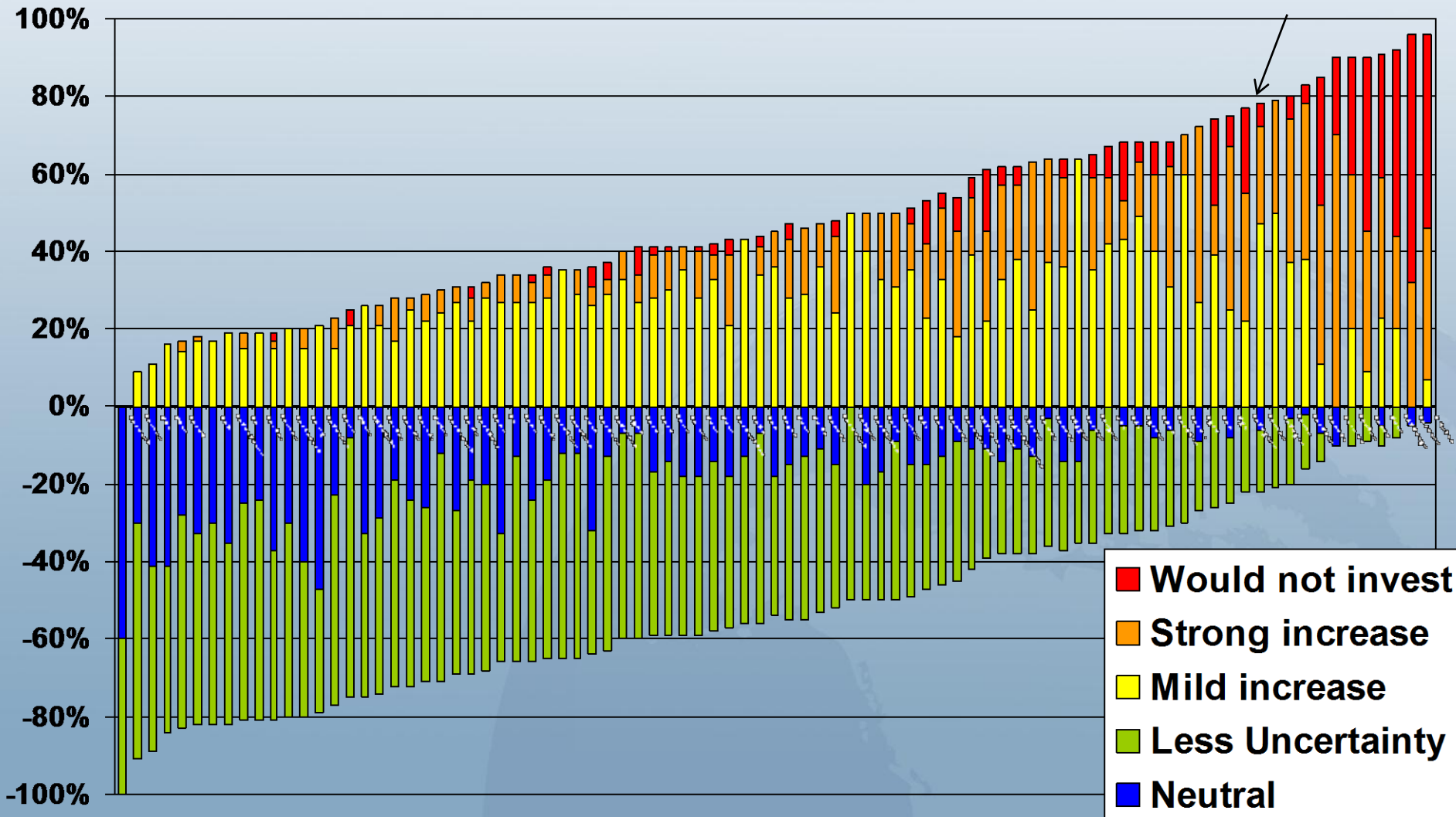
# Increasing Uncertainty/Hostility Index



# Uncertainty/Hostility Index



Colorado

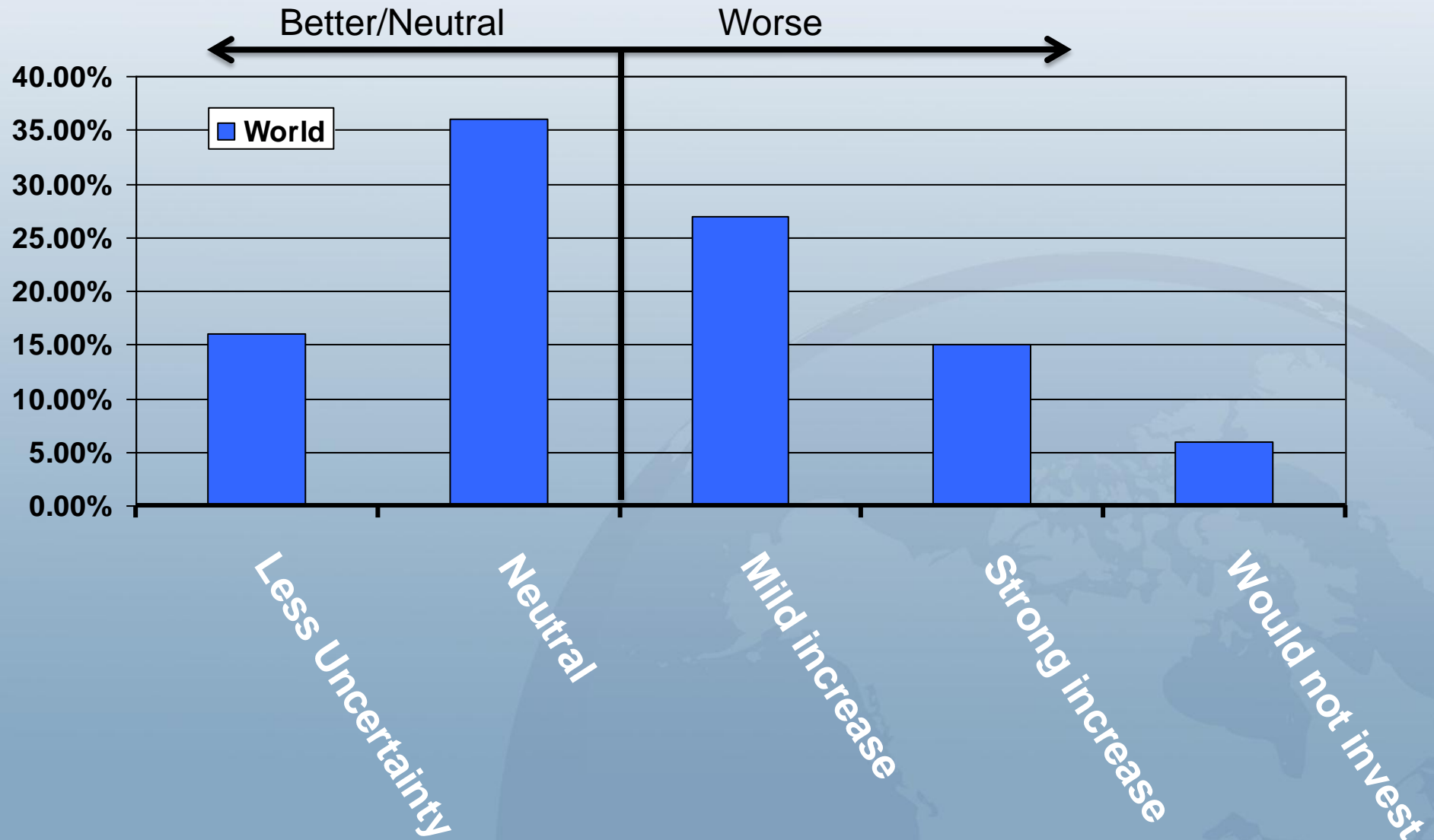




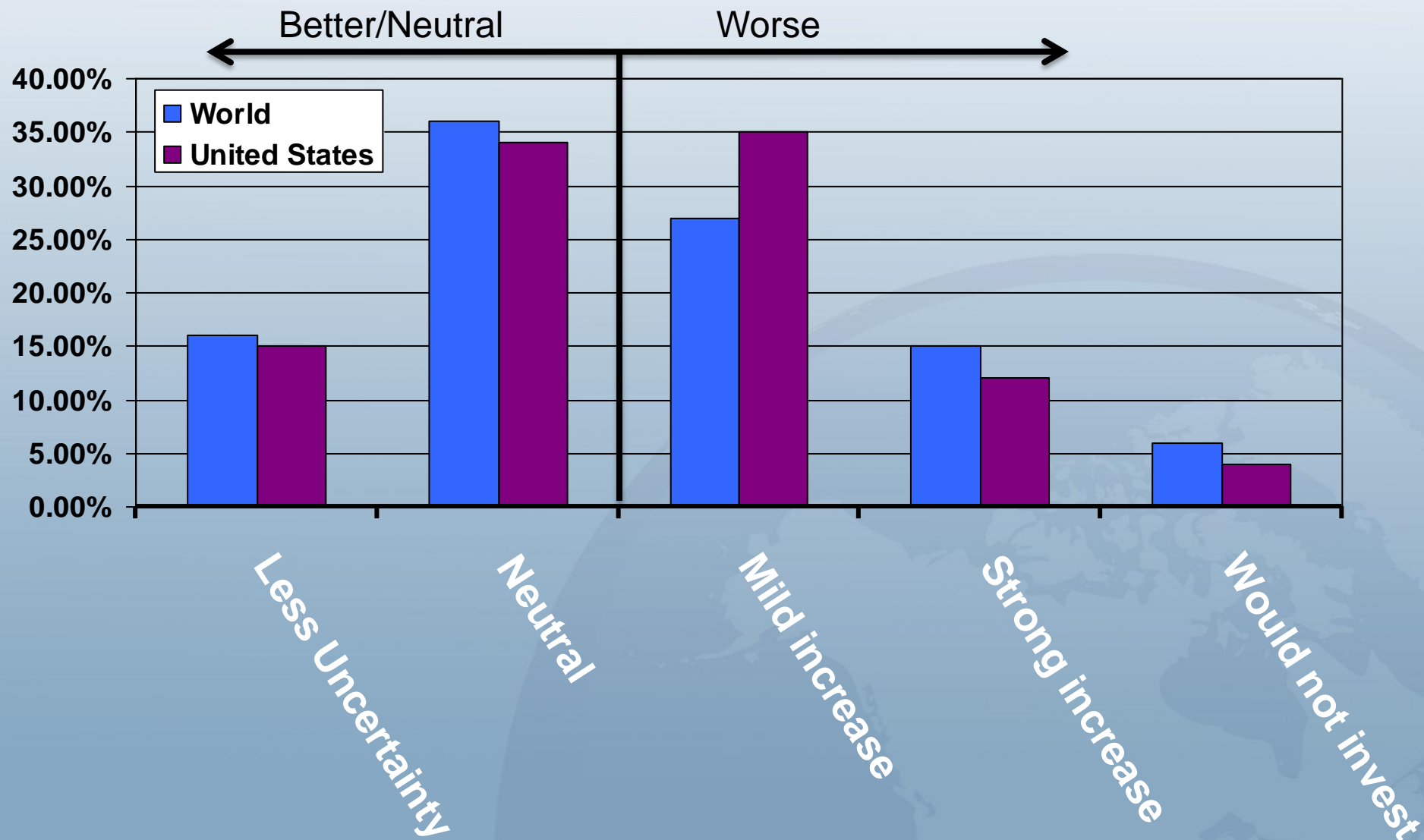
# A couple surprising slides

A large, faint, light blue globe is visible in the background, showing the continents of North and South America. The globe is centered in the lower half of the slide and is semi-transparent, allowing the text to be clearly visible over it.

# Uncertainty/Hostility Index



# Uncertainty/Hostility Index

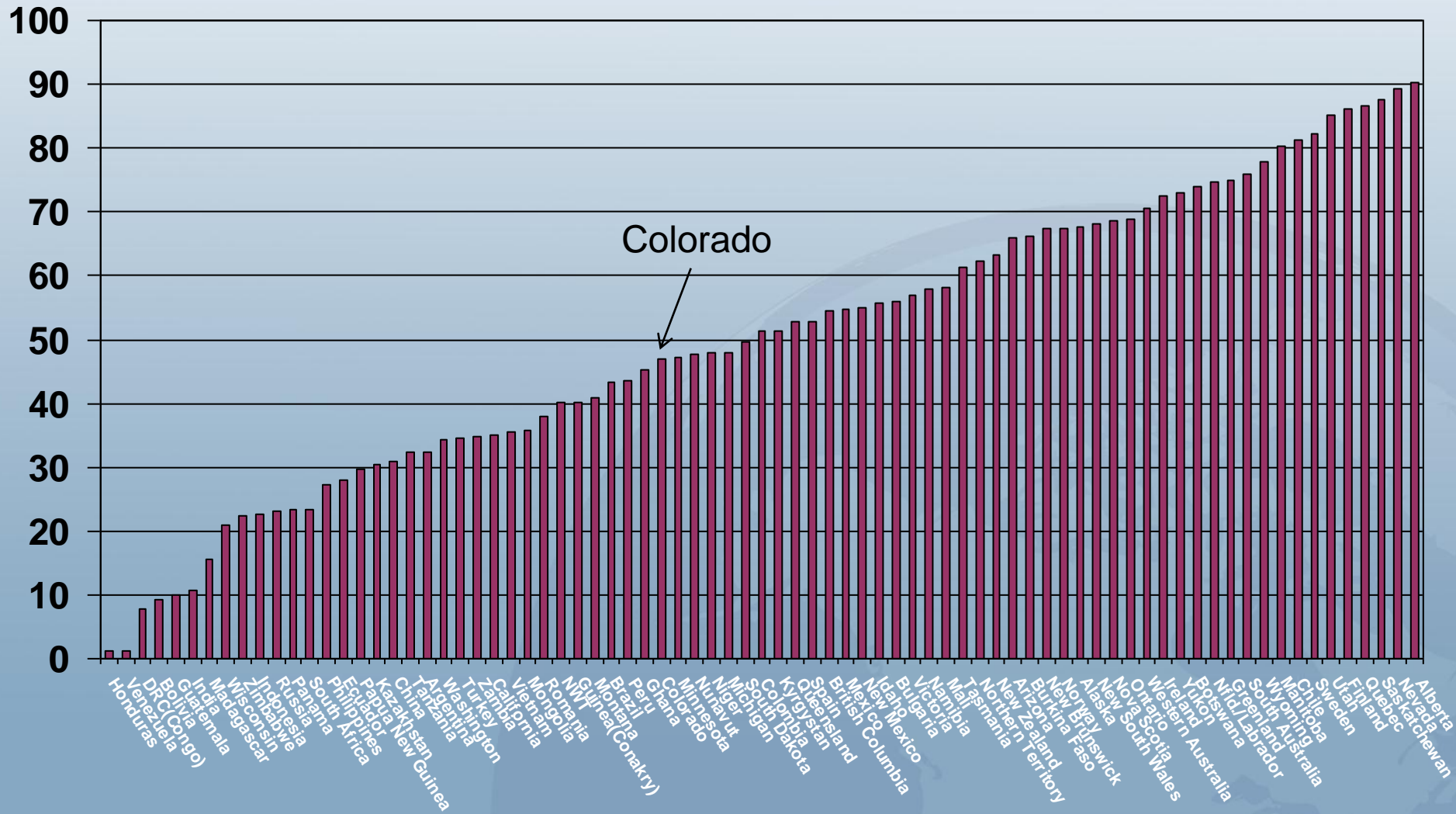


# Policy Potential Index



- A composite index of the 15 policy areas we examine
- 0 is worst policy; 100 is best


# Policy Potential Index



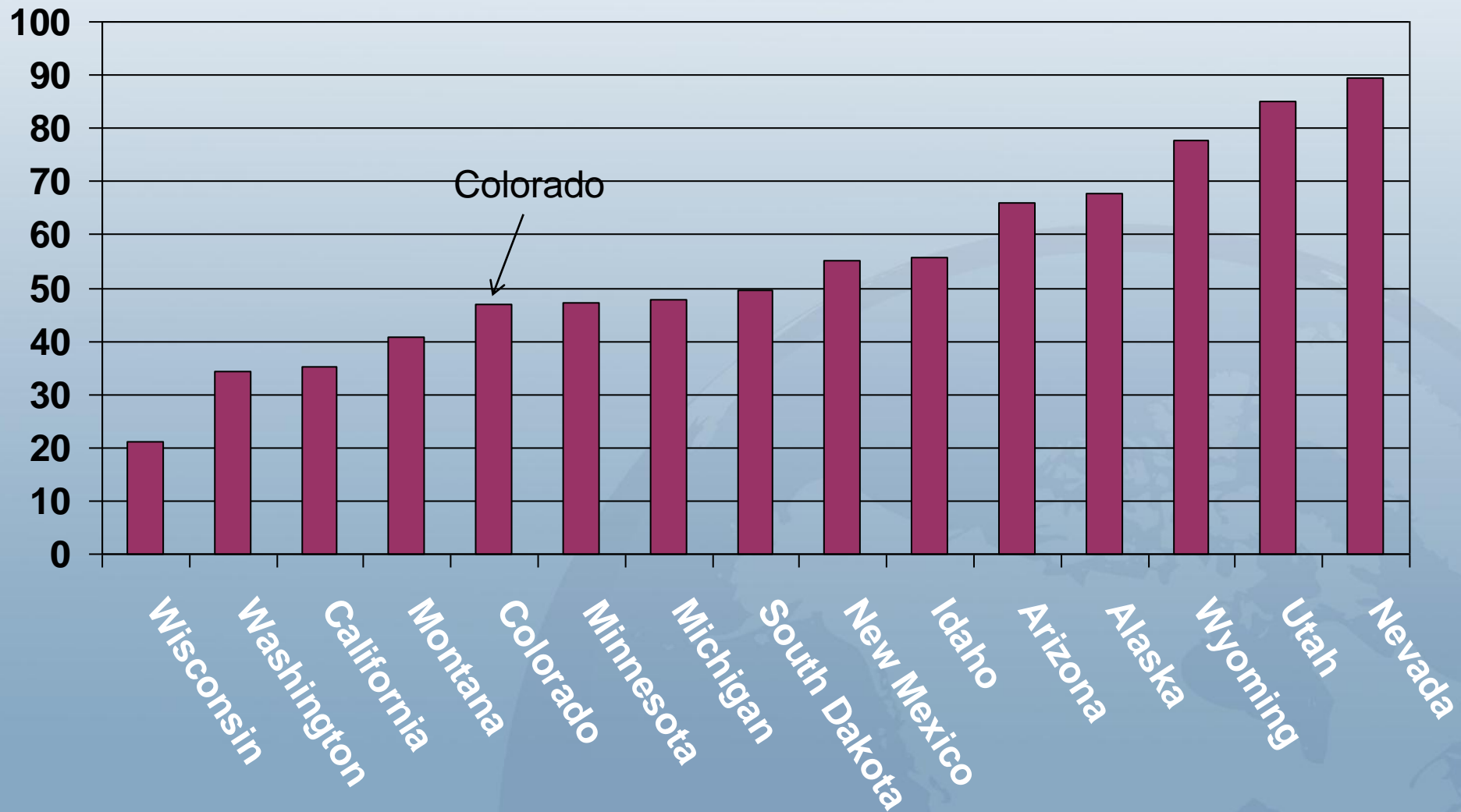
All this is about sensible regulation and taxation structure, not political viewpoints.

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

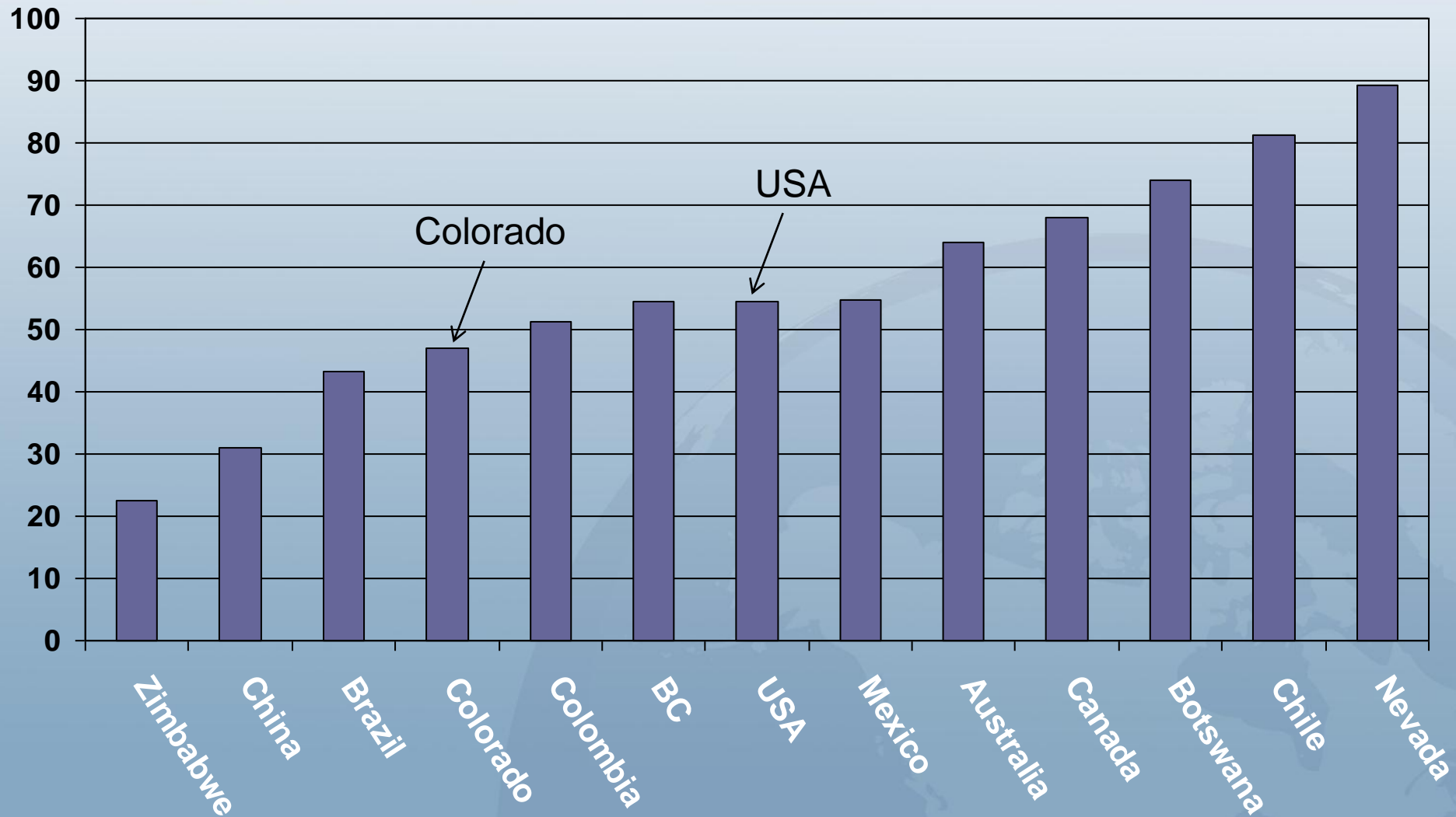
A faint, light blue world map is visible in the background of the slide, centered behind the text.

# Policy Potential Index: United States





# Policy Potential Index: International



# Let's Drill Down:

## Individual Policy Areas

Here we look at “detriments” to mining.

So lower scores indicate  
mining friendly policy.

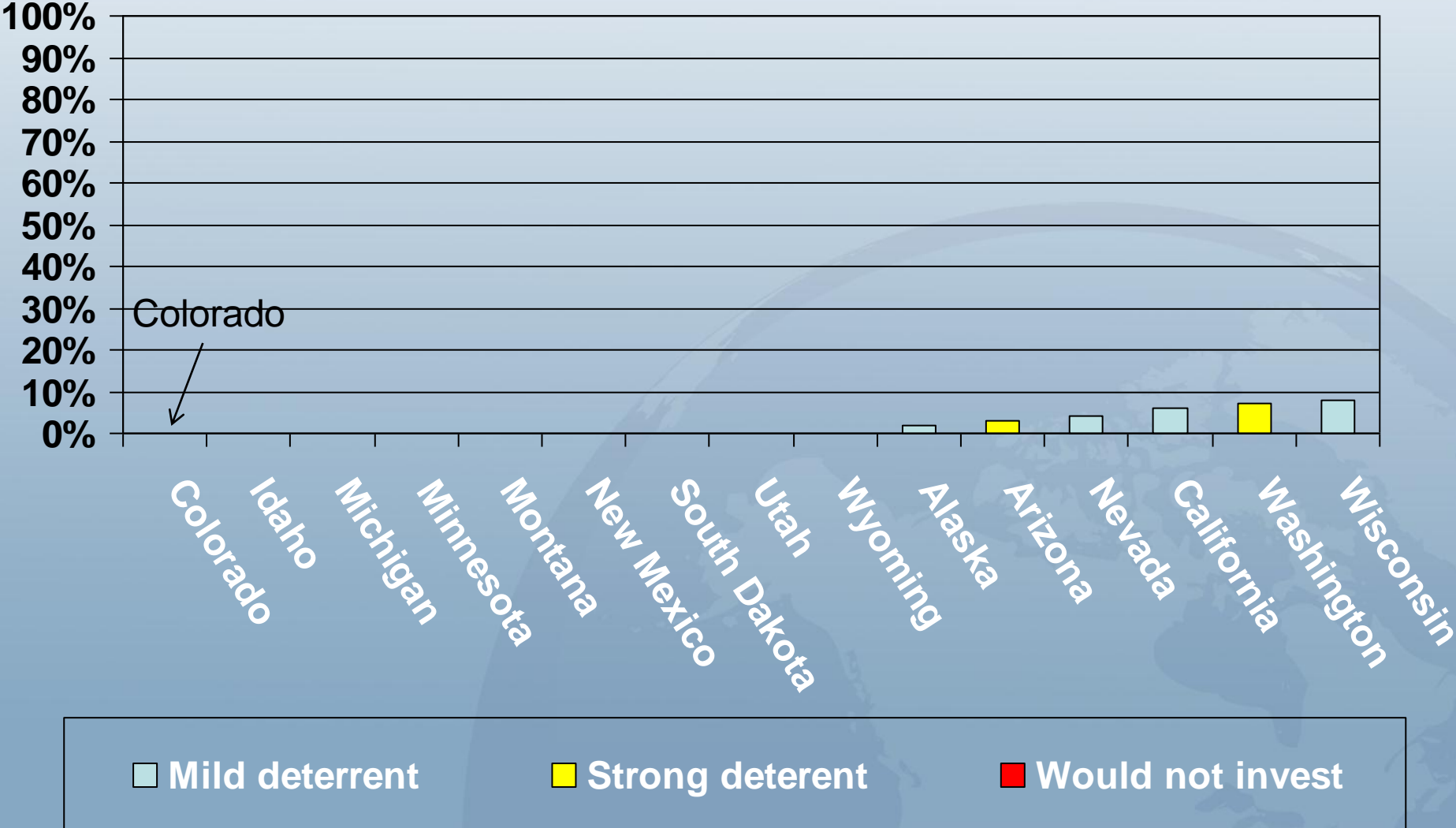
# The Good, the Bad, and the Ugly



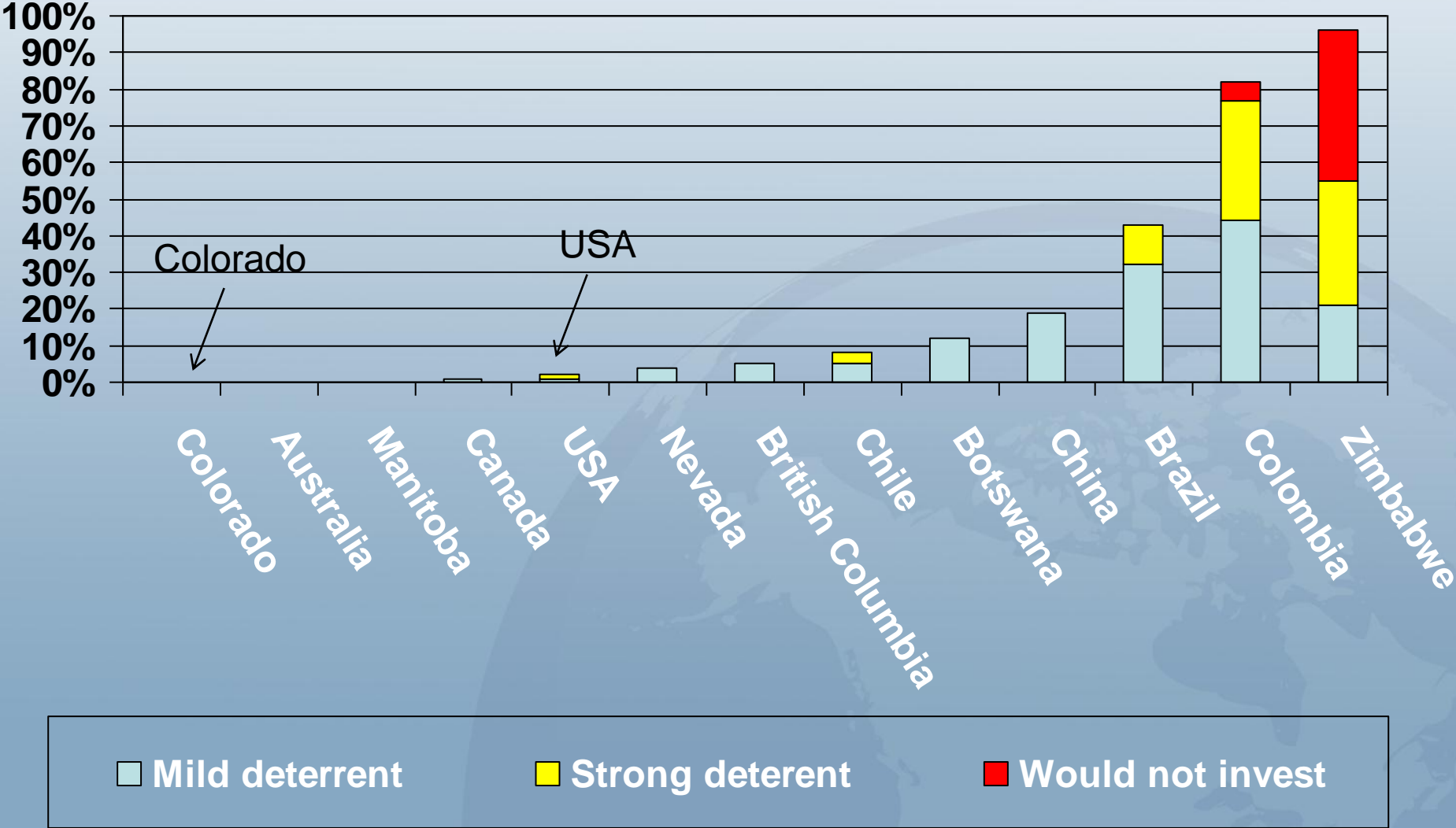
Knowledge of the problems is  
the key step to improving  
competitiveness

First the Good.

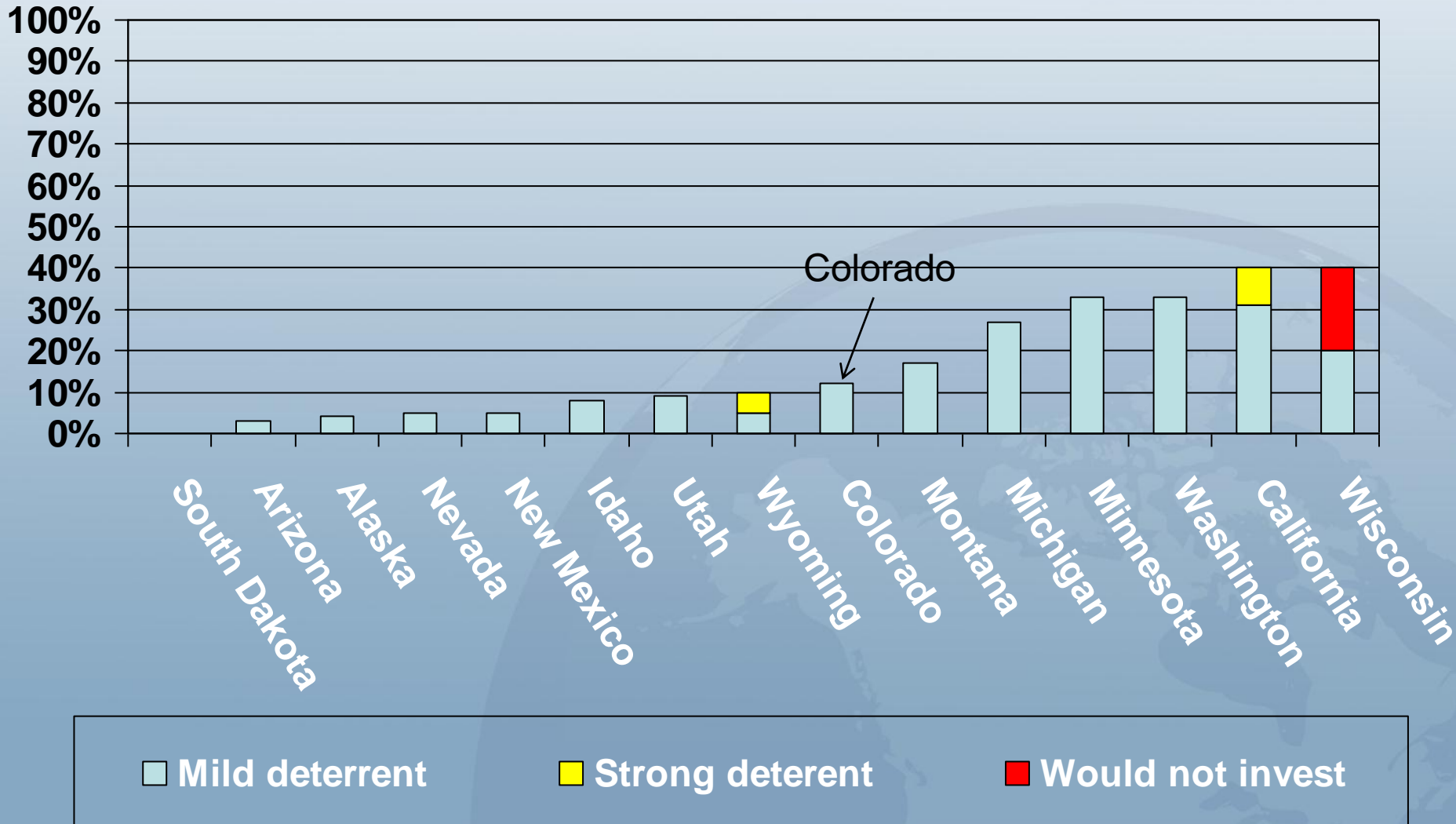
SECURITY (includes physical security due to the threat of attack by terrorists, criminals, guerrilla groups, etc.)



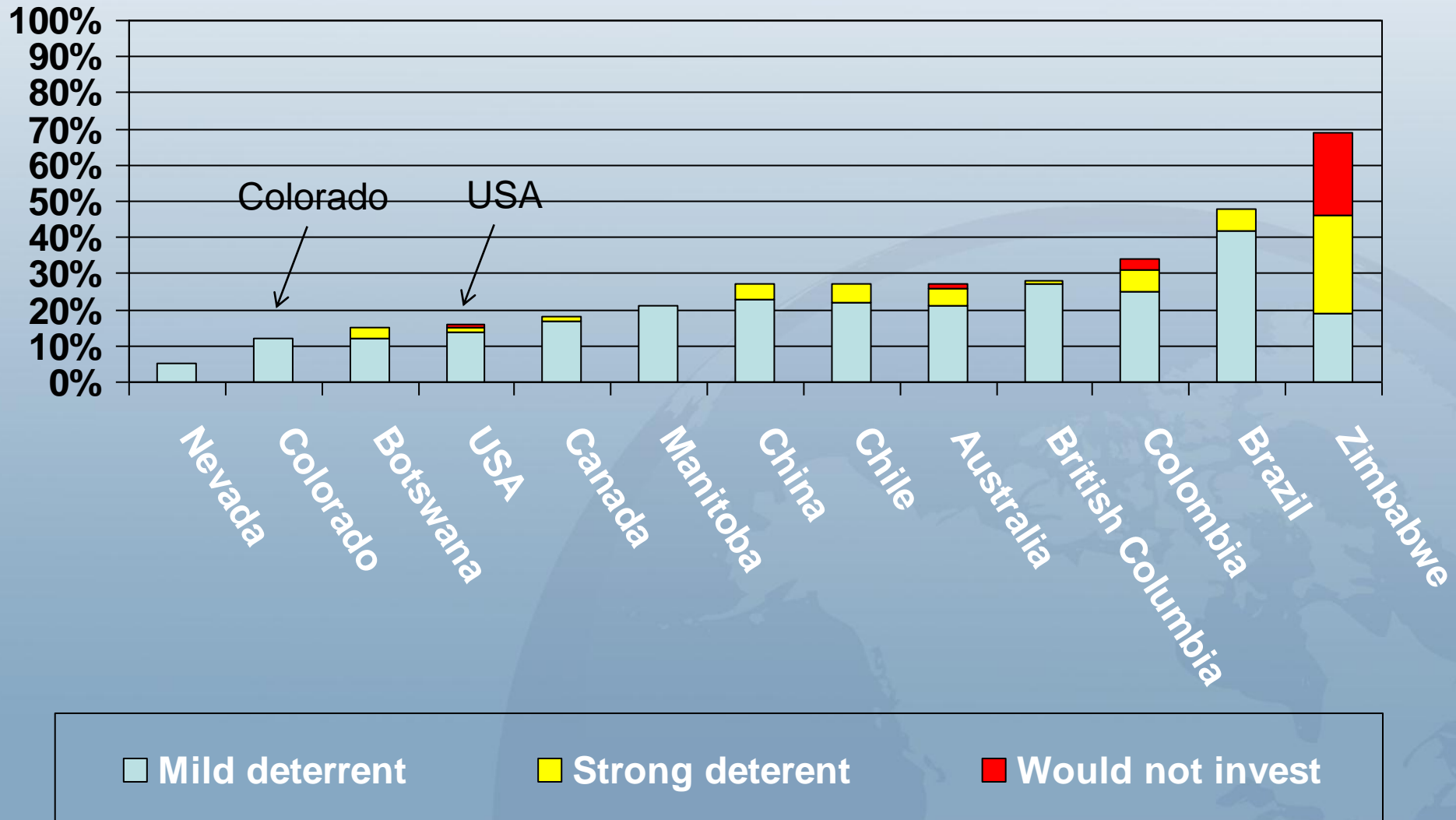
SECURITY (includes physical security due to the threat of attack by terrorists, criminals, guerrilla groups, etc.)



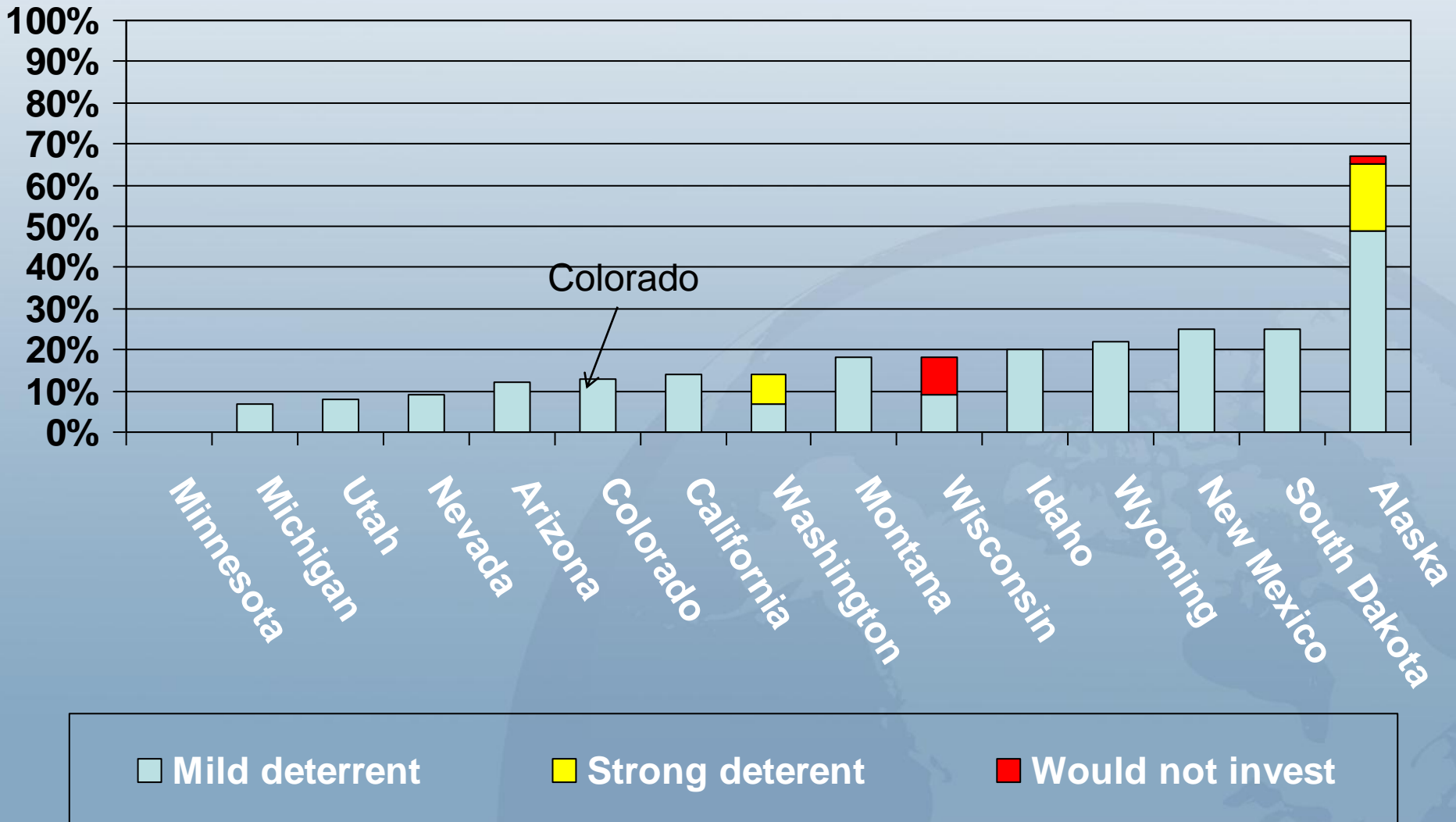
# LABOUR REGULATIONS / EMPLOYMENT AGREEMENTS AND LABOR MILITANCY/WORK DISRUPTIONS



# LABOUR REGULATIONS / EMPLOYMENT AGREEMENTS AND LABOR MILITANCY/WORK DISRUPTIONS

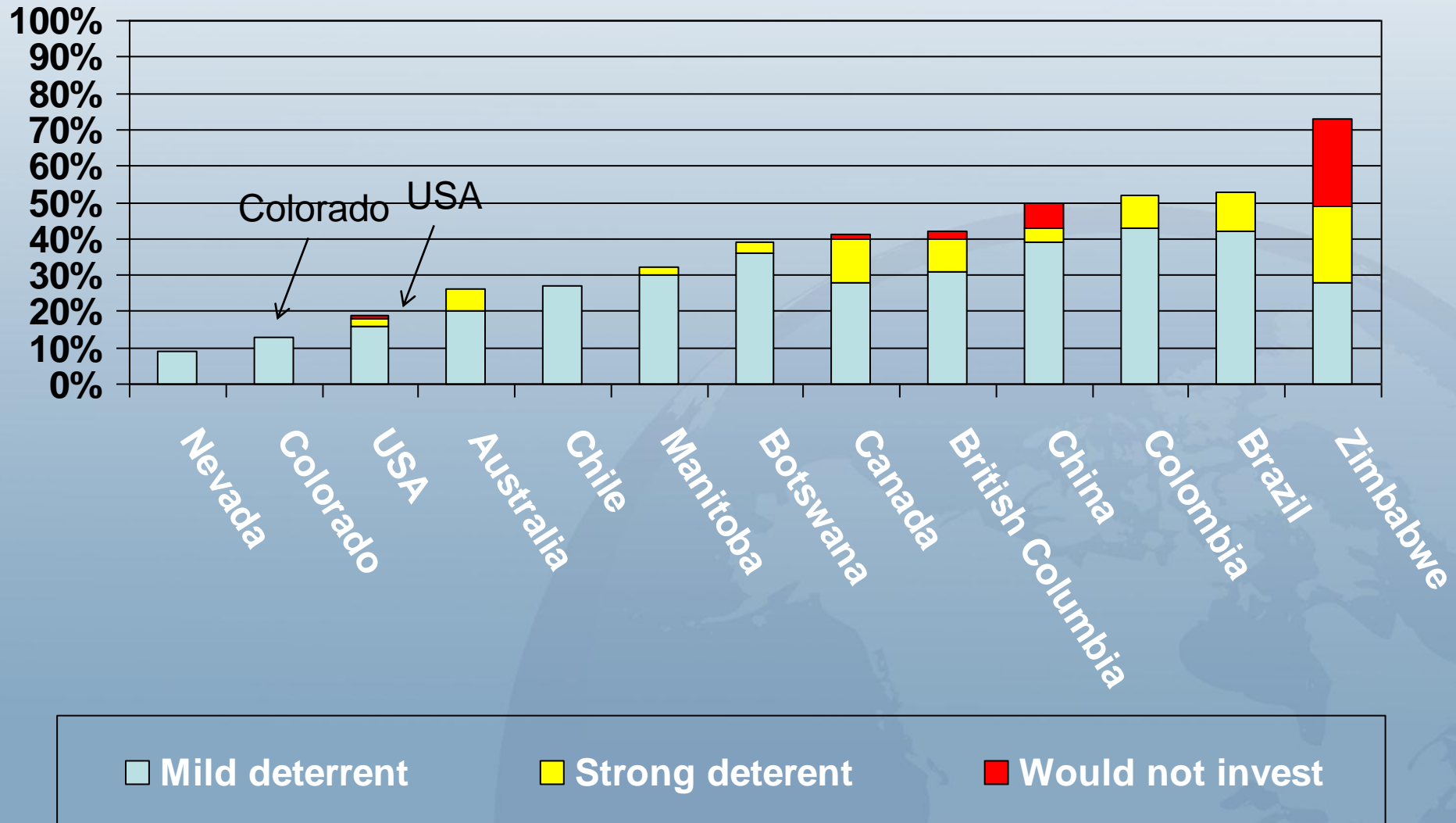


# INFRASTRUCTURE (includes access to roads, power availability, etc.).

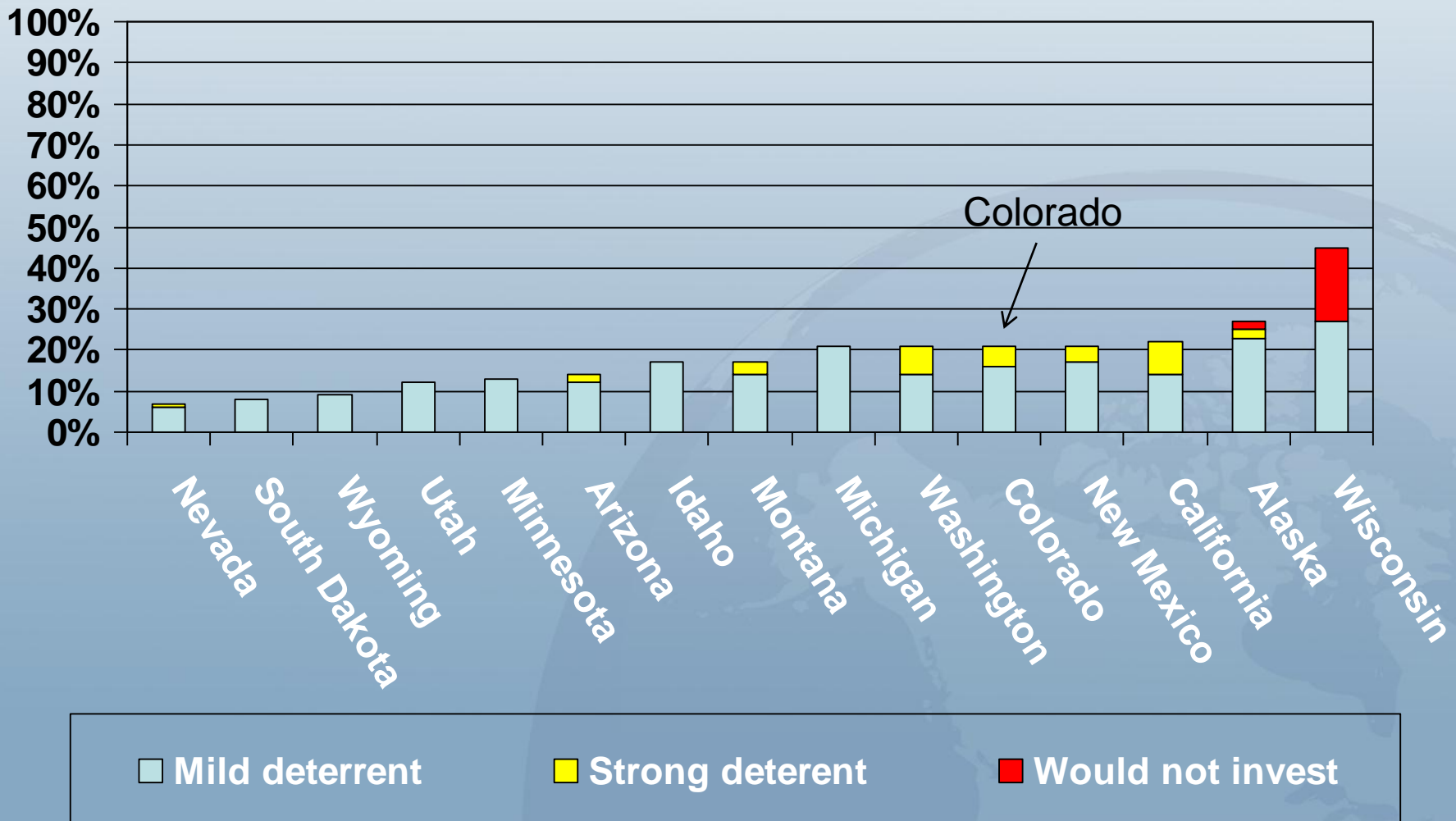




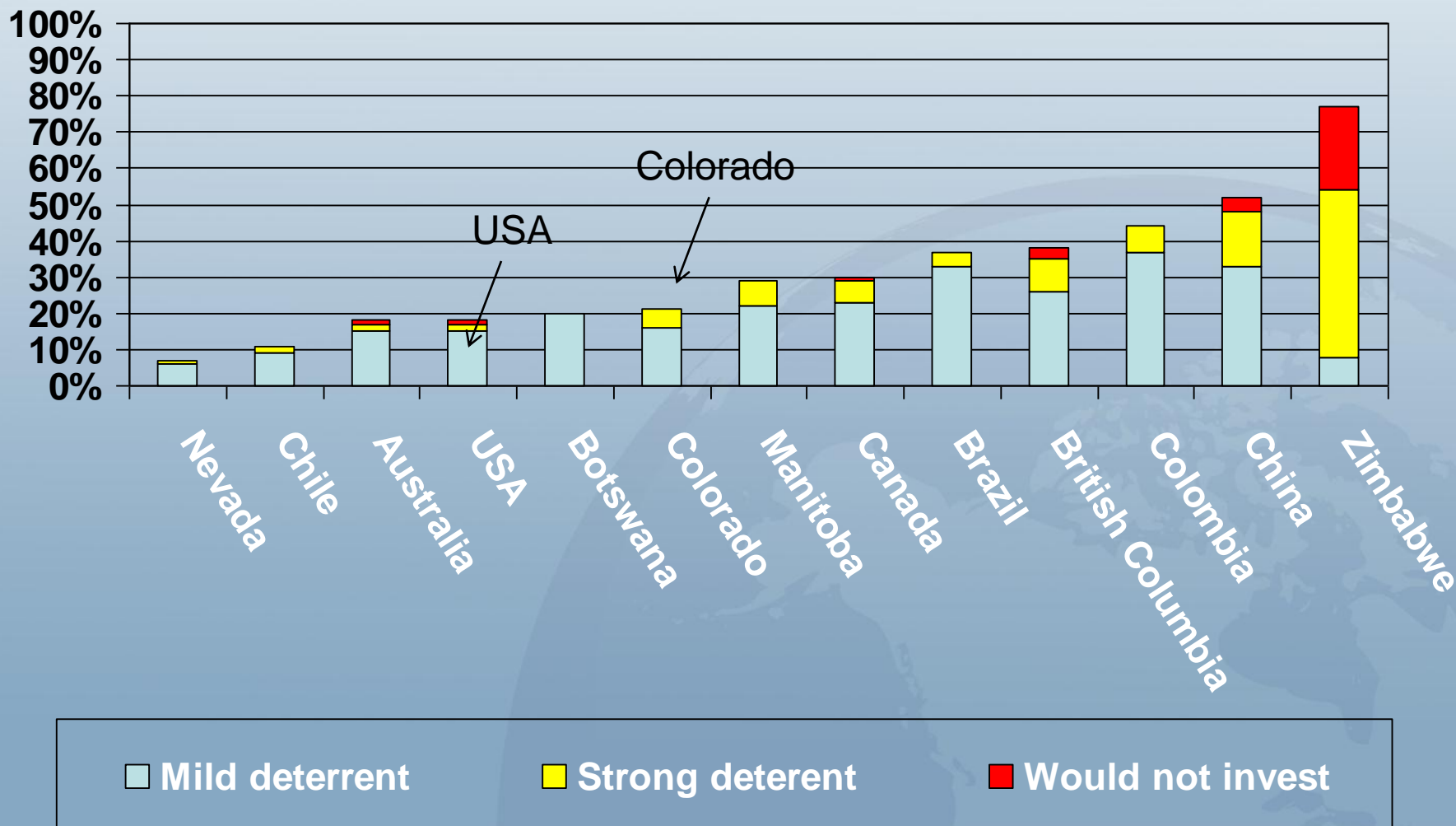
# INFRASTRUCTURE (includes access to roads, power availability, etc.).



# SOCIOECONOMIC AGREEMENTS / COMMUNITY DEVELOPMENT CONDITIONS (includes local purchasing, processing requirements or supplying social infrastructure such as schools or hospitals, etc.)

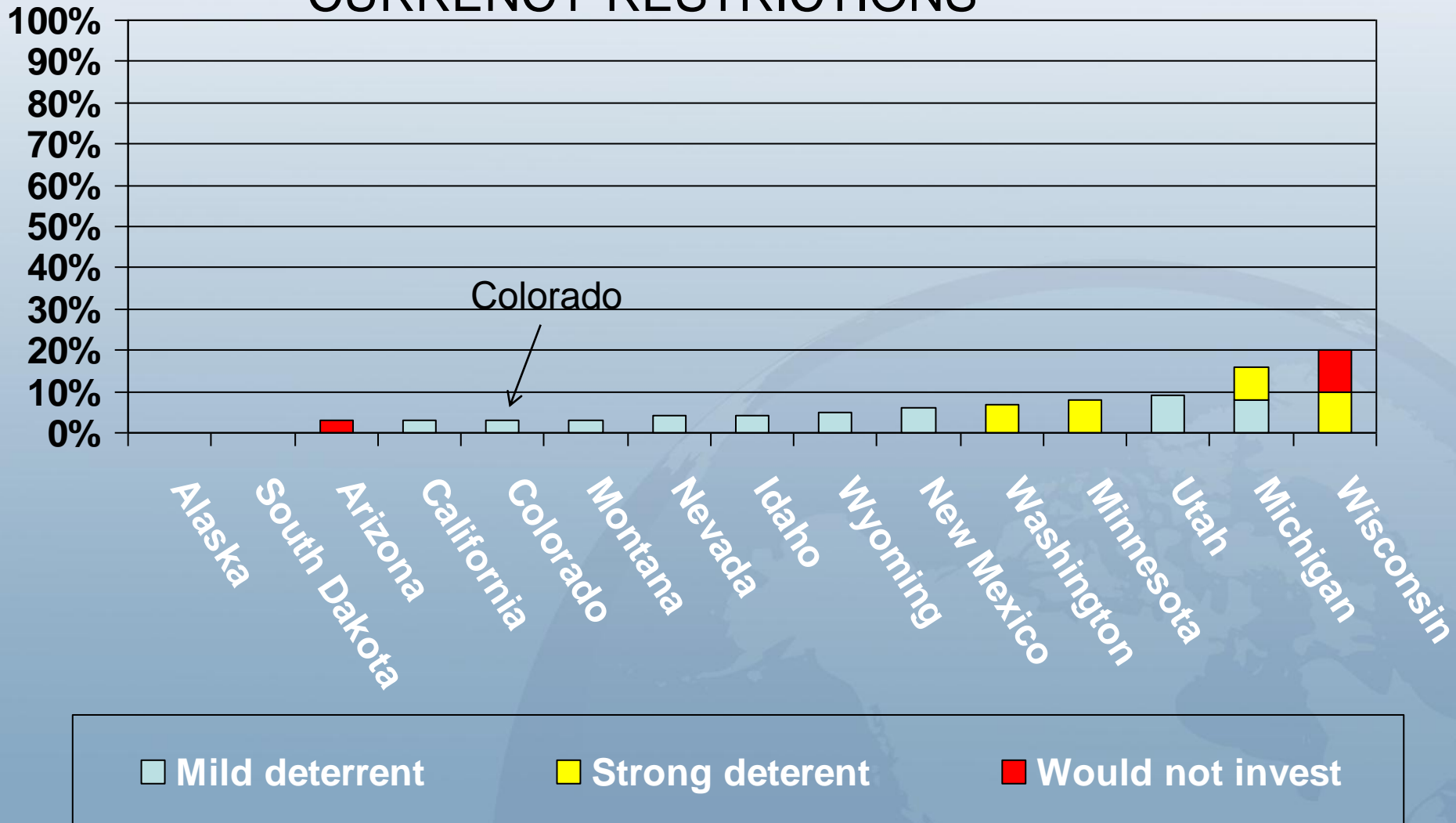


# SOCIOECONOMIC AGREEMENTS / COMMUNITY DEVELOPMENT CONDITIONS (includes local purchasing, processing requirements or supplying social infrastructure such as schools or hospitals, etc.)



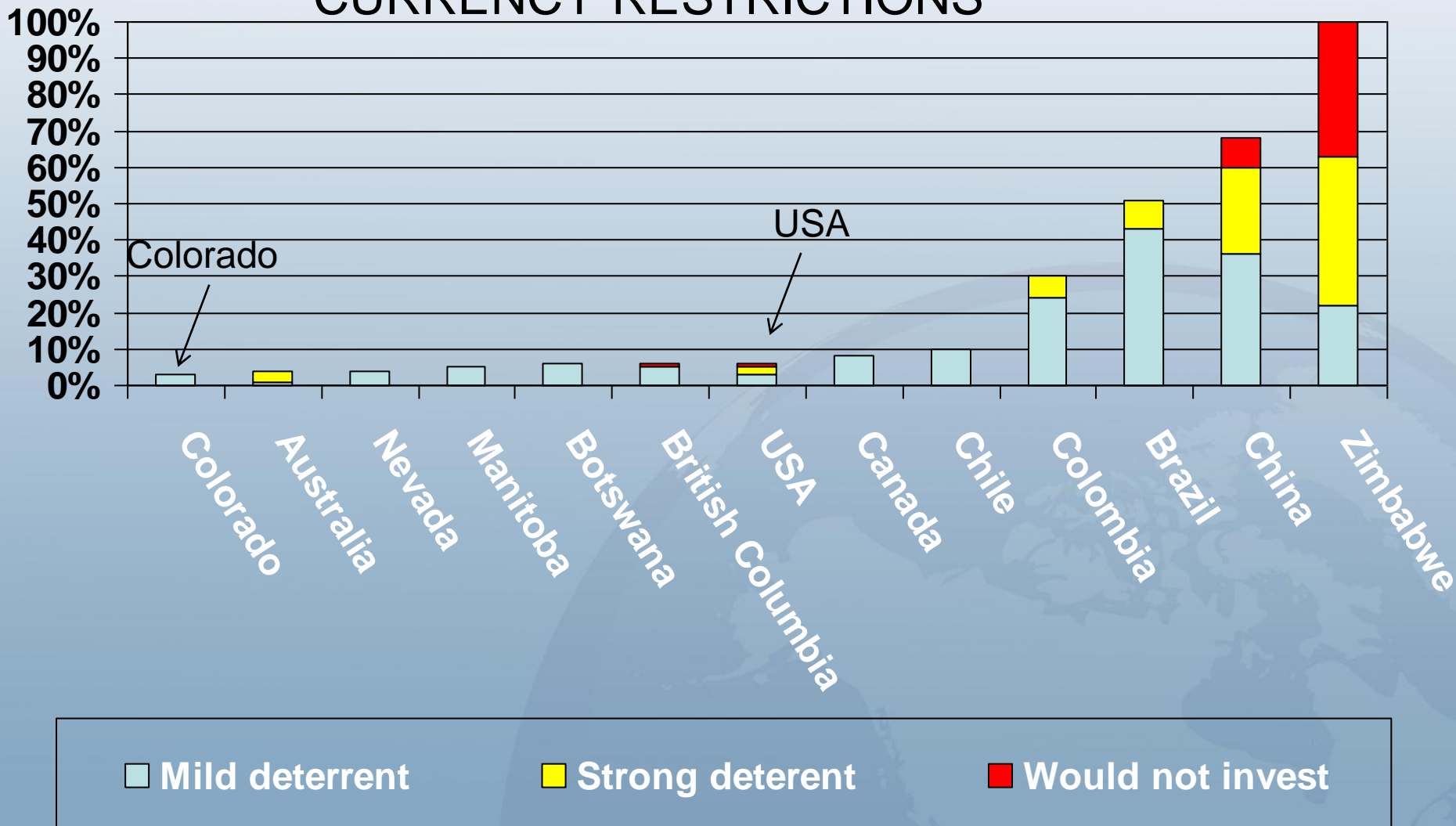
# TRADE BARRIERS

## TARIFF AND NON-TARIFF BARRIERS: RESTRICTION ON PROFIT REPATRIATION, CURRENCY RESTRICTIONS

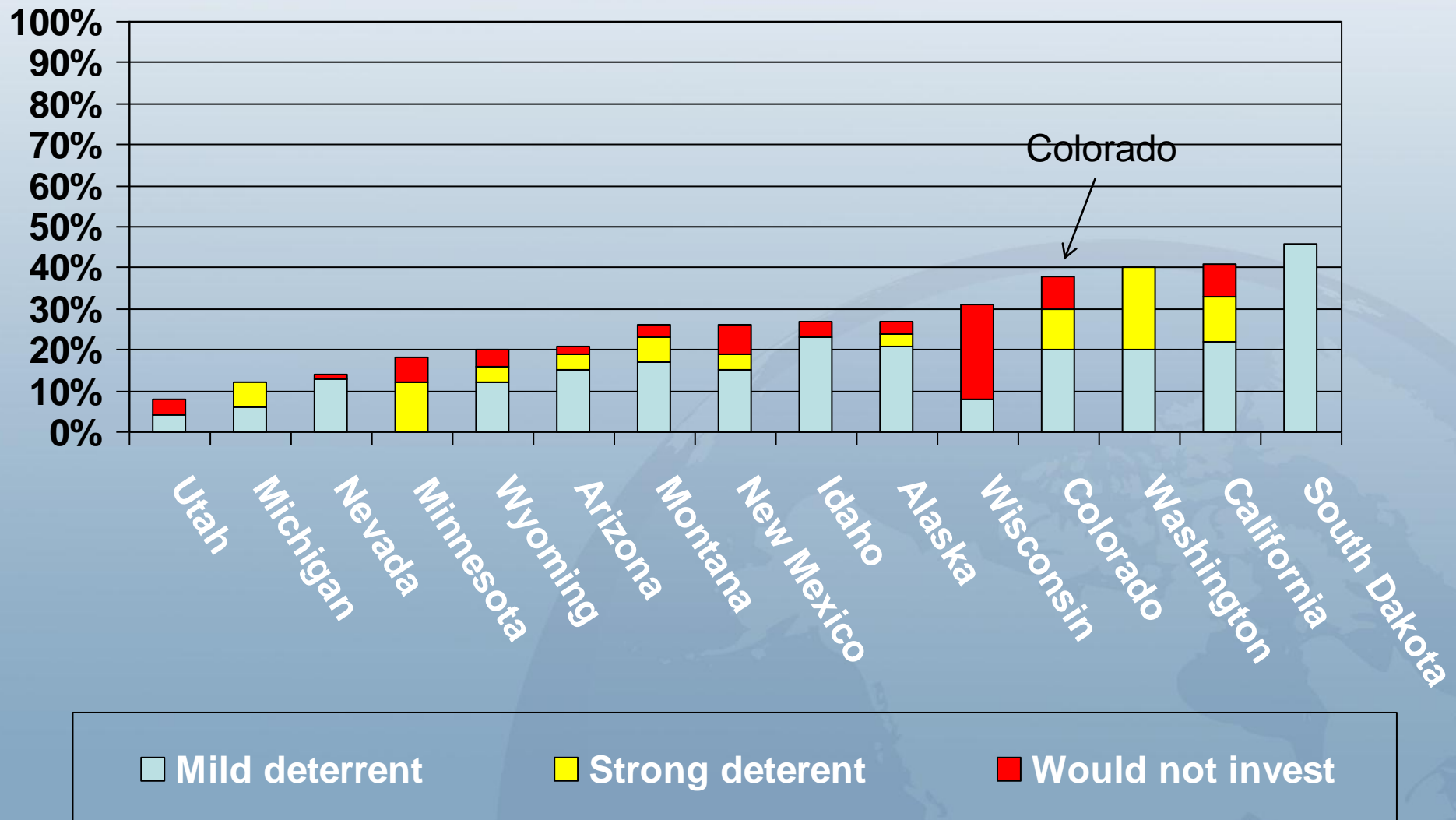


# TRADE BARRIERS

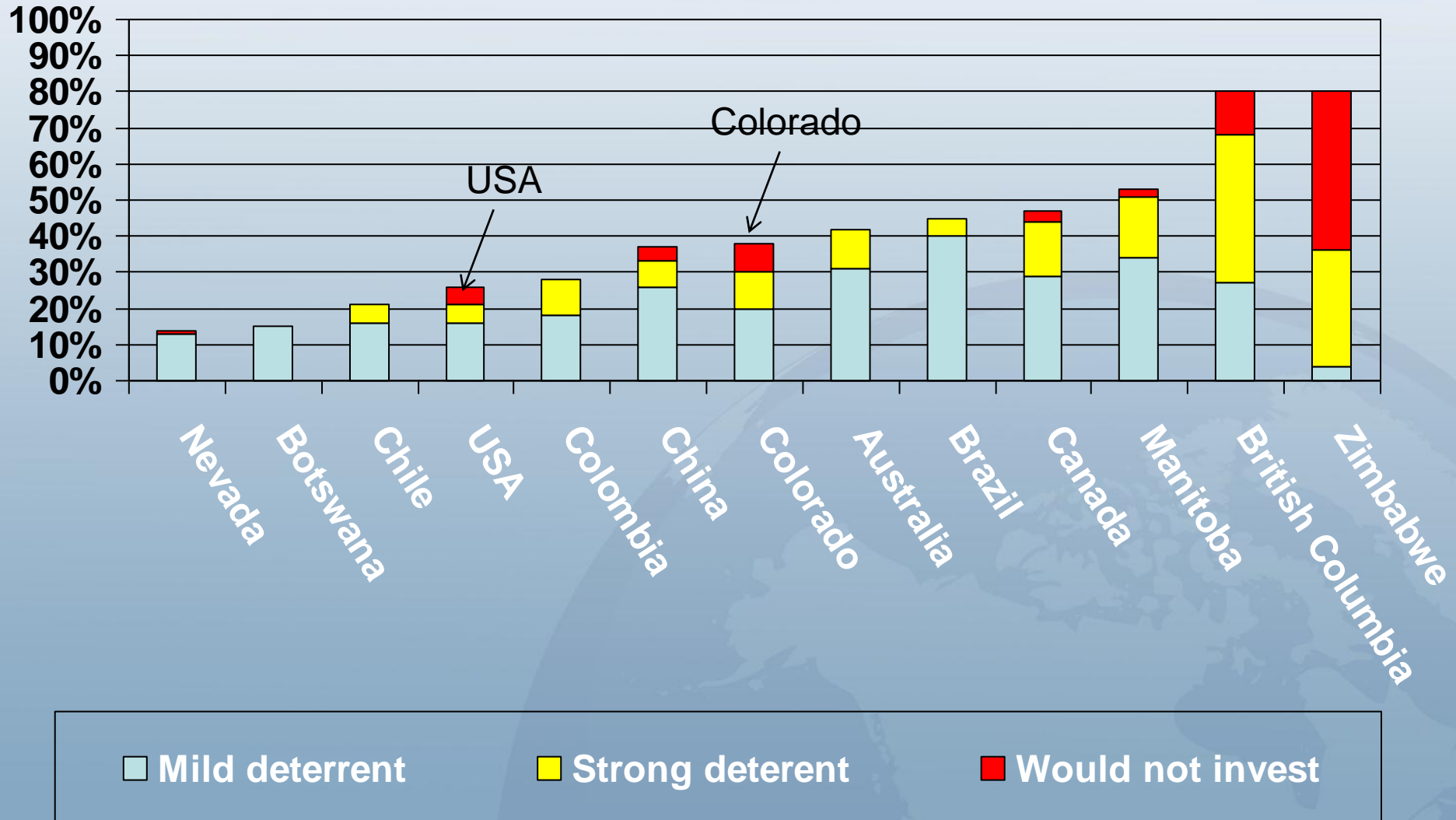
## TARIFF AND NON-TARIFF BARRIERS: RESTRICTION ON PROFIT REPATRIATION, CURRENCY RESTRICTIONS



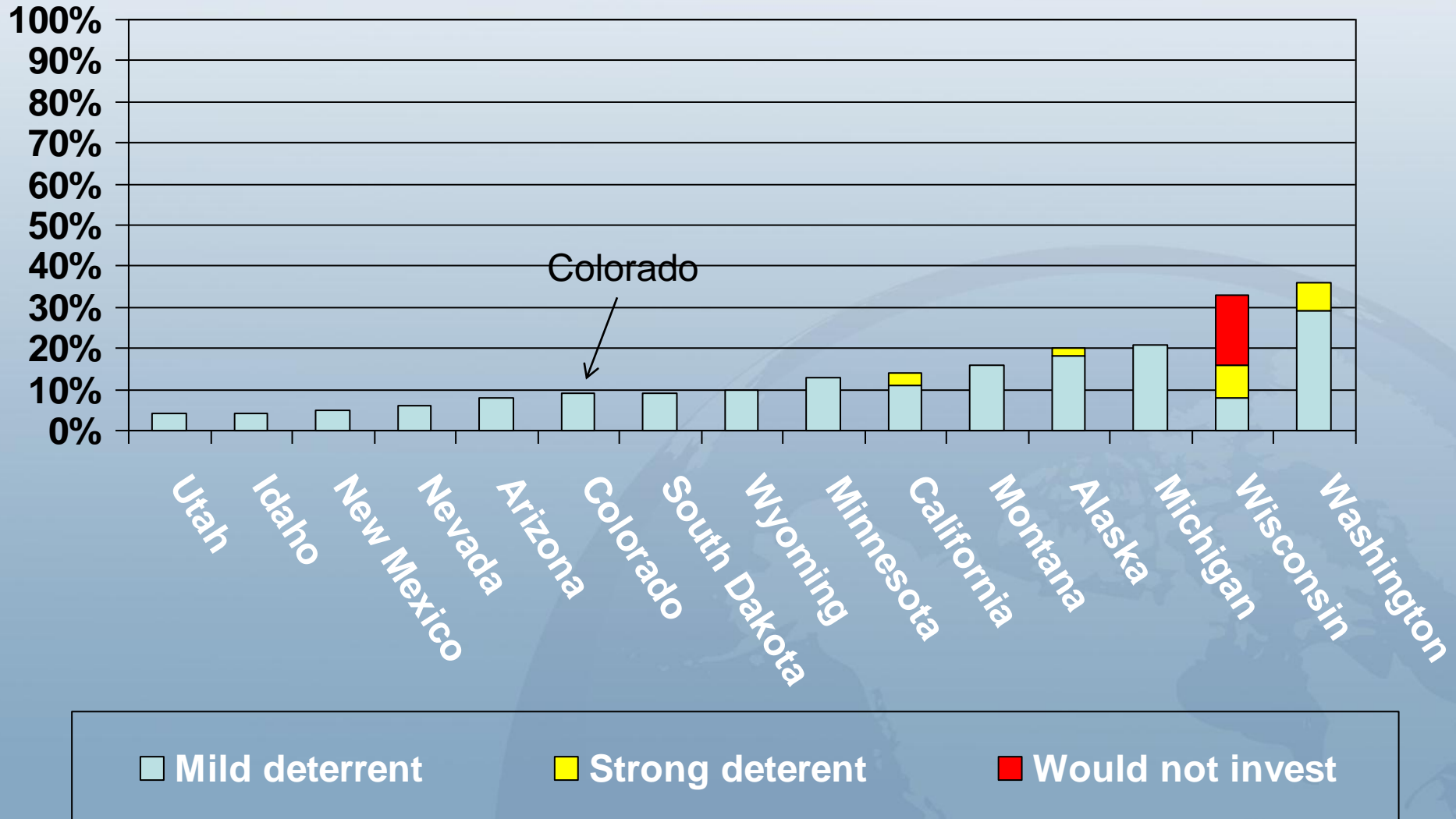
# UNCERTAINTY CONCERNING DISPUTED LAND CLAIMS.



# UNCERTAINTY CONCERNING DISPUTED LAND CLAIMS.

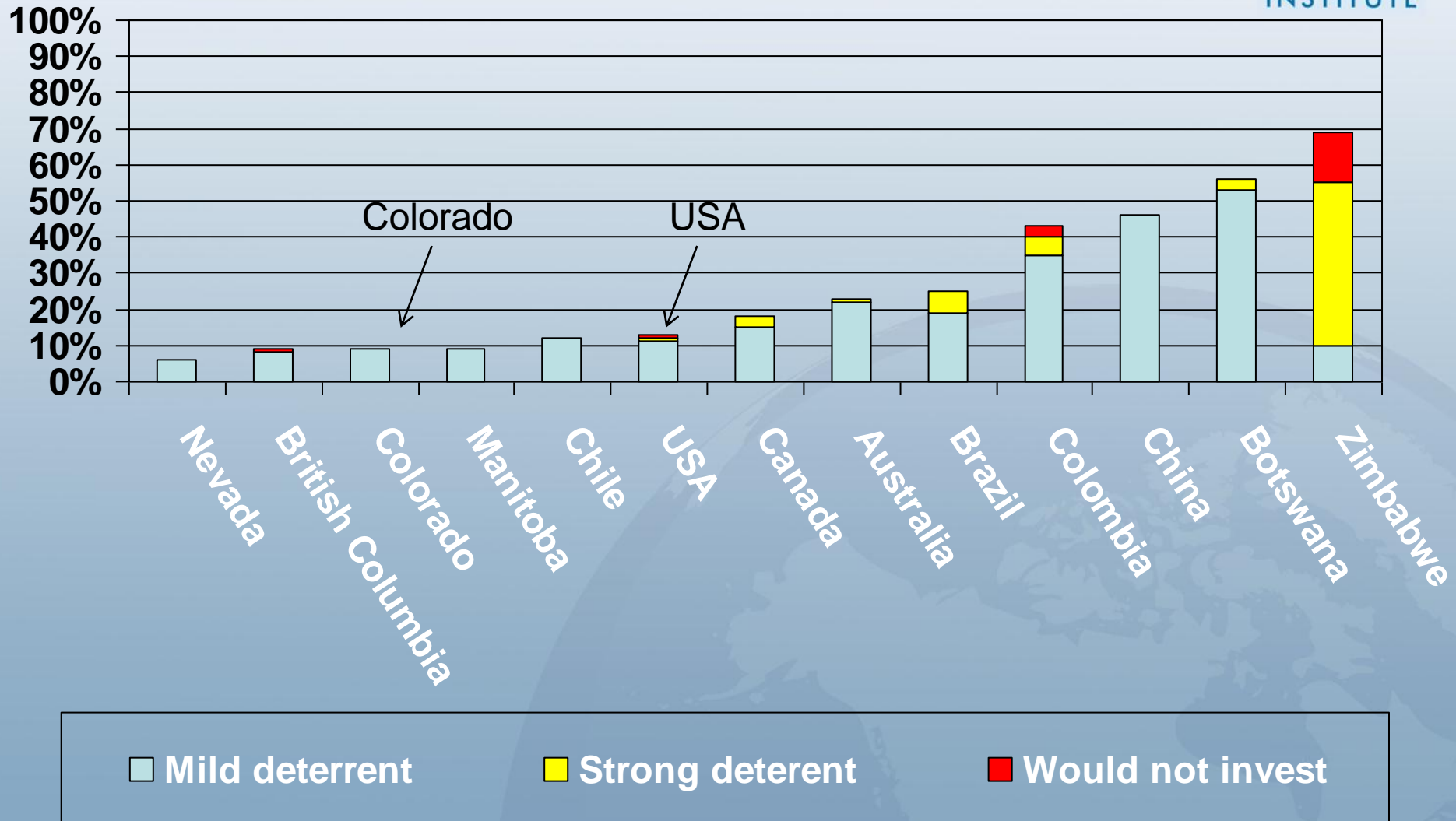


# AVAILABILITY OF LABOUR / SKILLS





# AVAILABILITY OF LABOUR / SKILLS

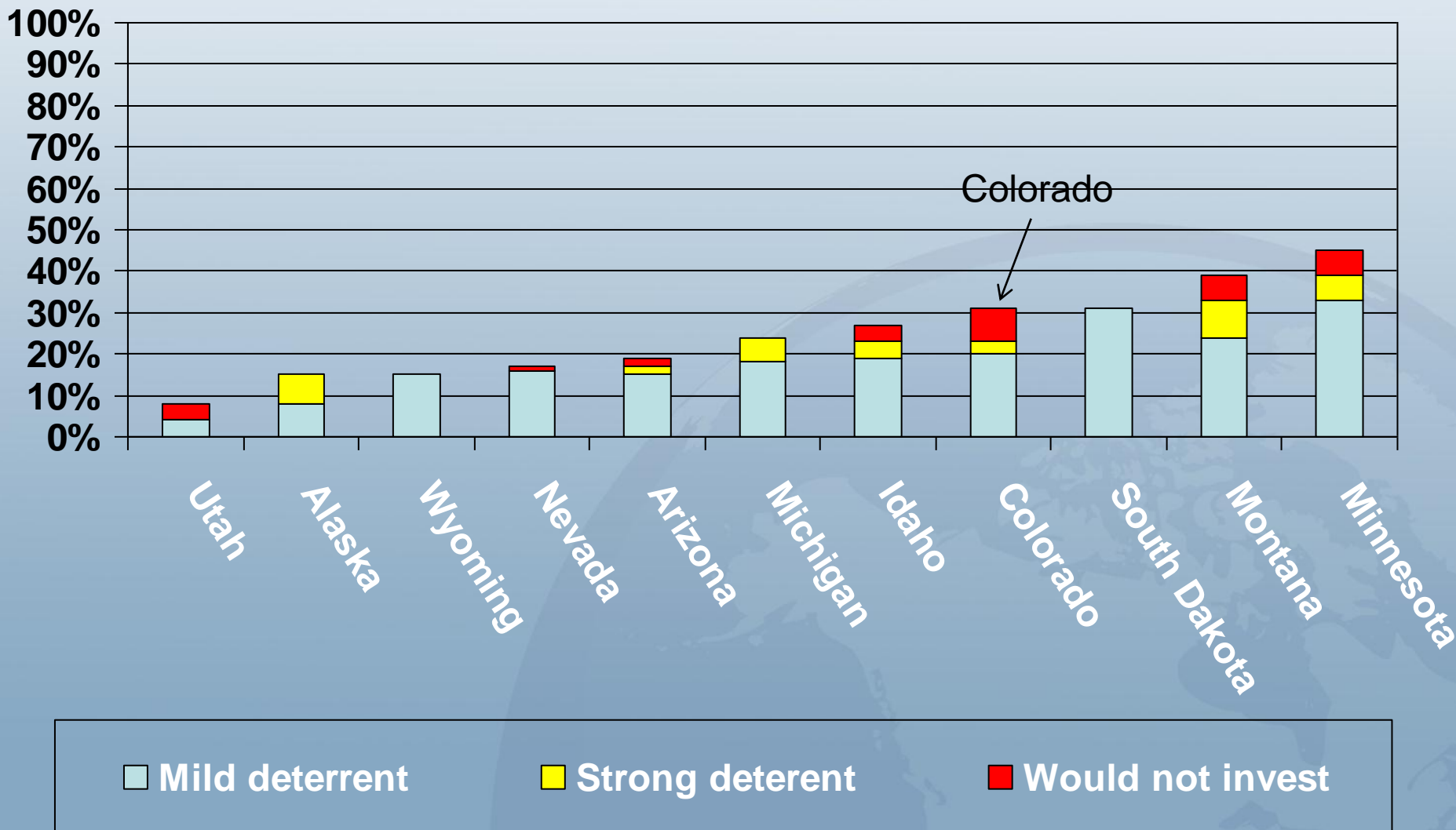


# The Bad



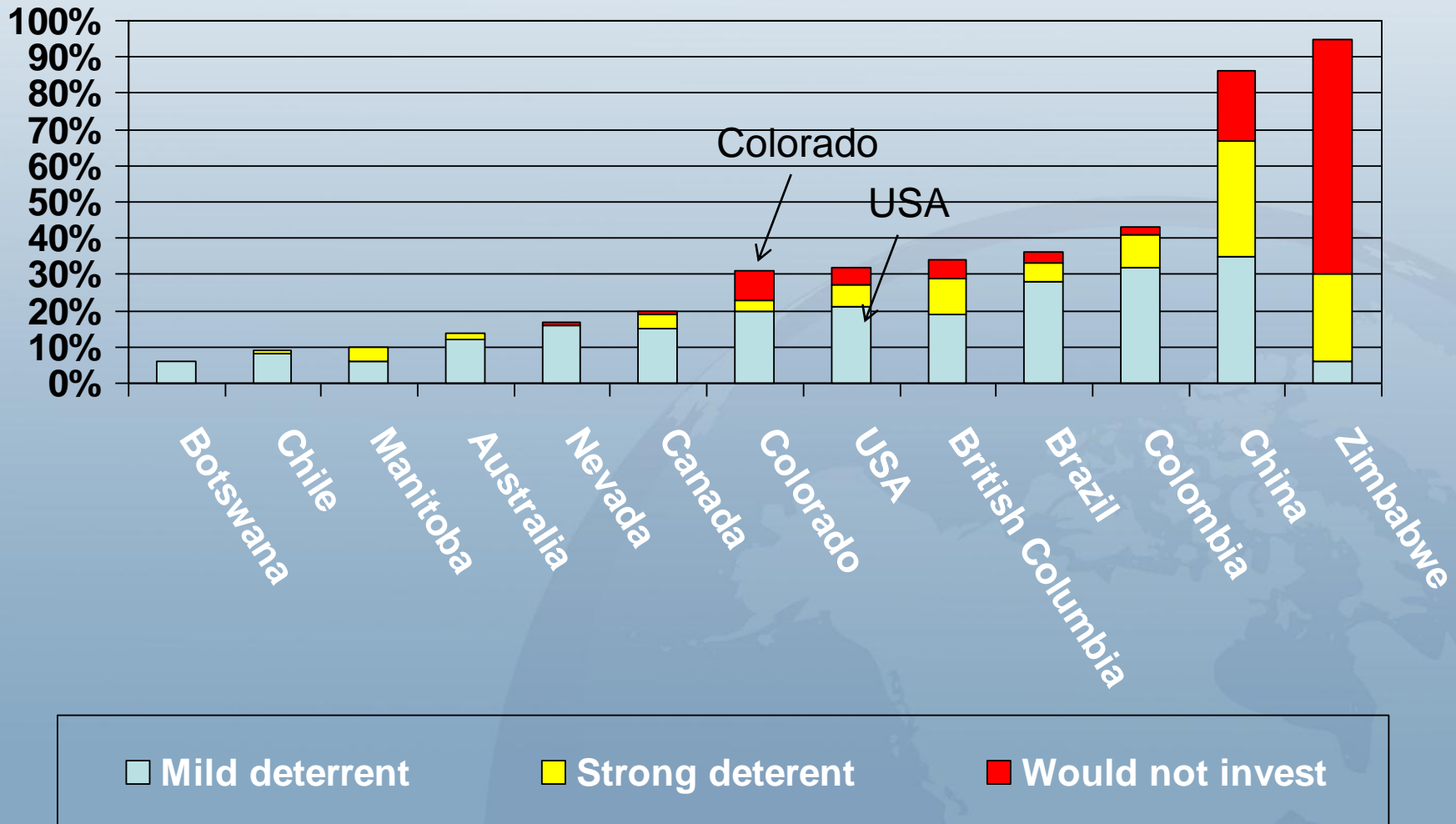
# Legal System

Legal processes that are fair, transparent, non-corrupt, timely, efficiently administered, etc.



# Legal System

Legal processes that are fair, transparent, non-corrupt, timely, efficiently administered, etc.

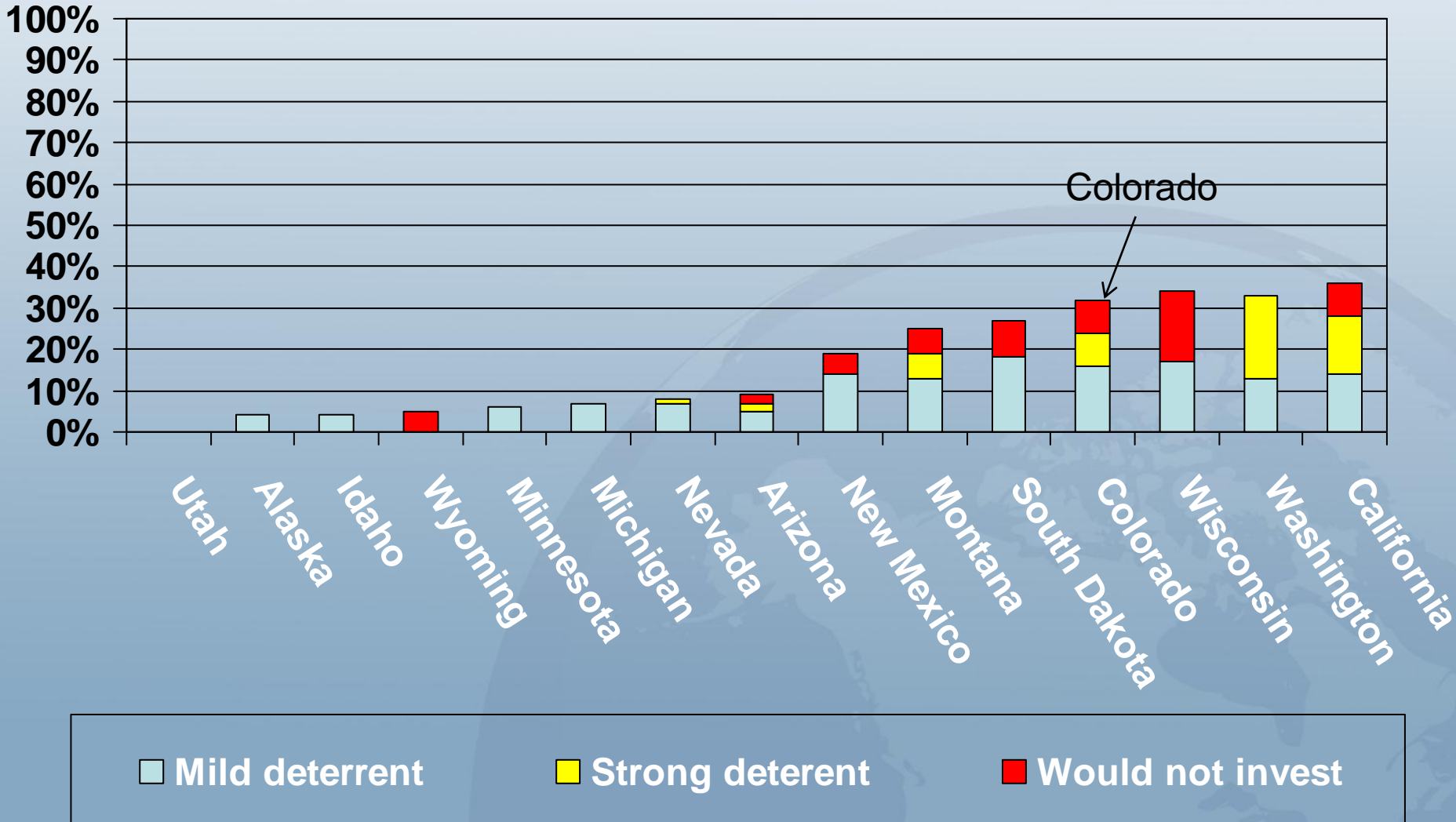


# Mining's alternate reality: Legal System

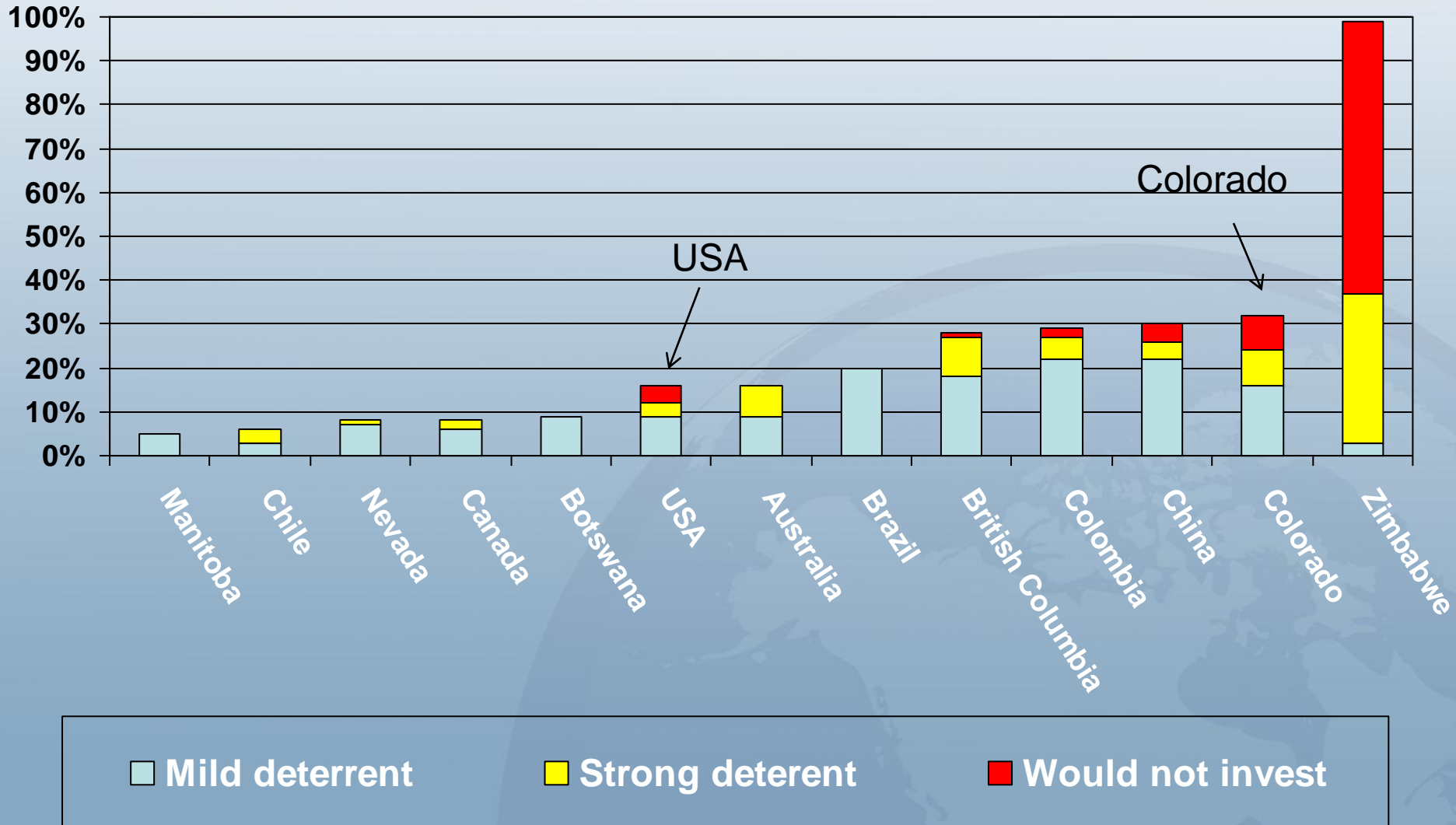


- Miners rate Washington state's legal system worse than Viet Nam's (and just ahead of Romania's)
  - Remember Gabriel
- Wisconsin is rated worse than Bulgaria (and just ahead of Mali)
  - Remember Dundee
- California is rated worse than Mexico (and just ahead of Zambia)
- Colorado does alright, between Victoria and Nunavut

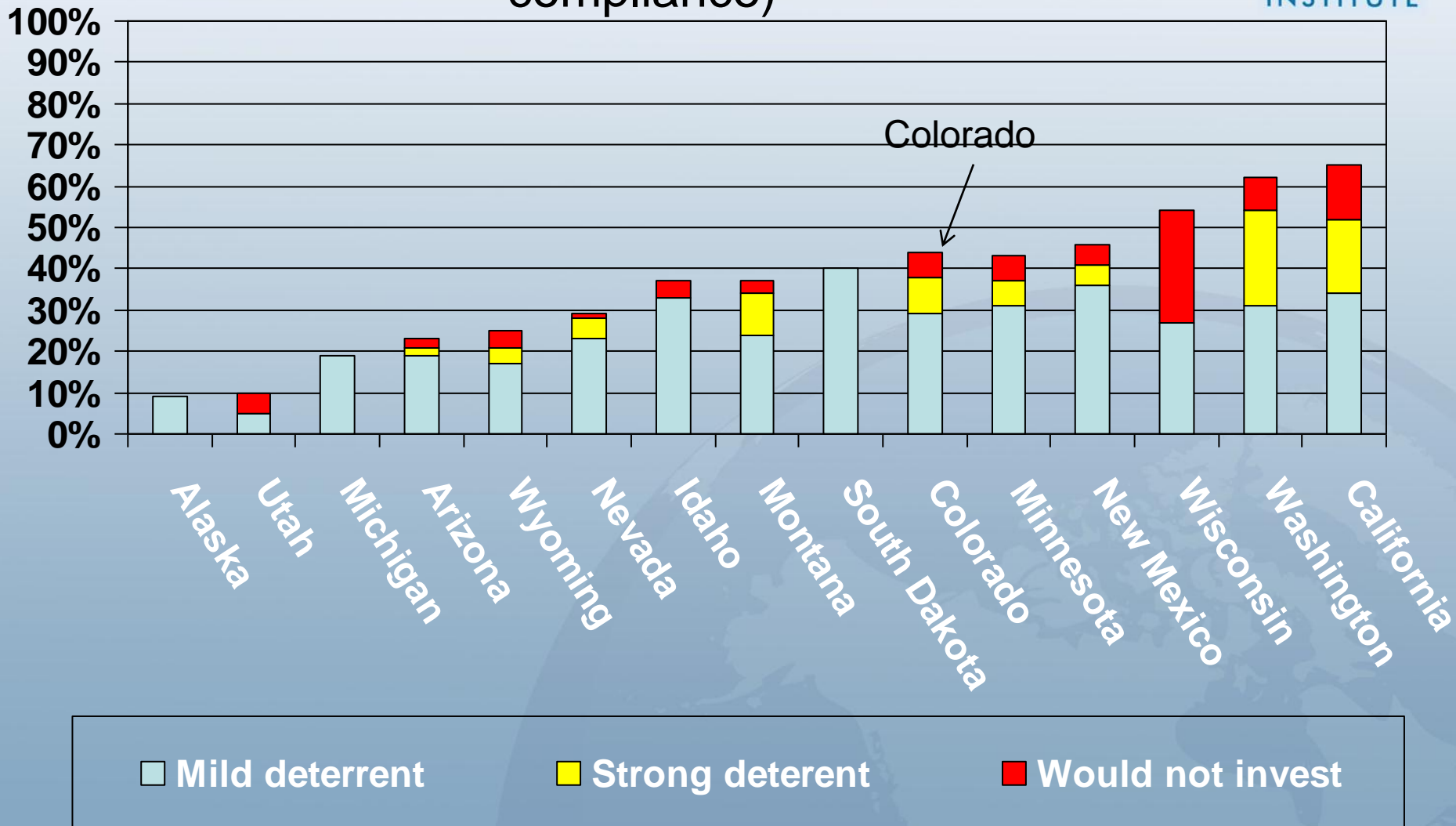
# POLITICAL STABILITY



# POLITICAL STABILITY

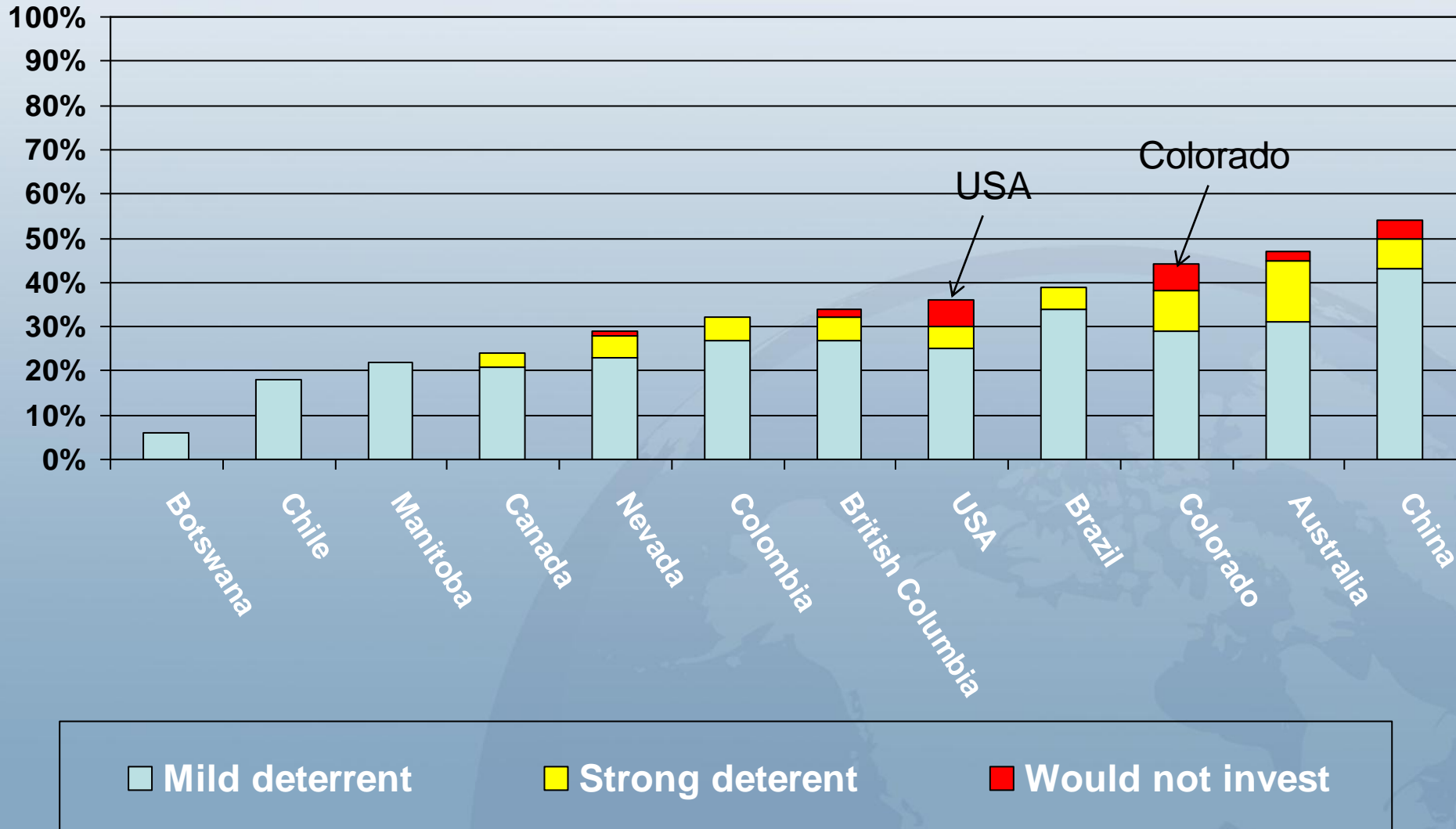


# TAXATION REGIME (includes personal, corporate, payroll, capital, and other taxes, and complexity of tax compliance)



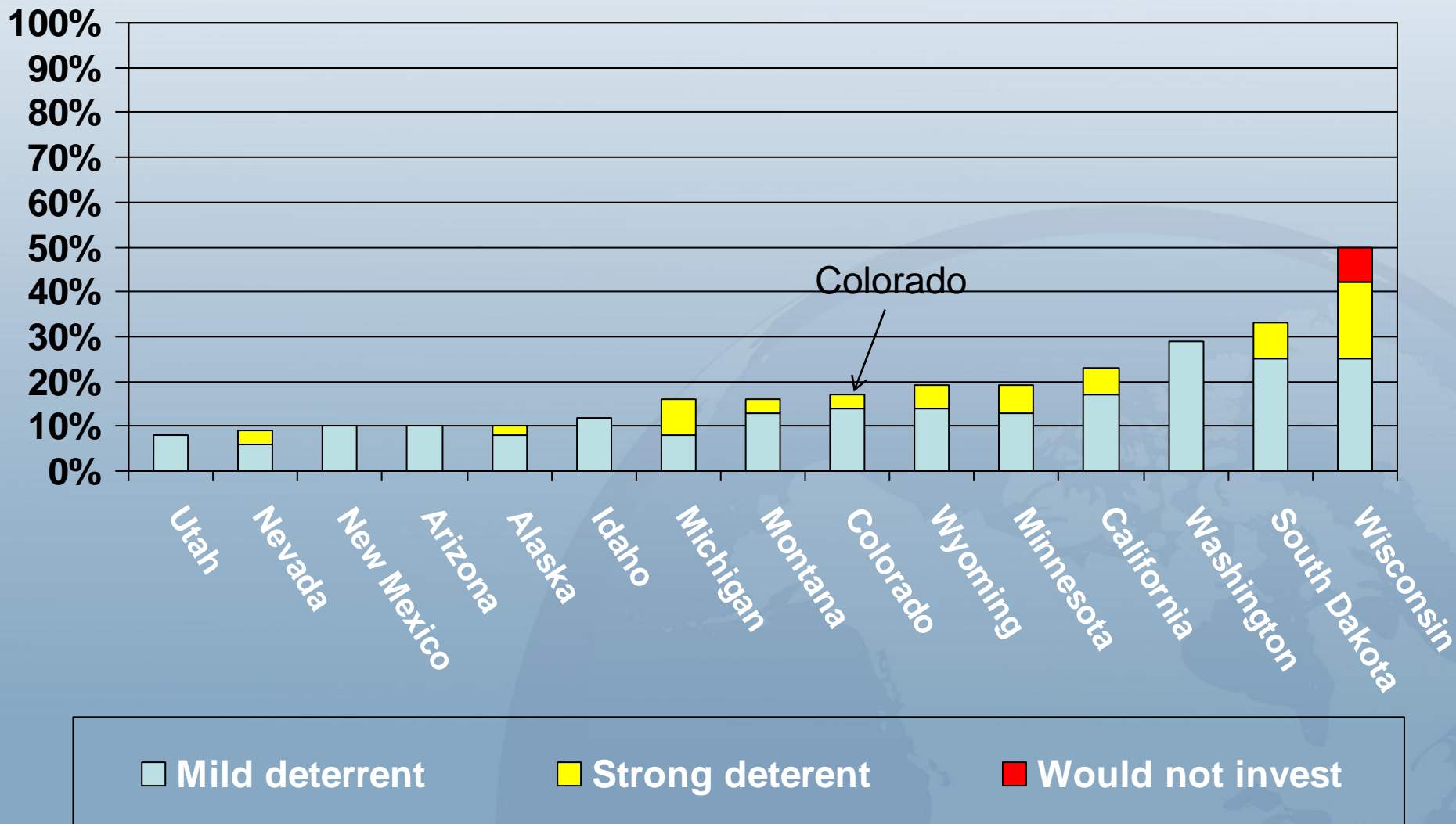


# TAXATION REGIME (includes personal, corporate, payroll, capital, and other taxes, and complexity of tax compliance)



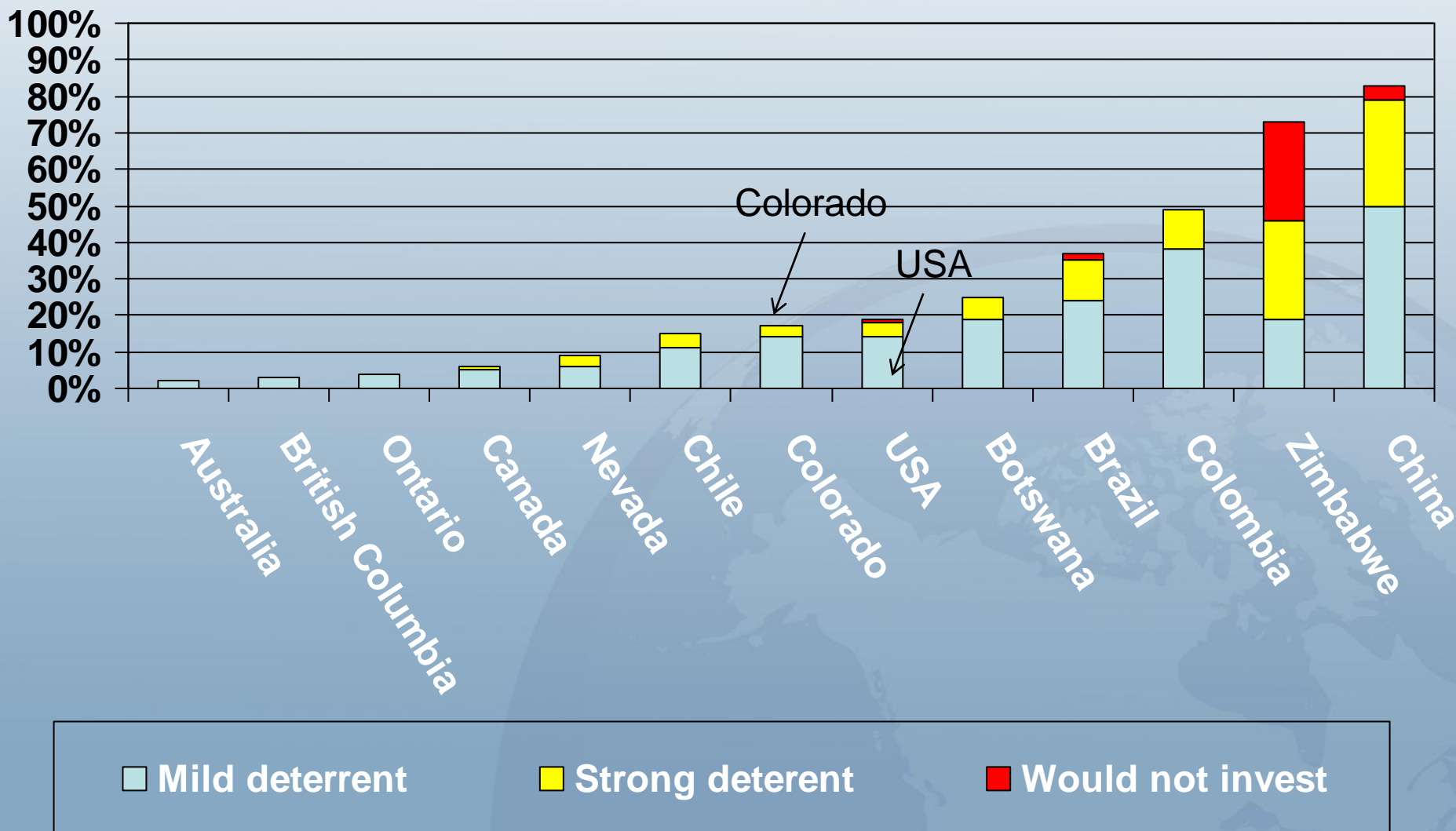
# QUALITY OF THE GEOLOGICAL DATABASE

(includes quality and scale of maps, ease of access to information, etc.)



# QUALITY OF THE GEOLOGICAL DATABASE

(includes quality and scale of maps, ease of access to information, etc.)

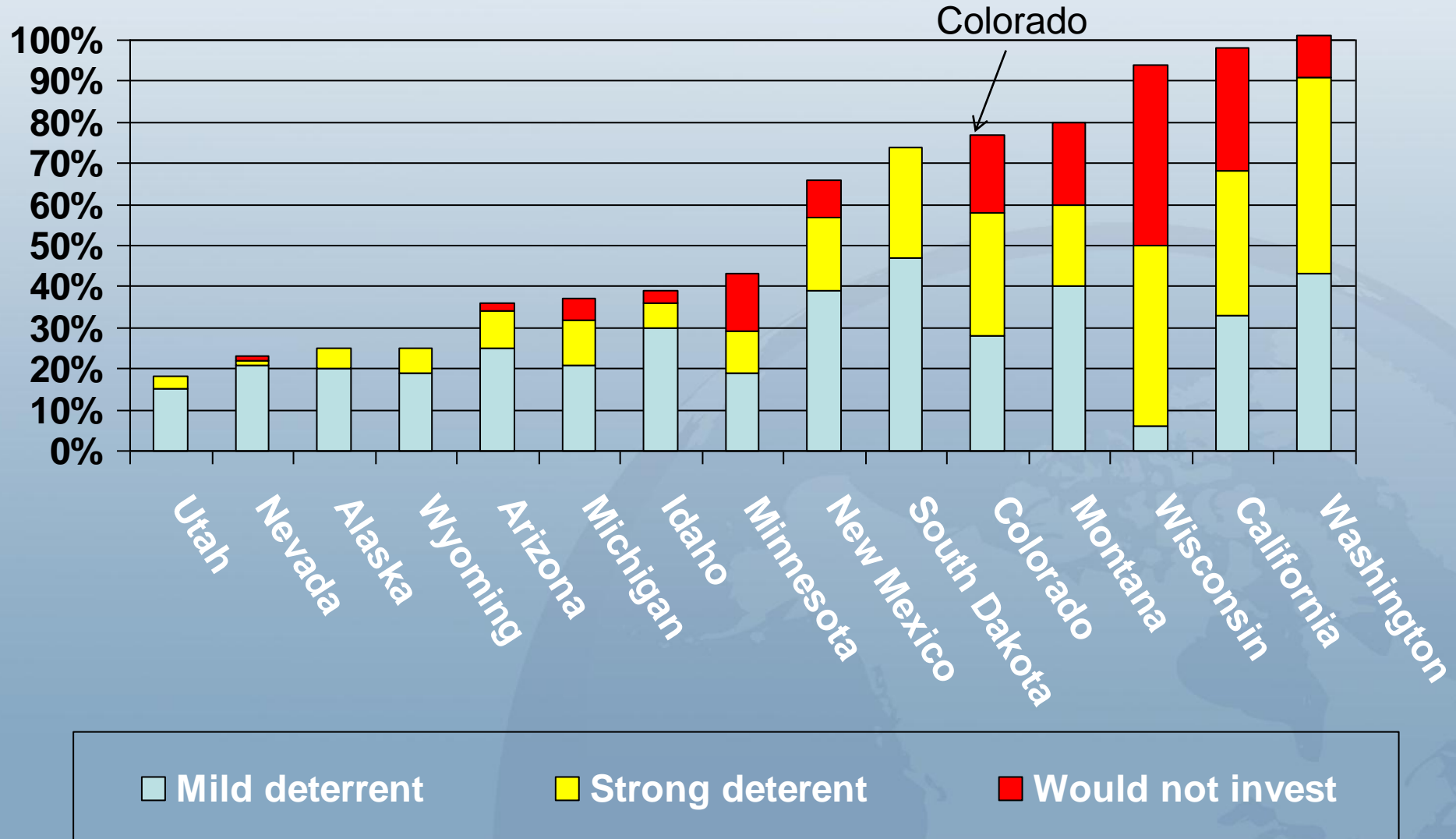


# The Ugly

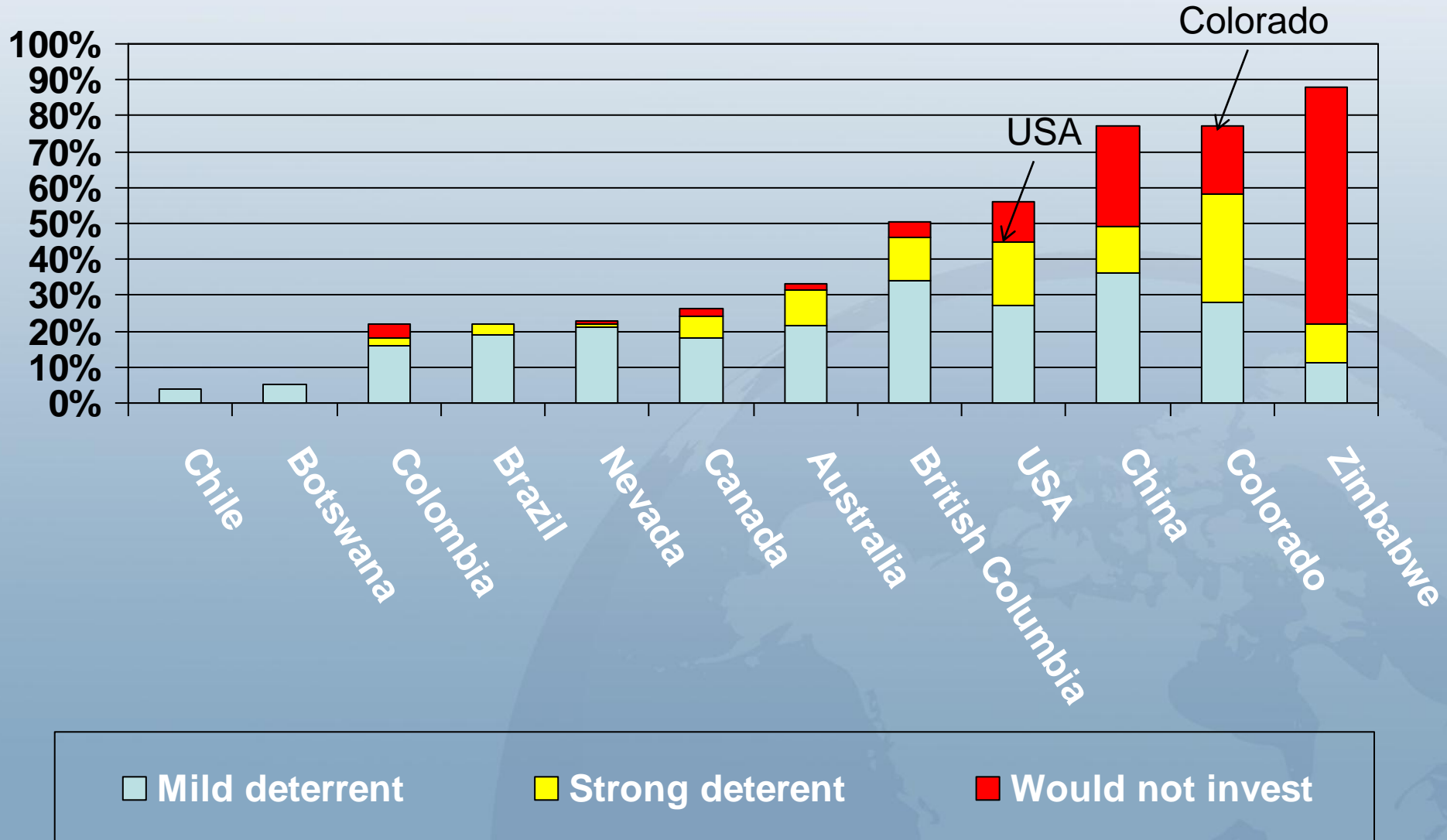
# Uncertainty

A large, faint, light blue globe is visible in the background, showing the continents of North and South America. The globe is centered behind the text.

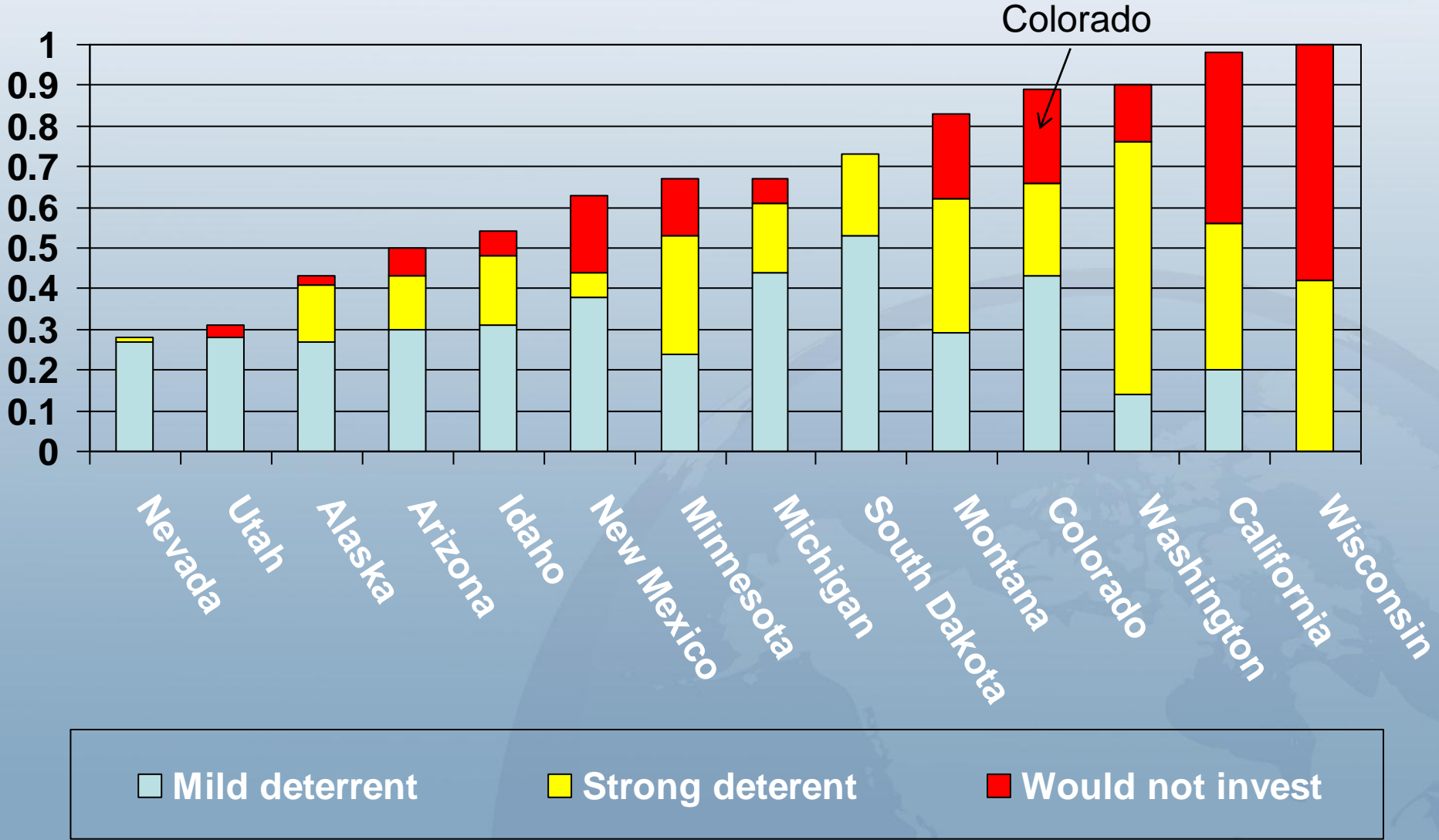
# UNCERTAINTY REGARDING THE ADMINISTRATION, INTERPRETATION, OR ENFORCEMENT OF EXISTING REGULATIONS



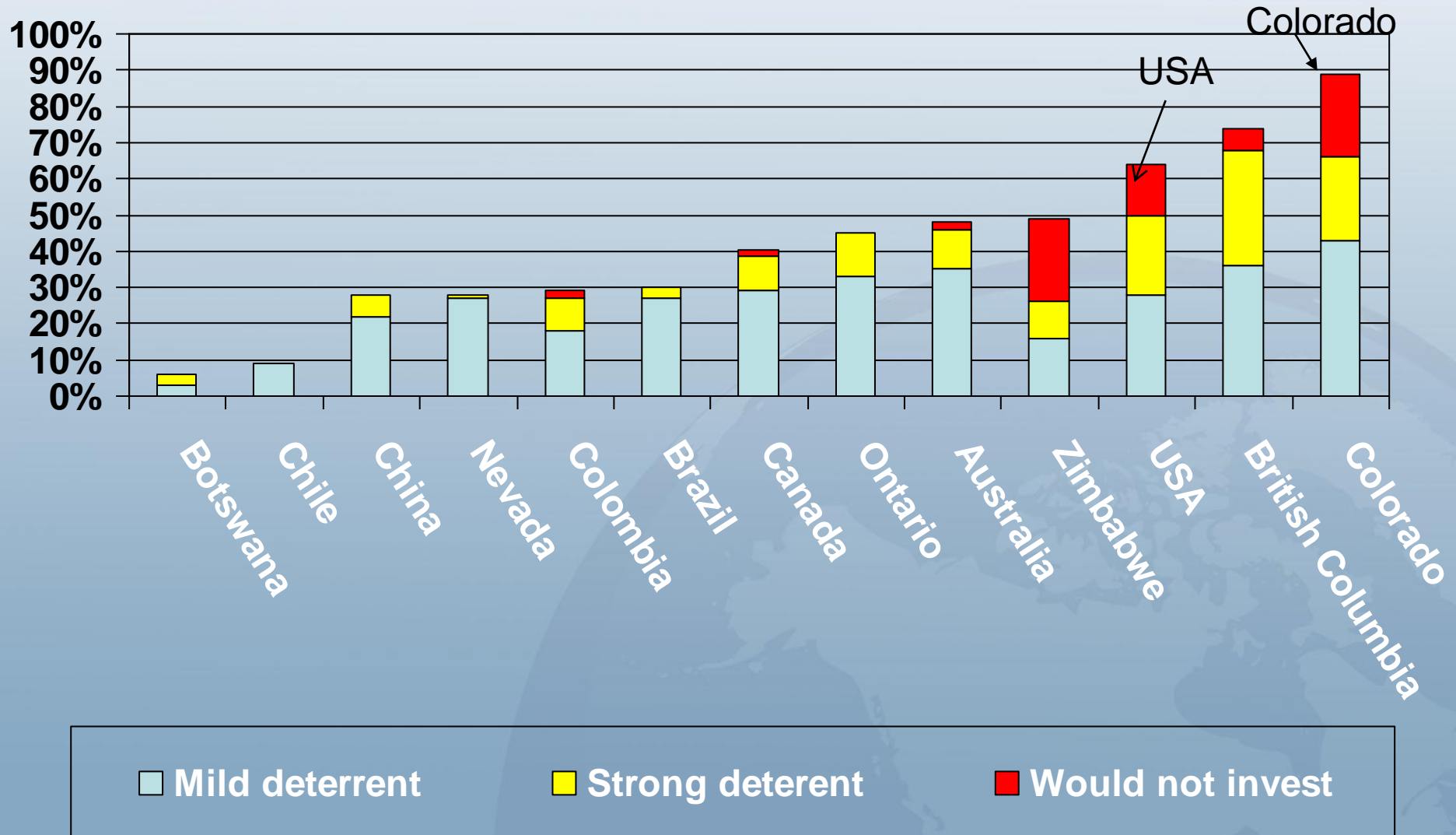
# UNCERTAINTY REGARDING THE ADMINISTRATION, INTERPRETATION, OR ENFORCEMENT OF EXISTING REGULATIONS



# UNCERTAINTY CONCERNING ENVIRONMENTAL REGULATIONS

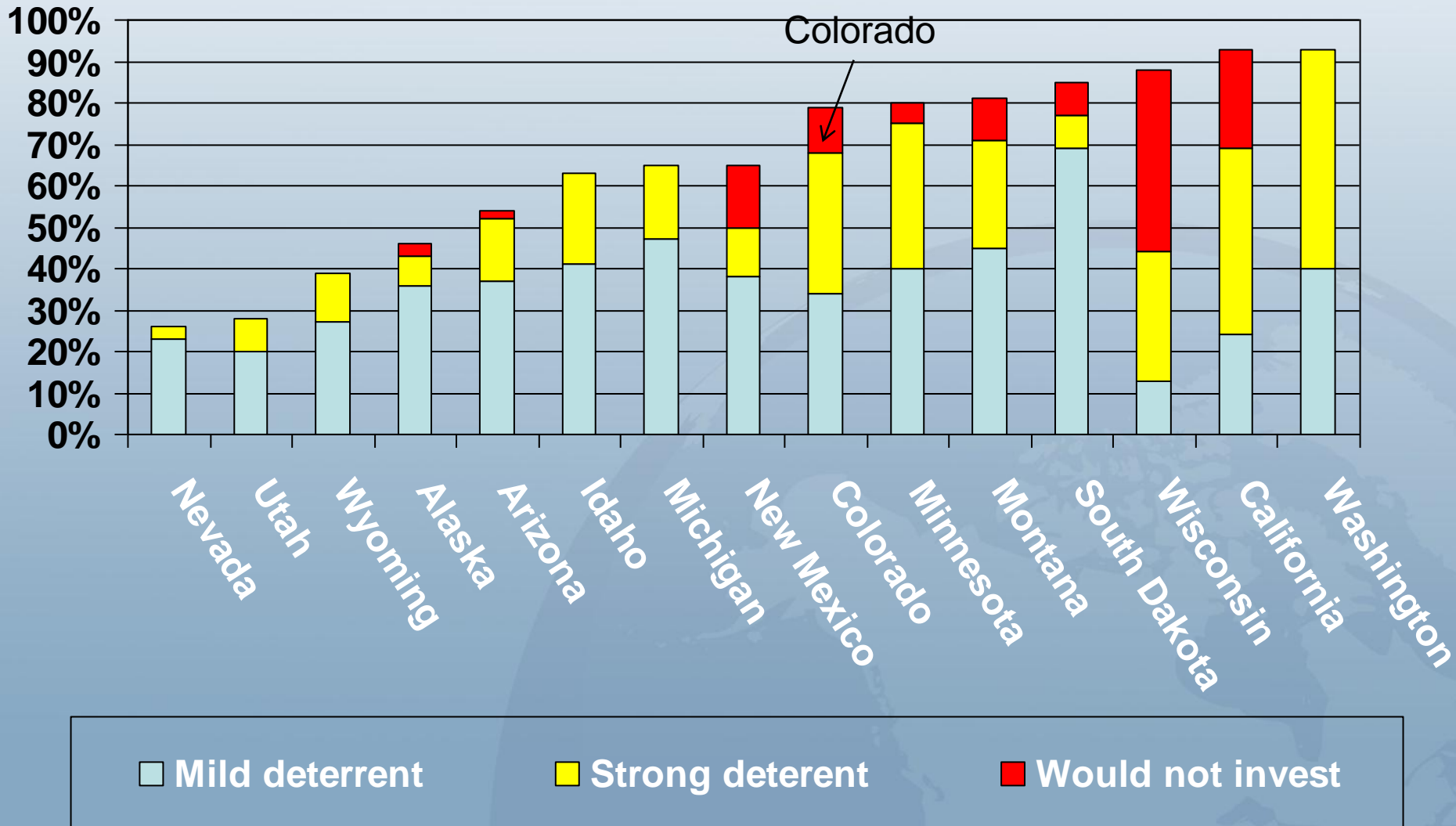


# UNCERTAINTY CONCERNING ENVIRONMENTAL REGULATIONS

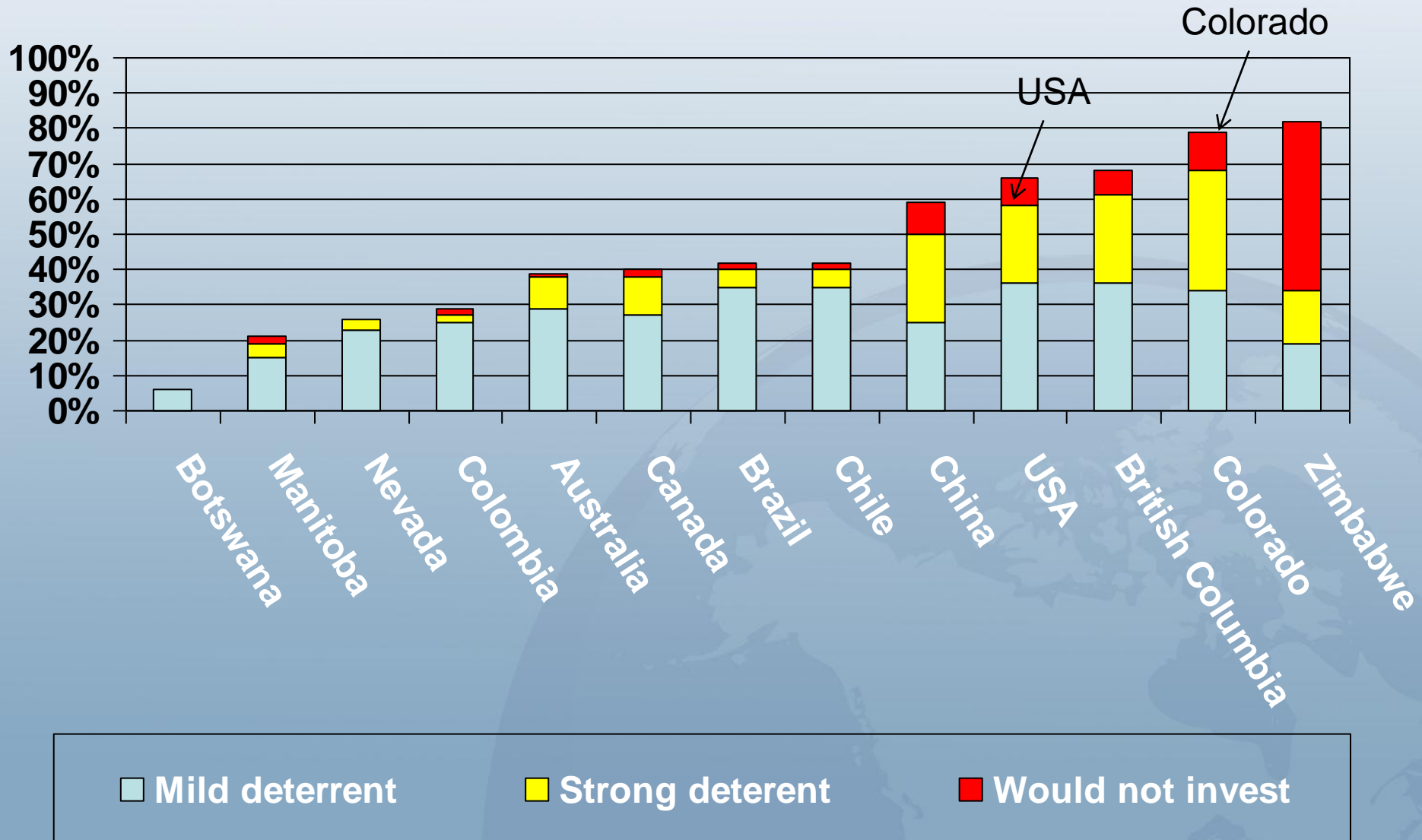




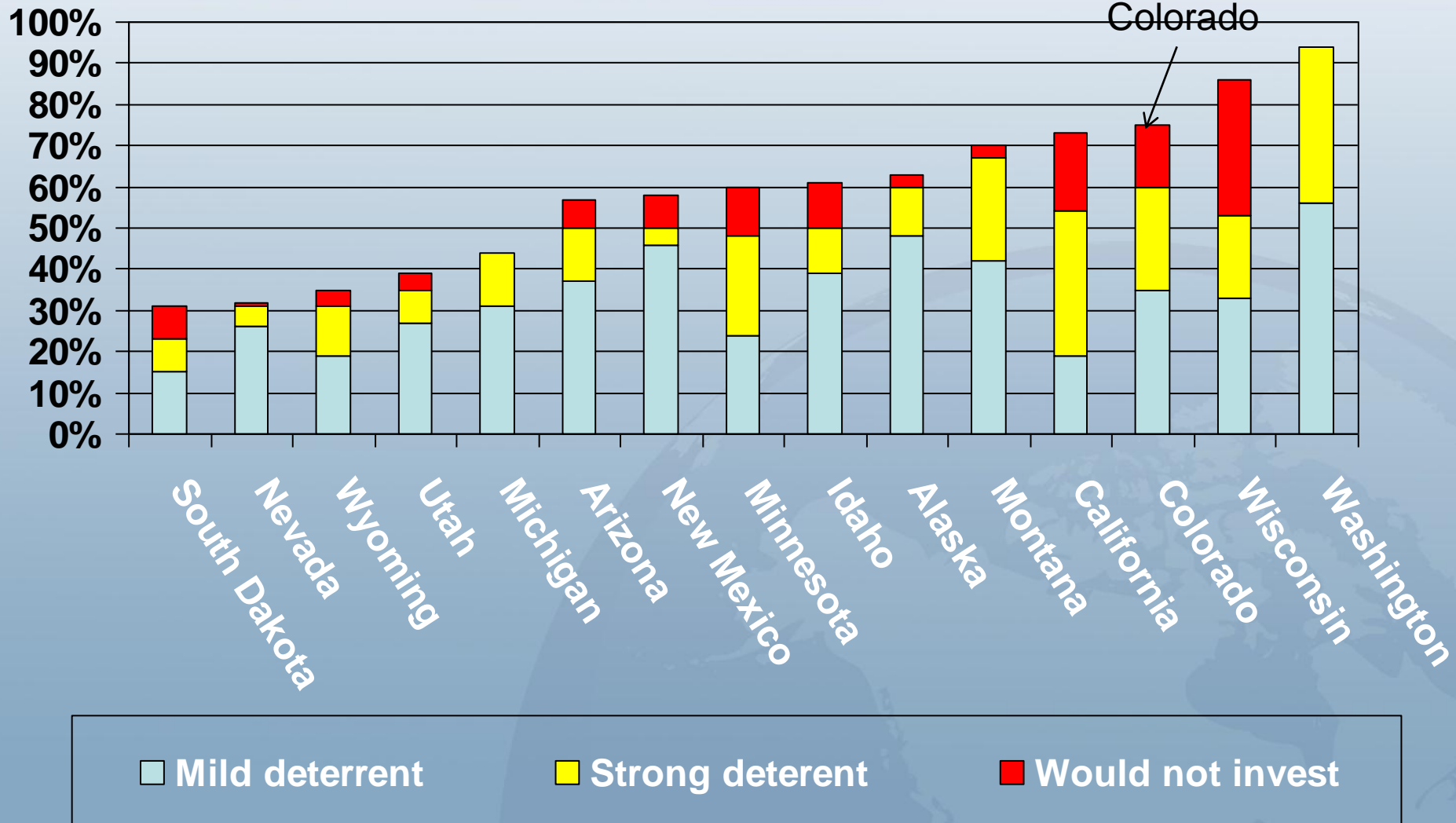
# REGULATORY DUPLICATION AND INCONSISTENCIES (includes federal/provincial, federal/state, inter-departmental overlap, etc.)



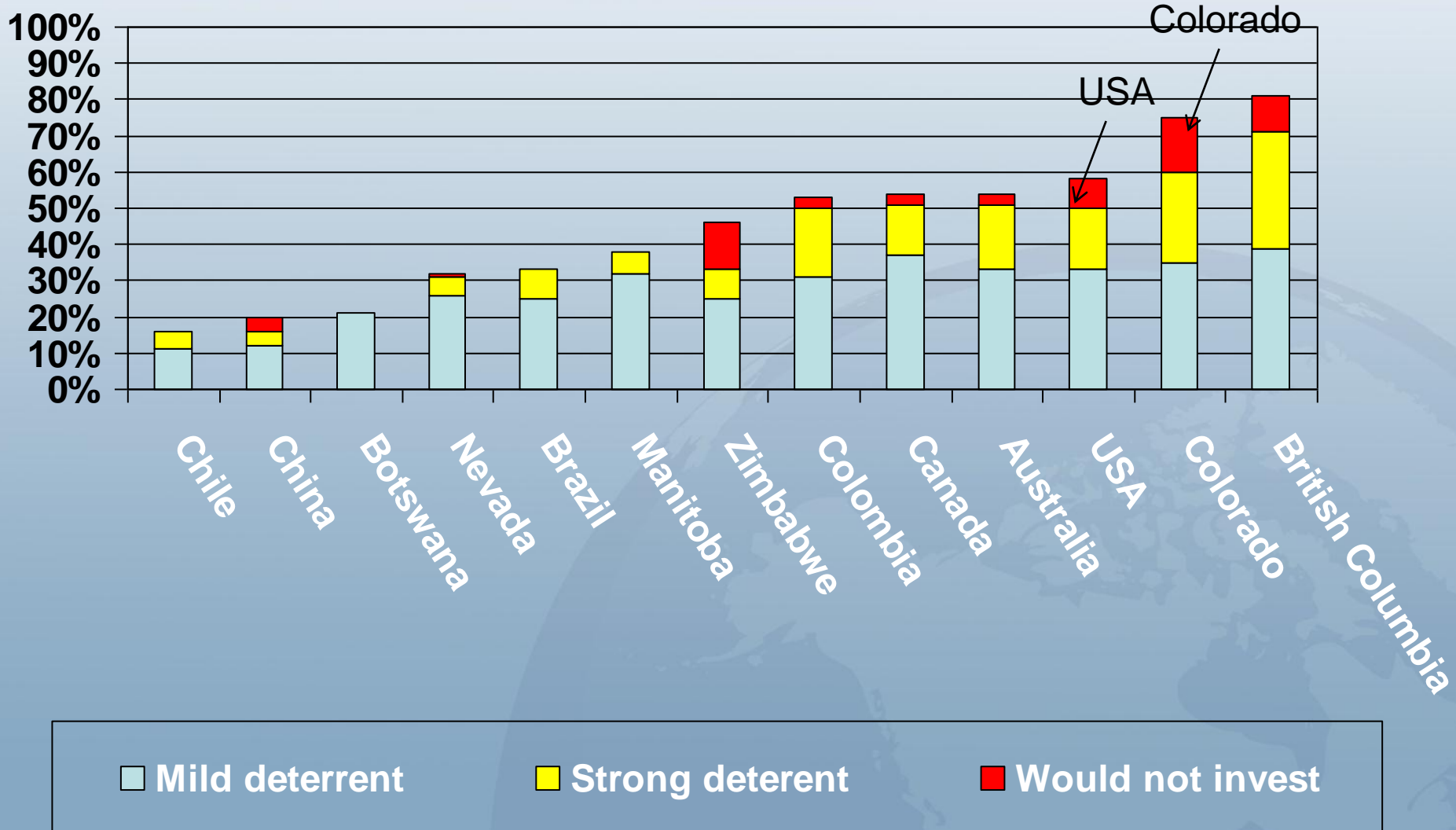
# REGULATORY DUPLICATION AND INCONSISTENCIES (includes federal/provincial, federal/state, inter-departmental overlap, etc.)



# UNCERTAINTY CONCERNING WHAT AREAS WILL BE PROTECTED AS WILDERNESS, PARKS, OR ARCHEOLOGICAL SITES



# 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

A faint, light blue world map is visible in the background, centered behind the title text.

# 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

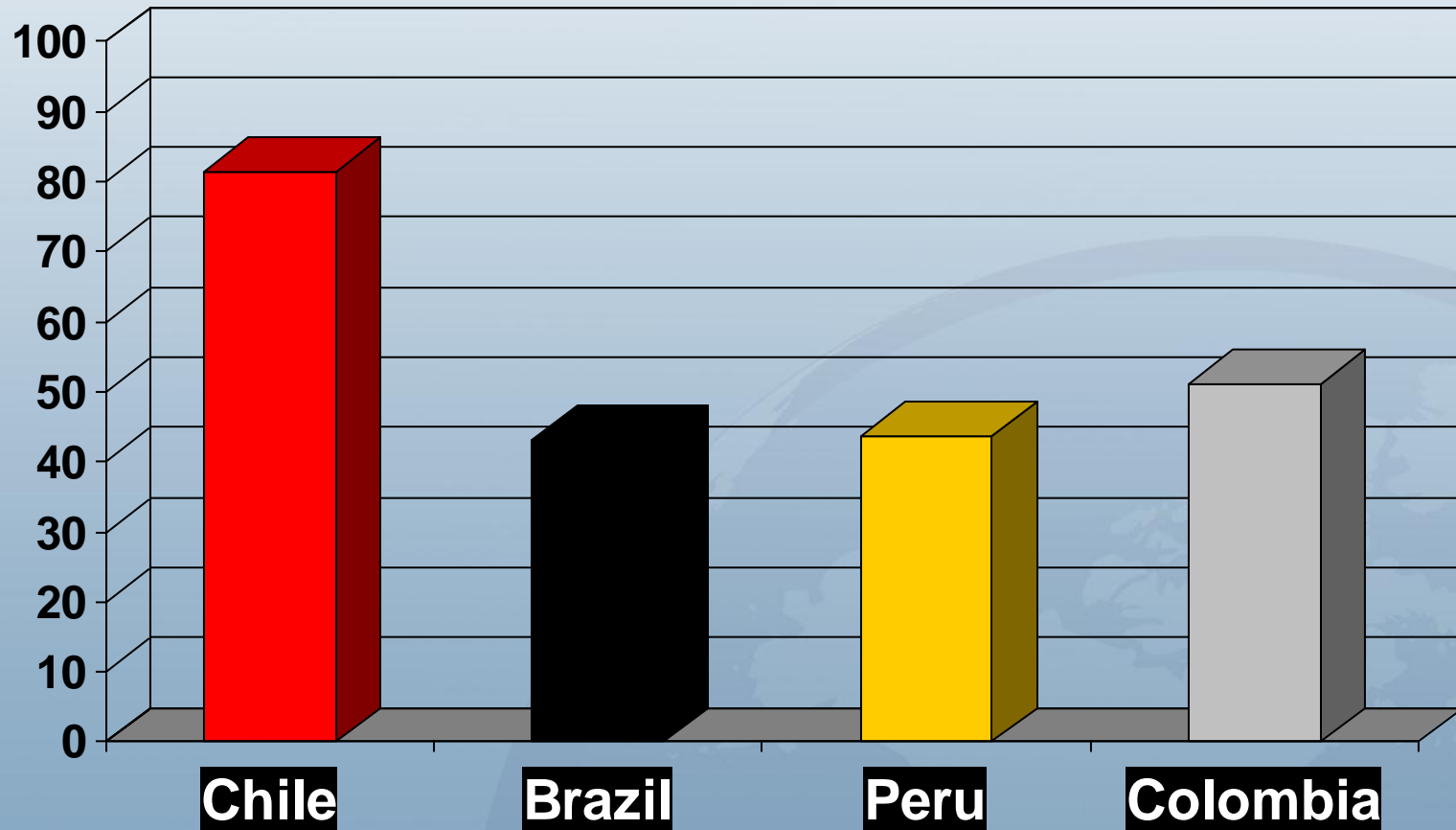


# A Latin America Example: Reducing Poverty



- 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

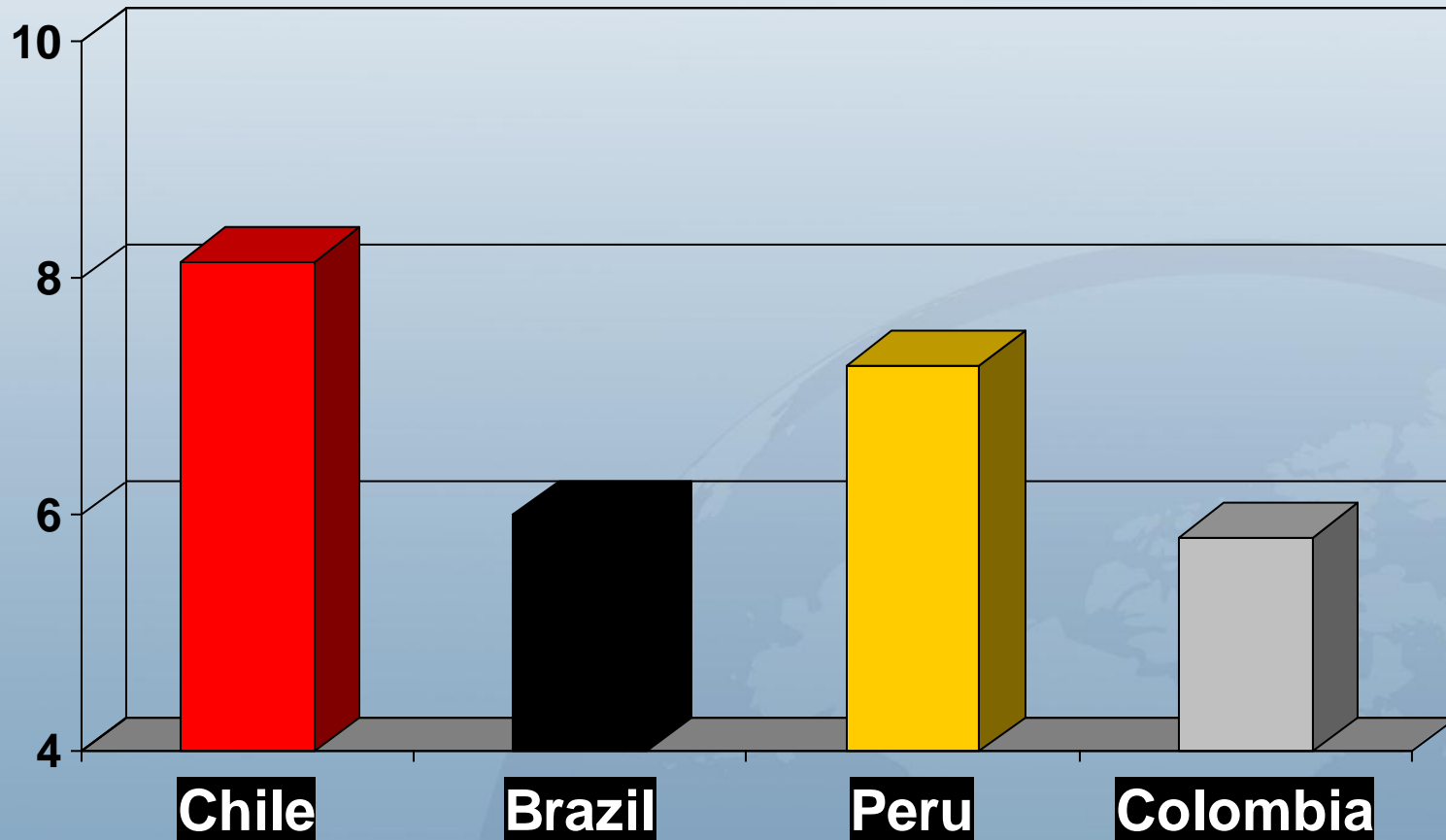


# Commitment to free markets



- 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



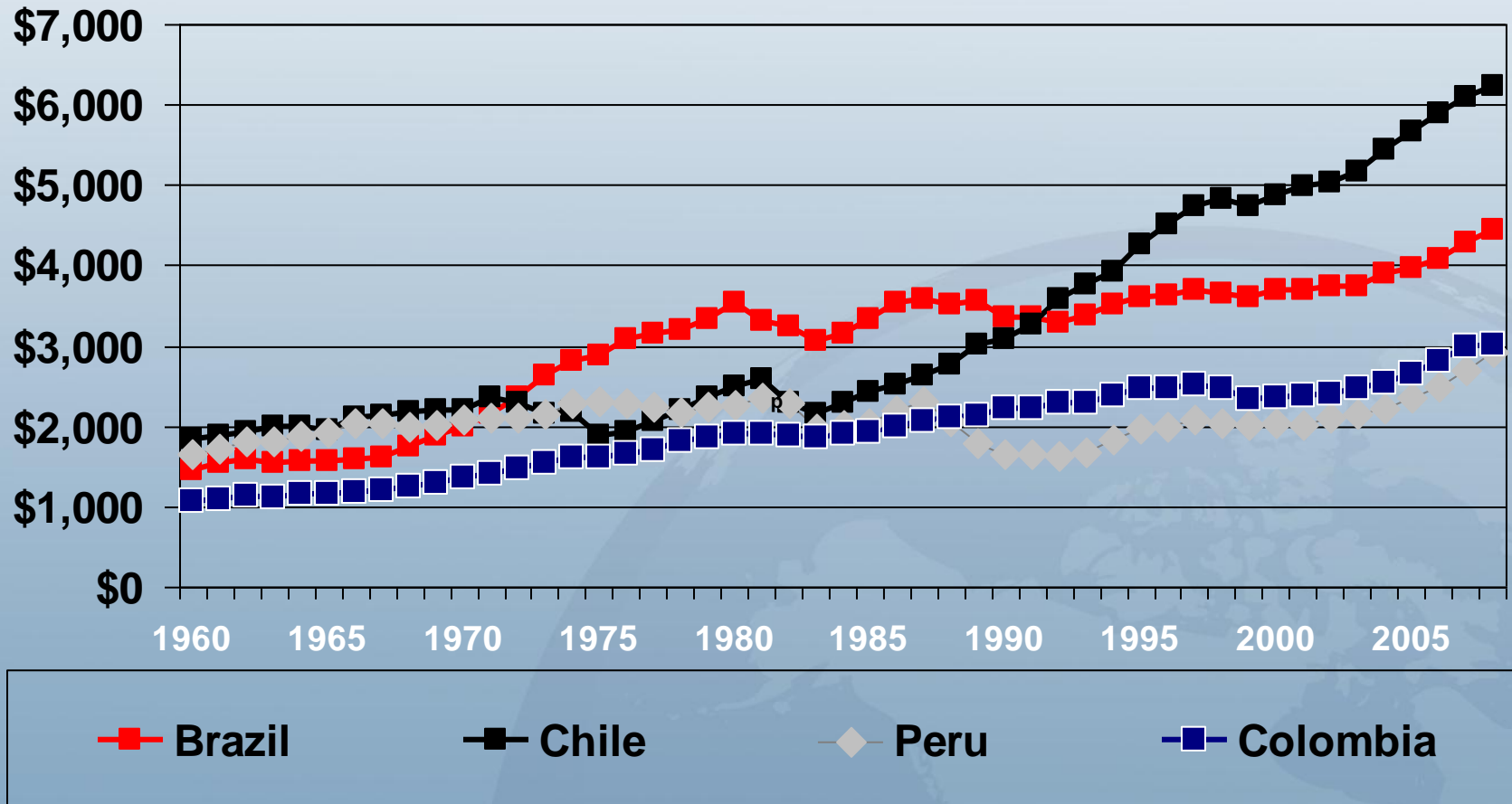
So what works for  
economic growth and poverty  
reduction?

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



# Free markets/mining policy achievements



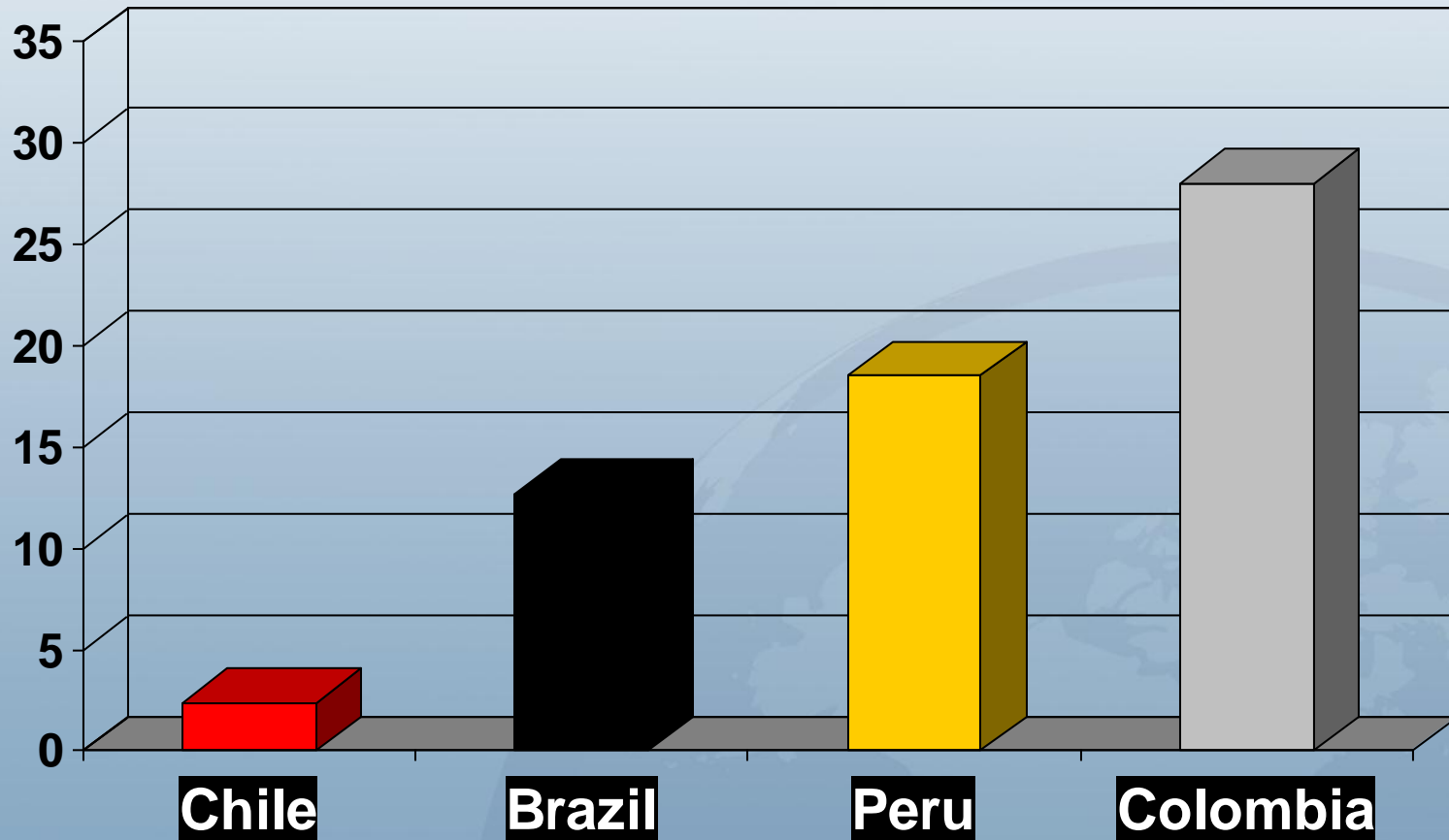
- Chile began the period with about average per capita income in South America.
- For a quarter century, its relative situation did not improve and, in fact, it fell behind Brazil.
- With the reforms of the 1980s, Chile's economic growth took off like a rocket.

But, what about the poor  
and other indicators of  
social well-being





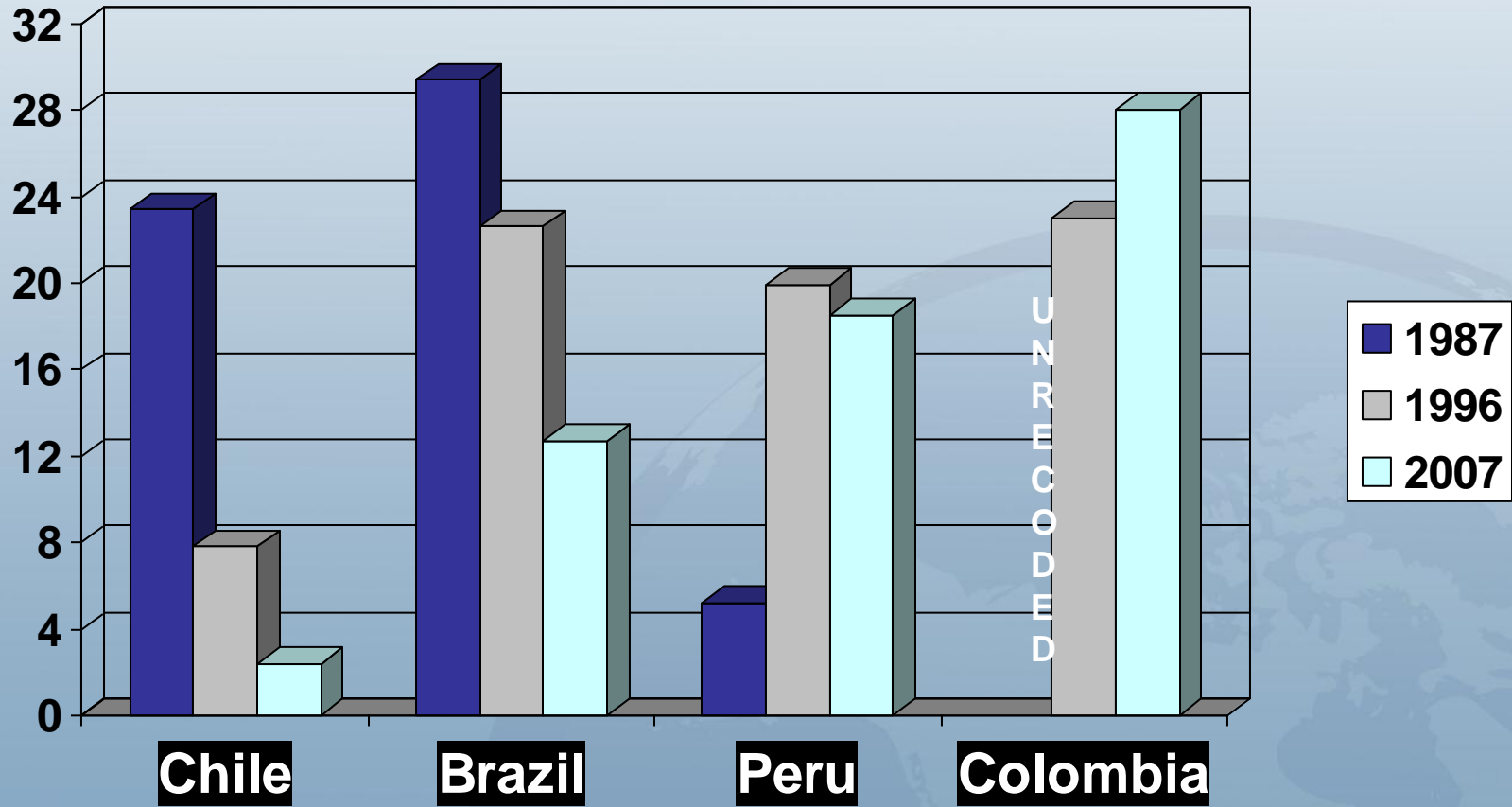
# Percent in poverty \$2 a day: 2007



# Some history:

## Percent in poverty \$2 a day

(Constant dollars, so discounted for inflation)



# 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](http://www.fraserinstitute.org)