

PLANNING YOUR OWN CORPORATE FUNERAL

**W A Mining Club
Annual Dinner
Friday October 20, 1995
By Ron Manners**

Your President, John Barton's instructions for tonight's talk were very precise :

- Speak no longer than 20 minutes
- Wear a black tie
- Tell us how you "mucked up" when you set out to design yourself a career change, and you found instead that nothing much has really changed.

So following these instructions, these notes were made in-flight, from Vancouver a few days ago. It is just really me talking out loud to a bunch of people who may be faced with a similar dilemma at some stage; when they feel the need for some succession planning to make their company less dependent on one person.

It is in this context that I take you into my confidence and share the thought processes that have been behind the recent moves at Croesus Mining NL, where the Canadian company, Eldorado Corporation Limited has now replaced me as the major shareholder.

Let me also mention the difference between the company and the individual.

Whilst Croesus Mining NL is a very public company with over 4,000 far flung shareholders, I am a very private person, and balancing this conflict is sometimes difficult.

But before I go on, let me tell you a little story about the Broken Window.

Henry Hazlitt, the great economic writer, died two years ago at the age of 98.

Hazlitt over his long career was responsible for introducing thousands of people to classical liberal economics, which is in stark contrast to the Keynesian style of mixed economy, socialist economics taught at most universities.

Keynesian economics is largely responsible for the nonsense that is accepted today when we allow our so called political leaders to go unchallenged when they talk about "governments creating jobs", or when they talk about "stimulating the economy" by taxing the productive sector to encourage dependency, and why they spend money on things that taxpayers can see, but deprive the country of the things unseen, on which taxpayers would have spent their own money if it was left in their hands.

To illustrate this, Henry Hazlitt told the simple story of the Broken Window which has relevance to the rising tide of bureaucracy confronting our industry.

Hazlitt tells of the young hoodlum who heaves a brick through the window of the baker's shop.

Someone in the crowd comments that the baker's misfortune will be the good fortune of the glazier who will supply a replacement window for \$500.

This in turn would help someone else's business and so on. The smashed window would go on providing money and employment in ever-widening circles. Their logical extension for all this would be that the little hoodlum who threw the brick, far from being a public menace, was a public benefactor.

We see this same faulty analogy used every day to justify government expenditure on things like broken windows, things that are seen, whereas the things unseen are too subtle to grasp the imagination of the by-standers or the media.

In the case of the broken window, the thing unseen was the new suit that the baker was going to buy, but didn't.

That is a simple little story that we will come back to later.

Let's go back to Croesus; Croesus Mining NL may have started its life as my personal *corporate child* but it has grown to healthy adulthood and now most certainly has a life of its own. I also have a vision for it to be something far greater than it is already.

With an excellent management team in place and the company's operations running so well, the only problem was that the destiny of the company was too much in the hands of one person, meaning that if anything happened to me, the control block of stock would simply be put on the market the next day and it would be anyone's guess whether the company would survive. The purchaser of these shares would be either better or worse than me. They may be more interested in their own survival rather than the company's survival. Who is to know?

Early this year I took our management team of five and two co-directors into my confidence regarding my concerns. We all agreed that it was better to give ourselves some choice in the matter of "Croesus; post Ron". In this sense I likened it to planning my own corporate funeral.

We started constructing a few models of the type of company with which we could either merge, or take-over, or in fact by whom we could be taken-over. Anything that would generate a stronger entity, with a more diffused spread of proprietorship.

After making a few direct approaches, the word started getting out and I received a few calls from cub-reporters saying that they had heard that "my Croesus shares were for sale". "Was that true?". I said that there was actually more to it than that, but they couldn't grasp such a concept and it was about that time we called in a Perth-based specialised group of corporate advisers, Oakvale Capital Limited to help with the modelling and negotiations. I must thank Eric Hooper (over there by the window), and the Oakvale team for their skills and input throughout this process, which took 6 months; full on. We started with 22 targets, finishing with a short-list of four. This also generated a huge workload for our own staff, which they shouldered with good grace and unending patience.

A word of thanks also to Eldorado Corporation for asking me to help them with the next exciting growth phase for Croesus.

There were also two other aspects helping me make my decision to reduce my own exposure.

- The absurd tax laws in this country. I don't think I need to comment further on this topic.
- The other reason was that the bureaucracy was running amok and doing untold damage to productive enterprises. For some time now I have felt the desire to be outspoken about some of my concerns in this respect, but of course as you know, it is impossible to be outspoken about such matters when you are the Chief Executive of a company. The bureaucracy simply targets you and your company and makes life unbearable.

I have a list of specific examples to draw on, when I eventually become overwhelmed by the desire to be outspoken, however for tonight let me just mention three examples.

The first occurred in 1989 and was probably the trigger which set in motion my thoughts about being on a collision course.

1. The incident started with a Mines Department bureaucrat threatening to close down our operations, because he was not happy that we were discharging our tailings into our abandoned Hannan South pit.

I suppose to be politically correct we shouldn't call them "tailings" any more, perhaps we should describe tailings as "environmentally challenged waste".

Well, there was no doubt about it, said the bureaucrat, we just couldn't do that sort of thing, i.e. put tailings in an old pit.

Naturally I was concerned about the well-being of our employees and staff and shareholders if our operations were to be closed down. I wasn't worried about looking foolish. I knew who would look foolish when we announced **why** we had been closed down.

Fortunately a lengthy search through our filing cabinets located an earlier letter from the Mines Department responding to our request to use the pit for this purpose which stated "What a good idea I wish that other mining companies would use old pits in this fashion". That solved the problem and we went back to our business of producing gold. This incident stuck in my mind and although I didn't lose my cool, I knew that one day I may not be so docile.

We didn't hear from the bureaucracy again until recently when they galloped onto centre stage with all the zeal of the Romans throwing Christians to the lions. Coincidentally this also relates to our tailings disposal.

2. Our time for pumping our tailings into the old pit was coming to an end so we lodged a Notice of Intent to construct a new tailings facility to provide another four years life. All very routine until the Mines Department changed the rules on the depth of clear water they require sitting on top of tailings in our old pit.

The new rule as we understand it, is to prevent any trespassing divers getting their heads stuck in the mud. We are also aware that the tails water is about

seven times saltier than sea water and the only way the trespassing divers could get down to the base of the prescribed five metres of clear water, is by strapping a car engine block around their waist.

Ho ho, here we go again, they wanted to close us down. The sheer joy on their faces was almost too much for me.

So we again explained the level of hardship that this would bring to all our mill workers (no good talking about the pain inflicted on our shareholders).

When dealing with politicians or bureaucrats the first and guiding principle should always be :

"Avoid paying them too much attention as it only encourages them".

The other guiding principle is to fight a bad philosophy with a good philosophy, but at all times be polite".

We asked "Is there any other alternative to closing us down?". "Is there anything else we could do to keep going?".

"Yes" they said, we could divert our staff's time and energy to the design and construction of an "interim, tailings facility" which incidentally will be entirely engulfed by the main facility when permission is eventually received to build it.

Let me explain, that this "interim tailings facility" consists of an old tailings dam and this sits in the middle of our proposed new facility and will ultimately be covered up by it.

On the very day we finished spending \$200,000 on the revamped old tails dam, they sent through their approval for us to proceed with our new surrounding tails dam.

So \$200,000 poorer, let me relate back to the Hazlitt story of the Broken Window.

What you can see is this \$200,000 monument to "Bureaucracy Run Wild", but what you don't see is the 16,700oz of gold that would have been discovered by an equivalent exploration program. (This is based on our average discovery costs). These ounces will never be discovered because the funds have been diverted elsewhere and so have the permanent jobs that would have been created, and so has the \$10M of export earning income that our country desperately needs.

3. The third example is one where we were recently fined \$3000 for "breach of a mining tenement condition", in that we "failed to get written permission before using mechanical equipment to disturb the surface by conducting some unauthorised exploration drilling".

Sounds serious doesn't it?

Now, if you obtain the required permission for a particular tenement and then if that same ground is converted from a Prospecting Licence to a Mining Lease, wouldn't you think that permission continues? It is after all the same ground.

There may even be occasions where the drilling contractor is unaware of such change in tenement status.

The answer is that you must re-seek permission to do the same work on the same ground, every time a tenement changes its status.

This is all very tedious and distracting from our sincere desire to be productive.

It reminds me of the wise saying by the writer and philosopher, Ayn Rand "When producers need to seek permission to produce, from the non-producers; then the world is doomed".

Now I am not one for becoming emotional but in my office I have this super-sharp Ghurkha knife. It is what the Ghurkha guards use to silently de-capitate their enemy.

Perhaps next time one of these disruptive bureaucrats arrive; to once again tell me that he's going to close us down, what I'll do is swiftly perform a ceremonial castration.

My service to mankind will ensure that his bureaucratic genes are not passed on to future generations.

I don't like messy situations like this so I have "Scotch-guarded" our office carpet so we can quickly hose away any evidence.

Back to our corporate planning. These two last bureaucratic outbursts do relate to the story as they were in full flight during the due diligence process being carried out on us by our new major shareholder. Now, anything like this tends to send bad signals to due diligence investigators, and you can imagine my relief when their only comment was that "the Mines Department were not very good at replying to correspondence".

The press coverage we received by being fined was embarrassing for us as it is difficult to explain how the regulations are such that it is virtually impossible to conduct vigorous exploration without upsetting some of these watching eyes, many of whom belong to competitors who would be happy to see us lose some tenements.

The press coverage has had an interesting side effect in that we have received many calls from other mining companies who are experiencing similar difficulties with the environmental people at the Mines Department (let me stress that I am not referring to the Department of Environmental Protection **or** the Mines Department Registration Division with whom we have excellent relationships).

The difficulties experienced by other companies range from a 10 month delay in obtaining approval for a Notice of Intent, to one company whose drill rig had become bogged during the heavy rains. They brought in a crane and a bulldozer to de-bog the rig.

Being a responsible company they repaired the damage to the bog-site by borrowing some sand from the roadside and rehabilitated the area.

Can you believe that they are now facing prosecution and a fine for "illegal mining".

Yes, anything is possible in this age.

We have just lived through a remarkable week in Western Australia.

We have seen the trade union movement in the Eastern States carry-out a total blockade of our State, the Western third of Australia.

Like most irrational actions, the results will be the opposite to their intent.

Among the results are farmer groups and individuals deciding that they have had enough of the selfish cavalier attitude of our militant union leaders, so they have decided to fight back by never again purchasing an Australian made car or product assembled by an Australian unionist.

Perhaps that is not very rational, but then, neither is the Eastern States unionists attack on our State's economy, which they should know by now, is paying most of their bills; that support the lifestyle of those on their side of Australia.

Perhaps no more rational than our Prime Minister who goes around insulting the leaders of our powerful Asian trading neighbors.

The Prime Minister may be a great entertainer and a great politician but unfortunately he is not a great statesman.

We have greater statesmen in the West. People who prefer to be right, rather than popular.

On matters of Mabo and Industrial Workplace Reform they have shown great courage and they can only continue to do so if they receive our support and encouragement.

Don't forget, it's lonely out there in front leading as they are doing, and it requires some special effort from each of us to give them our support.

Some of you can remember the 1960's when there was general support for development and an awareness of the benefits that resulted.

We were lucky that such a favorable economic environment existed otherwise we may not have any mining industry at all.

Even more of you can remember the mid-seventies dark days of Gough Whitlam and Rex Connor, with the mass exodus of geologists overseas. Signs on office walls displayed the message "Will the last businessman leaving Australia, please turn off the lights".

We haven't yet recovered from that anti-development mindset. Sir Arvi Parbo concisely summed up Australia's business environment in an interview in October's *Director* magazine.

"Today when you do something you know that from the first day probably half of the country is working against you in some way or another. Half of the government is working against you. You will have departments in favour of what you are doing, and probably an even number of departments very much against it. They will want to hem you in and stop you from what you are doing, or at the very least, make sure that you can only do it in a restricted manner"

Now for people like you and I, to do nothing to remedy this situation, is for us to simply become part of the problem.

Throughout history, poverty is the normal condition of man. Advances which permit this norm to be exceeded, here and there, now and then, are the work of an extremely small minority, frequently despised, often condemned and almost always opposed by the regulators. Whenever this tiny minority is kept from creating, or producing, or is, as sometimes happens driven out of a society, the people then slip back into abject poverty.

Australia's relative economic decline is a sign that the regulators are grinding us to a halt. The Federal politicians may simply call it "bad luck", but it will only happen to us if we do nothing and simply let it happen to us.

The tide can be turned by each of us becoming part of a process that will cause changes to occur in the way that regulations will be legislated and evaluated in the future.

Anyone running a business these days knows, that the existing regulatory policy doesn't work. All too often, too little attention has been paid to the purpose of regulation, whether those goals are worth trying to achieve and how best to accomplish them. The result is maddening inefficiency or worse, particularly for small companies, which often lack the technical staff needed to comply with the regulations.

Our company is a small one and we don't employ anyone specifically to take on the task of complying with regulations. Each one of our management team is totally responsible for his own area.

I read recently of some Federal regulation that required a manufacturer to list all the chemical ingredients on the package of his products. The problem is that by listing the chemical ingredients, he is revealing his secret formula to all his competitors. The intention of the regulation is supposedly to protect the public, but the result is that it endangers the livelihood of the producer.

Increasingly, regulations cost more than they're worth. We must force bureaucrats to conduct a cost-benefit analysis on any new regulations and legislate that two existing regulations must be repealed for every new one introduced.

Currently, many regulations are enacted in response to perceived problems, brought to the public's attention by the press or by interest groups or by government bureaucrats.

Regulators who set the rules aren't required to consider what it will cost to comply with regulations.

Right now is a great time to be dismantling the labyrinth of regulation. Technology is on the producers' side as it outwits the regulators.

Telephone companies around the world have been charging more for voice connections than for data, but recently computer programmers have worked out how to transmit two-way voice conversations live over the Internet. Digital technology has obliterated the distinction between voice and data.

Much like the Berlin Wall, we will see regulations smashed and bulldozed as it is becoming obvious that the costs of maintaining these regulations are unnecessarily high; for instance you are aware of how highly regulated is the taxi industry, I'm not sure in whose interest this is but it is not in the interest of passengers as a recent Industry Commission study has shown that, on average, restrictive licensing of taxis adds about \$2 per taxi journey.

Many of these Regulatory Boards are simply revenue raising centres set up by various governments to siphon off the wealth that would otherwise accumulate in private hands.

Now, with direct competition between nations, the costs of such regulation are becoming exposed and we will see the old "Government vs Progress" tug of war again move toward progress.

Now in conclusion let me assure you that, it is not a numbers game. I can think of few important movements for reform in which success was won by any method other than an energetic minority presenting the indifferent majority with a fait accompli, which was then accepted.

This is the challenge I leave with you; become involved, get in there and give your support to those who support our industry, people like George Savell and Bill Ryan and the organisation they represent, Association of Mining and Exploration Companies (A.M.E.C.), support any politician or civic leader who stands with us on the important issues of the day.

There is a war on, it is important that the producers win, future generations of Australians are depending on the way you handle this challenge.

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