

Slippery steps on the road to ruin

Review by Gill Burke

Vivian Danielson & James Whyte, *BRE-X Gold Today, Gone Tomorrow: Anatomy of the Busang Swindle*, Northern Miner, Toronto 1997, 285 pages.

Trevor Tarring, *CORNER! A century of metal market manipulation*, Metal Bulletin Books Ltd. London. 1997. 228 pages plus index.

What a thing is human greed! Time after time after time – as these two fascinating books so clearly point out – people breach trust, lie, swindle and manipulate markets to try to gain more and still more. And time after time after time other people swallow the lies whole in the hope that they too will gain more and still more. It seems that people never learn.

In their account of the rise and fall of Bre-X Minerals, Danielson and Whyte comment "It is another cautionary tale of gold's power to seduce and blind not only sinners but saints and scientists as well." But, as their tale unfolds, the saints and scientists turn out to be more than merely blind in their eagerness to believe in the richness of the Busang deposit de-

spite all evidence to the contrary. Those who visited the East Kalimantan site in the heady days appear to have left their brains, curiosity and caution with the hat-check girl at the Jakarta Hyatt. And as for the share-buying public back in Canada ... oh dear.

The authors, who are journalists with Northern Miner, locate Bre-X within the context of other recent scams. One example was Karpa Springs, another was Indonesian exploration junior PT Minindo Perkasasemesta (Minindo). Minindo brought together many of the *dramatis personae* who were later to play such a central role in the Bre-X drama – Filipino geologist Micheal de Guzman, Indonesian businessman Jusuf Merukh and the egocentric, charismatic John Felderhof.

When, despite connection's to the Suharto family, the whole episode ended in tears, Felderhof's name was tarnished. In the aftermath he was asked by an associate to find buyers for some unwanted Indonesian gold properties including Busang. Thus when in 1993 the broke and desperate David Walsh came on the scene from Calgary looking for a mining venture to change his fortunes, the venture plus the people to develop it were all ready and waiting. All Walsh had to do was hype the operation and raise the wind.

And was the hype successful! Planeloads of market makers, analysts and similar enthusiasts crossed from Canada to hot and unfamiliar Jakarta and then to the even hotter and wilder terrain of Kalimantan. At the site Felderhof and de Guzman played 'hard cop/soft cop'. The former expounding arrogantly, passionately on the 'big picture' and the 'maar-diatreme model', the latter smiling, even-tempered, reasonable, arguing geology and stroking egos. Busang, it appeared, had potentially more gold than Fort Knox. On returning to Toronto the analysts shouted 'Buy! Buy!'... and everyone bought. John Felderhof was named 1997 Prospector of the Year by the Pros-

pectors and Developers Association of Canada.

Now Bre-X was a mining junior; and the usual pattern for a junior on to a good thing is to find a nice big grown up mining company to take it off their hands – at a price of course, or possibly to share it. But the Bre-X actors were so busy talking up the reserves and the share price that they omitted to do necessary things like check their paper-work to make sure what they were doing was within the terms of their permit.

When a row blew up with Jusuf Merukh, the Mines Department got nasty. By then a son of Indonesian President Suharto was on the Bre-X Board and a marriage was being arranged with Placer Dome. More shenanigans later – including the removal of the then Director-General of Mines, pressure from President Suharto's *daughter*, competition from Barrick Gold - and lo! the marriage was to be with Freeport.

Freeport was to be Bre-X's nemesis since, inevitably, they would undertake due diligence work before coming on board. When Freeport drilled core holes to confirm the results of previous Bre-X drilling – the gold was not there and down came the house of cards. The share price of Bre-X collapsed and Michael de Guzman apparently fell out of a helicopter. Undaunted, Felderhof claimed Freeport was drilling in the wrong place and David Walsh claimed it was the work of enemies jealous of his success.

Subsequently, an independent audit by Strathcona Mineral Services stated unequivocally that core samples were intentionally adulterated with gold from somewhere other than Busang. Investors were left with billions of stock losses. Walsh went to the Bahamas and Felderhof to the Cayman Islands. Lawyers began sharpening their writs. By mid 1998 David Walsh was dead.

So what to make of it all? Was Walsh a duffer and a dupe with no idea what was happening in Indonesia? Was Felderhof a darkly troubled man, embittered by his

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lack of credit for the discovery of what became Ok Tedi mine in Papua New Guinea? Does the blame really lie – where so many have put it – with Michael de Guzman apparently deceased? Is it simply that, as one commentator remarked "Gold makes people dishonest"?

The authors put it this way: the Bre-X affair "...was a mirror for the mining industry, which had become too promotional and too tolerant of its own miscreants. It was a mirror for the brokerage and investment sector, which took institutional money to places it was never intended to go thereby propelling a low-grade scam into the pension plans of thousands of Canadians. Bre-X always was highly speculative stock, and, in the old days, it would have known its place."

Danielson and Whyte have done a fine job tracking the ins and outs of the sorry saga. They are rightly critical of the behaviour of mining analysts and brokers in Toronto's Bay Street who focused solely on share prices and never bothered to question. They try to get inside the heads of those involved to understand their actions. On the other hand they have a tendency towards sentimental gush when talking about the 'real' mining industry – mainly the Canadian one, so unlike the 'rough and tumble' of perfidious Southeast Asia. This reviewer would suggest that some pretty rough tumbling has been known to occur in Canadian mining too.

Of all the reams written about Bre-X at the time, perhaps the most perceptive comment came from *The Mining Journal (MJ)*. Discussing the interim report by Strathcona, in October 1997 the *MJ* pointed to similarities with several other recent financial scandals, notably the Sumitomo affair, and remarked:

"One of the most interesting points in the Bre-X report was that the consultants.. believe the tampering 'initially was done to prevent the closure of the Busang exploration site'... this would suggest that the fraud was not necessarily initiated out of a simple desire for gain, but may have been a desperate attempt to en-

sure continued funding for exploration work that was believed would eventually make a genuine discovery. Again, this has something in common with those trading scandals in which the individual began falsifying trading details in the hope that he would be able to retrieve a loss-making position..."

In *CORNER!* Trevor Tarring makes a similarly perceptive comment about Yasuo Hamanaka and Sumitomo: "Rather than remembering Hamanaka as the master-mind who terrorised the copper market, history may mark him down as a rabbit caught in the headlights of a car."

What is so astonishing about both books under review, are not the attempts to swindle, corner or manipulate whether with a salted mine or on the London Metal Exchange (LME) – but the fact that no sooner has the venture failed someone, somewhere, sets out to try again. The lesson from *CORNER!* is that they cannot possibly succeed – not least because the LME will (quite understandably) shift the goal posts to protect itself.

Tarring's book is far more wide ranging than the other. It begins with the Secretan corner of 1887, ends with Hamanaka's corner a century later and covers a range of market manipulations in between. The author's forty-year career with the Metal Bulletin Group informs and enlivens his writing even more than does his access to the Metal Bulletin Archive. His introduction takes the reader through the complexities of hedging, leverage, period pricing contracts and so on in a clear and easily understood manner. He provides interesting vignettes as appendices and a detailed glossary of technical terms.

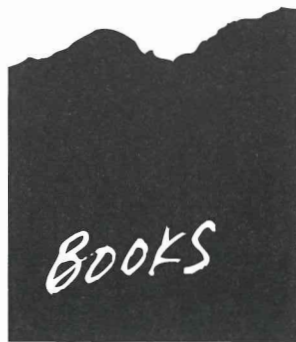
Of the twelve examples given only two others can really be classed as corners, the rest chart various attempts to establish a 'producer price'. Producer pricing attempts get short shrift from Tarring for two main reasons. Firstly, because 'trying to resist the natural ebb and flow of markets is as futile as trying to resist the ebb and flow of the tides.' Secondly be-

cause most of the attempts are predominantly characterised by greed. He does concede that some individuals believed they were using the leverage of the market to right a social injustice or commercial inefficiency but mostly the exercises are about cash.

Market manipulators discussed include the US copper producers and the various aluminium cartels. Some remarkable characters parade by, such as Sir Ronald Prain of Rhodesia Selection Trust (copper), Simon Hicks (tungsten) and Gerard Hodge (bismuth). There is Sir Val Duncan of Rio Tinto who helped initiate a producer pricing system for zinc lasting twenty-four years. The twenty-nine year saga of the International Tin Council (ITC) is examined and critiqued. Yet, having traduced them all, the author concedes in the Epilogue that they "pale into insignificance beside the 60-odd year life span of the control of the diamond market by De Beers and the Central Selling Organisation."

In addition to Secretan and Hamanaka, the other corner attempts are those on silver by the Bunker Hunt brothers in 1973 and again, aided and abetted by Saudi royalty, in 1979; and the David Zaidner/Marc Rich attempt on behalf of prominent Malaysians to corner tin in 1982. The latter chapter, amusingly entitled 'The Mark of Zorro' charts Zaidner's links to the ITC and to the 'Wizard of Zug' Marc Rich himself – trader and manipulator *par excellence*.

The author states that Zaidner's trading skills made him well-placed to offer his services to the Malaysians who, as major tin producers, wished to move world tin-trading from the LME to Penang. The implication being that the whole idea came from Malaysia. But a prominent Indonesian told this reviewer that Zaidner actually put the corner scheme to Indonesia first and was turned down. Then he hawked it successfully to Malaysia. Either way, as the author correctly points out, once the LME had acted to eliminate the backardation the corner



collapsed and the ITC Buffer Stock Manager was left with the mess of a huge market overhang.

CORNER! is a tantalising book. It is short, readable and presumably aimed at the general reader. The author admits he has given a *tour d'horizon* rather than an in-depth survey of metal market manipulation. But he is so at home with his subject that one can only regret he did not attempt a fuller and more analytical study. General readers who are interested in metal markets deserve no less.

This reviewer particularly regretted the cursory treatment given to the Anglo-Oriental/Patino tin pool of the late 1920s. The author refers to it, but essentially only as contextual background to the early ITC. The achievement of John Howeson at Anglo-Oriental was not merely to set up a Tin Producers Association to curtail supply and to begin a nascent stockpile. What is less well known is that Howeson and Simon Pati o has another, separate, much larger stockpile of their own. Howeson's real success lay in persuading sovereign governments to establish a Tin Council – which then bought *both* stockpiles. Now there was a scam! ■

Books received

edited by Robert Lilljequist

International Zinc Association, *Pocket guide to world zinc*, Avenue de Tervueren 168, 1150 Brussels, Belgium. Fax: +32 2 776 00 89, E-mail: email@iza.com Internet: <http://www.iza.com>. 73 pp.

The International Zinc Association is an international organisation representing zinc producers world-wide. The International Lead and Zinc Study Group was formed in 1959 to provide opportunities for regular consultations on international trade in lead and zinc and to make special studies of the world situation for these metals. Particular attention is given to providing continuous information on the supply and demand position. Zinc provides the most cost-effective and environmentally efficient method of protecting steel from corrosion. Besides protecting steel, zinc has many other uses in automotive equipment and household appliances, building and construction, pharmaceuticals and medical equipment, tyres and all rubber goods, and fertilisers and animal feed.

The pocket guide gives an illustrative overview of major uses of zinc, human health and environmental issues, properties, basic technical data, consumption, markets, ore reserves, world zinc mines, production per region etc.

International Zinc Association, *ZINC – annual magazine*, Avenue de Tervueren 168, 1150 Brussels, Belgium. Fax: +32 2 776 00 89, E-mail: email@iza.com Internet: <http://www.iza.com>. 24 pp.

The annual magazine *ZINC* contains several articles on the use and importance of the metal zinc. Copies can be obtained free of charge.

Phillip F. Cramer, *Deep environmental politics – the role of radical environmentalism in crafting American environmental policy*, Praeger Publishers, 88 Post Road West, Westport, CT 06881, USA. ISBN 0-275-96051-X, 238 pp.

Many aspects of deep ecology are examined in this book – from its history to its political involvement. The book provides both an overview of the philosophy as well as original research into the relationship between politics and the ecophilosophy. Though the term "deep ecology" is only 25 years old, its ideas and principles date back thousands or years. The primary concern of Phillip Cramer has not just been to study the history of tactics of deep ecology but rather he attempts to provide a window into the world of American politics.

The book details the rules of the "game" and looks at the why and how of environmental legislation. Though deep ecology has gained at least a foothold in American environmental politics, many politicians are afraid of explicitly acknowledging its role. The author also reviews media's reporting attempts to discern trends in bias toward deep ecology. The sample of over four hundred articles yielded various perspectives on deep ecology. In summary, this book has attempted to illustrate how deep ecology and radical environmentalism tried to reverse the engines of society and thus craft American environmental policy.

Johanna Kulczycka, *Using the world price in management: the example of the Polish copper industry*, IGSMiE PAN, Wydawnictwo Instytutu Gospodarki Surowcami Mineralnymi I Energia, 31-261 Kraków, ul.J.Wybickiego 7. Fax: 635 35 24, ISBN 83-86286-59-8, 142 pp.

The number of manufacturing and trading companies involved in metals-

trading has increased noticeably. The author defines the world price as follows: "The world price of a particular mineral commodity is the price established on an international trading exchange applicable to both future and option transactions." To avoid the uncertainty caused by fluctuation in the world price, producers and processors may make use of hedging transactions, both on the exchange and in bilateral contracts. The main purpose of hedging is to eliminate risk and allow producers and consumers to operate under stable market conditions. Poland adopted the world practice after 1989. KGHM Polska Miedz S.A. sells copper on the domestic market at the average LME price calculated for the previous or current month, when the amount to be sold has previously been determined by the customer. KGHM tried to use the hedging strategy once, in 1994, and hedged 9 per cent of its 1994 copper production. The result was a loss of approximately 16.7 million PLN.

Lars Landner and Lennart Lindeström, *Zinc in society and in the environment – an account of the facts on fluxes, amounts and effects of zinc in Sweden*, Swedish Environmental Research Group (MFG), Fryksta, Sjölidén 9, S-665 91 Kil, Sweden. ISBN 91-630-6871-0. Fax: +46 554 405 59, E-mail: serg@mfg.se, 160 pp.

Environmental authorities both in Sweden and in various other countries are demonstrating a growing interest in zinc in recent years. Various activities and policies are now aimed at reducing or regulating the use of zinc and zinc compounds. The total outflow of zinc to the Swedish environment from various ongoing and previous human activities in the country is estimated to be about 1800 tonnes per year. This amount is forecasted to decline by around 30 per cent between 1995 and the year 2000.

In sum, this book deals with the use of zinc in Swedish society, the occurrence of zinc in the technosphere and the natural environment, and the flux of zinc

from the technosphere to the natural environment. Various environmental aspects are dealt with from the perspective of the use of zinc in society and the occurrence of zinc in the Swedish environment, now and in the future.

The scientific literature contains few or no examples of adverse effects in terrestrial plants and animals, including man, of a moderately elevated zinc exposure. There is nothing to suggest that natural vegetation or cultivated crops in Sweden today be exposed to excessive zinc concentrations in the soils. Nor has any adverse effect of zinc exposure on the ecosystems in natural seawaters ever been recorded in Sweden.

Commission Nationale D'Evaluation, National Assessment Committee, *Thoughts on retrievability*, Instituee par La Loi du 30 December 1991, 39-43 Quai Andre Citroen, 75015 Paris, Fax: 01 40 58 89 38, 76 pp.

The report treats the problem of the retrievability of nuclear waste deposit.

Fabrice Hatem, *International Investment: towards the year 2001*, United Nations Publications, Sales NO GV.E.97.0.5, ISBN 92-1-1007-40-2, 81 pp.

The study provides indications of current trends in international flows and likely developments through the beginning of the next century. Its findings are that there will be a sharp rise in foreign investments as sales and production become more international. According to the report this will increasingly occur through acquisitions, joint ventures and alliances. Other main conclusions are that the USA and Western Europe will remain the major host regions in terms of foreign direct investment stocks despite the growing attractiveness of developing economies, and that the principal determinant for investing abroad will remain to gain market access.

Centre for Development Research, *Annual Report 98*, CDR, Gammel Kongvej 5,

DK-1610 Copenhagen V, Fax: +45 33 25 81 10, E-mail: library@cdr.dk, ISSN 0108-1160, 81pp.

IWGIA, *The indigenous world 1997-98*, International Work Group for Indigenous Affairs, Fiolstraede 10, DK-1171 Copenhagen K, Fax: +45 33 14 77 49. E-mail: ce@iwgia.org, ISBN 87-90730-00-3, 400 pp.

The indigenous world 1997-98 is IWGIA's 12th yearbook. More than 50 authors, both indigenous and non-indigenous, have contributed to this year's issue. The book covers the majority of countries where indigenous peoples live and therefore provides a comprehensive overview of the state of affairs and crucial developments among the world's indigenous peoples in 1997 and early 1998. Like its predecessors, this year's issue contains a section on "Indigenous Rights" which includes reports on the third session of the Open Ended Working Group of the UN Commission on Human Rights and on the 54th session of the UN Commission on Human Rights. An article on the European Union's policy on indigenous peoples and development cooperation is included as well as a new section titled "Indigenous Woman's Issues". The Annual report is also available in Spanish.

Ministry of Solid Minerals Development Nigeria, *The Future of Mining in Nigeria*, Global Minerals Limited, Plot 2495, Ganges Steet, Ministers Hill A6 Maitama, P.M.B 335, Garki, Abuja, Nigeria, Fax: 09-523 68 49, 23 pp.

Nigeria, like some other African countries, is richly endowed with a variety of minerals and the occurrences are nationwide. Hitherto, pre-eminence was given to oil as a foreign exchange earner with agriculture, industry and the mineral subsector severely relegated. Presented in this folder are basic information and data about Nigeria's mineral deposits, the fiscal and financial incentives offered, infrastructure, general services and a for-

mal invitation to local and foreign investors for participation in the revival of a once flourishing mining industry.

Jernkontoret, *Iron and Steel – today, yesterday and tomorrow*, Volume 3, ISBN 91-973072-4-6, 232 pp.

This volume contains articles on Swedish Iron and Steel in a historical perspective, the Wallon immigration and the Swedish steel industry, a review of technology exchange between Sweden, England, France, and Holland, industrial structure and competitiveness, steel research and steel in tomorrow's world.

Peter Bobrowsky, Editor, *Aggregate Resources – a global perspective*, AA Balkema, P O Box 1675, 3000 BR Rotterdam, Netherlands, Fax: +31 10 413 59 47, E-mail: balkema@balkema.nl, Internet site: <http://www.balkema.nl>, ISBN 90 5410 675 1, 469 pp.

As a non-renewable resource, aggregate does not always occur in the areas it is most needed, and if present, the resource is often affected by competing land-use options such as sterilisation vs. exploitation. Quality, quantity and accessibility are equally important variables contributing to the controversy. Most publications to date have only focused on the various geotechnical properties of crushed stone or sand and gravel. In contrast, this book provides a comprehensive collection of 27 diverse scientific papers on aggregate topics such as geology of deposits, geophysical exploration techniques, deposit prediction and modelling, land-use case studies, production values and trends, geotechnical properties, legislation, politics and others. This book will appeal to all involved with aggregate resources, especially since most people are in some manner either directly dependent or indirectly affected by this resource.

Minerals Council of Australia, *Safety and Health Performance Report 1996–97*, published by Minerals Council of Australia, ACN 008 455 141, Mining In-

dustry House, 216 Northbourne Avenue, Braddon ACT 2612, Fax: (02) 6279 3699, 40 pp.

The Minerals Council of Australia through its Safety and Health Committee, is currently exploring a mix of reporting indicators to better monitor the minerals industry's safety and health performance and to assist in managing its core risks. The Australian minerals industry's performance on fatalities is unacceptable. In stark terms, this year's underground fatal injury frequency rates translate to: one death in every 24 underground metalliferous industry employees over a 40 year working period, and one death in every 28 underground coal industry employees over a 40 year working period.

The World Bank, *Environmental assessment of mining projects*, Environmental Assessment Source book Update No 22, 1998, The World Bank, 1818 H St. NW, Washington, D.C., 20433, Room No MC-5-105, 12 pp.

This Update provides an introduction to the environmental issues associated with mining activities, the relevant contexts where the Bank might be involved with mining projects, and the extent to which environmental issues should be addressed by private or public sector organisations seeking Bank Group support for mining projects.

Anderson Mutemererwa, *Sources of Competitiveness in Ferrochromium Production*, Licentiate Thesis, 1998, Division of Economics, Luleå University of Technology, 971 87 Luleå, Sweden. Fax: +46-920-72035, 77 pp.

This thesis consists of three papers, all of them related to the shift in location of ferrochromium production in market economies. The main thrust of this location shift has been away from the markets of ferrochromium, and closer to the sources of chrome ore, which is one of the key inputs in ferrochromium production.

The primary purpose of the first paper is to examine the cost competitiveness of the different ferrochromium producers and present a general overview of the different types of costs these face. The main purpose of the second paper is to investigate the role that vertical integration has played in the shift of location. The main focus is on southern Africa. The results lend some support to the idea that vertical integration in the industry has taken place to lower the costs of chrome ore in the production process.

The third paper focuses on the effect that electricity costs have had, and continue to have, on the location of ferrochromium production capacity. The results show electricity as being important from at least two perspectives. One is in choosing where to locate capacity, with those countries having cheaper electricity more likely to be chosen over the ones that have higher priced electricity. Once the choice of location is made, electricity costs per unit of output influence, to a certain though less definite extent, the actual level of ferrochromium produced. ■