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DOING SOME DIGGING -
Reviewing the Fraser Institute's Rankings

8/25/2004

By Eduardo Vale* and Hildebrando Herrmann**

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How to rank mining countries in terms of relative competitiveness has been an important issue of the mineral economics literature for many years. The major concerns in the late-1960s were political risk, security of tenure (and other assets), and effective taxation rate. In the last 15 years, some effort has been noticed focusing on dealing with the multidimensional nature of the problem by combining quantitative and qualitative attributes and developing ranking indicators.

Beginning in 1997, the survey conducted by the FRASER INSTITUTE of Vancouver has been recognized and used by most as a global mining reference. It is unique: global, multidimensional and annual. Despite its wide acceptance, complaints about Fraser´s classification for some jurisdictions have been heard. As a matter of fact, several aspects of the methodology curb the quality of the rankings, recommending care in the use of indicators and in reaching conclusions. Some of these issues worth comment are:

1) The nominal size of the sample, in terms of the number of companies researched, seems to be adequate, but the effective number of respondents is only about 16%.

2) A relative constant in the average number and size profile of companies (junior and senior) suggests a very similar set of respondents taking part in the survey every year. On the other hand without the respondents' names, it is impossible to evaluate how truly representative the research is.

3) The predominance of junior companies (above 80%) inserts a strong bias for gold exploration. How much weight is acceptable for representing the share of this metal in the global exploration climate of investment is open to discussion, especially when trying to evaluate the attractiveness of jurisdictions.

4) The aforementioned factors combined with the high geographical concentration—Canada, the United States and Australia—of investments made by participants raises questions concerning the social, political and operational knowledge of several firms, not to mention their representatives, with the ample spectrum of regimes under consideration.

5) It is opportune to point out that, although Latin America received more than 26% of the global exploration investments accumulated in the 2000-03 period, the share of investments

directed to the region by junior companies integrating the Fraser ´s survey were substantially lower.

6) It is important to consider the expertise, nature and level of responsibilities of the professional who answers the survey. Since the research addresses exploration as well as development and mining, it demands different professional insights. In this context, differences in operational focus, company size and integration, previous experience and personal interests can influence the results.

7) In this sense, it would not be surprising if some countries have been rated by people who do not have operational experience there, or at least who do not know enough about the jurisdiction to contribute to an international survey of this stature.

For a company like Freeport, for example, the dropping of Indonesia in the ranking is perceived and absorbed differently. In general, the relative perception of a junior exploring solely for gold can differ substantially from a senior with a robust budget and diversified focus.

8) Some changes introduced at methodological level impacted the results, impeding a retrospective portrayal of the trajectory of various jurisdictions. Among them are the new weights adopted for the potential and policy indexes and the added details at selected provincial and state levels.

9) The new weight attributable to geological potential (60%) and the increase in number of jurisdictions without a direct link to any specific mineral (or at least to a group) exacerbates the distortions. For example, in the last edition of the survey, Peru and Chile were occupying third and fourth positions, respectively, with a potential index of 96, while Brazil received an index of 85 and was ranked tenth. For the sake of transparency, which are the minerals these figures are associated with, or does it not make any difference?

10) In relation to public policy index, in addition to the aspects enumerated above, mention can be made of the challenge of combining different complex and dimensional vectors, such as taxation, political stability, environmental issues, infrastructure and mining code, for example.

11) As we know, international ranking exercises even for taxation, in spite of its quantitative and objective nature as well as its importance to the decision process, is a most difficult and pending issue, despite the most comprehensive and worthwhile attempt made by Jim Otto and his team at Colorado University.

In conclusion, the annual survey conducted by the Fraser Institute is an important contribution to the decision process offering a general overview about competitiveness between mining jurisdictions and encouraging reflections about specific mineral policy issues. On the other hand, it is the only public research available and it is free.

Nonetheless, its methodology has several constraints demanding more refinement, transparency and as such, fundamentally, recommending a very cautious use of the report. In this context, the annual frenzy of some analysts and government officers about the tradeoffs in jurisdiction positions seems to be shortsighted and misplaced, reflecting a lack of understanding of the survey.

*Eduardo Vale is director of Bamburra Ltda. (www.bamburra.com) and renews his acquaintance with CMJ's editor annually at the PDAC AGM. Reach him at bamburra@superig.com.br.

**Hildebrando Herrmann, DSc, is professor of mining law at IG/ UNICAMP (herrmann@ige.unicamp.br).

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