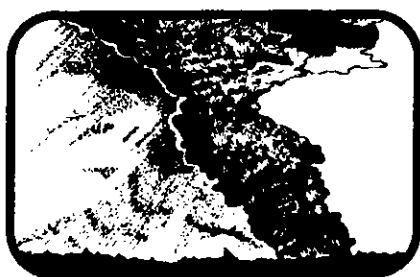


Feature



Pyroclasts

Bre-X and the State of the Universe

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The Bre-X fiasco has thrown light on two issues that are under debate in the Canadian community of professionals and scientists: 1) the move to require professionals, such as geologists, to become registered with the state as a means of protecting the public against fraud or incompetence; 2) the use of the Internet to increase the flow of information to the public.

Geologists are not yet required to be licenced to practice everywhere in Canada, but there is a powerful move underway to establish this (currently in Ontario), as has long been the case in Alberta, where geologists wishing to practice their profession as independents or consultants (for example, in the oil industry) are required to be registered Professional Ge-

ologists, with the title P.Geol. after their names. Would this have helped guard against the Bre-X fraud? No. Can you just imagine the following conversation:

Geologist X: "Hey look, I've figured out a great way to fake incredible gold values in those Bre-X samples. We can really get rich! But wait a minute, maybe we'd better not. We might lose our professional registration for being naughty, and that would really be a pain."

Geologist Y: "Oh dear, yes! What a bother! But what the heck, let's do it anyway ..."

I have always opposed this increasing credentialization because it does nothing for the profession or for the public it is supposed to protect. Does anyone really think that a crook with a plan for the perfect crime that will generate a vast untraceable income is going to be deterred for one minute by the code of ethics set out by the registration authorities?

Most geologists work for other geologists, who should know enough to be able to assess what they are being told and what questions to ask if they are suspicious (in the Bre-X case it appears the right people did not ask any questions). Being professionally registered will not help them. The requirements for educational standards that are involved in registration are simplistic and commonly out of date, and geologists already practicing (who might not have had a university course in 20 years) are grandfathered into these systems when they are first set up. Stock analysts and others who advise the public do not know enough to question geological data and cannot rely on a P. Geol. being honest, if that person is determined to commit a fraud.

In this case, the key information was, apparently, available within the company early on, but someone chose not to use it. An independent mineralogical study indicated last July that the kind of gold present in the samples supposedly from

Bre-X was of the wrong kind. Its characteristics were those of detrital gold, deposited in streams, not that of primary "bedrock" gold formed from hot fluids deep in the earth, the kind that would have had to be present in the Bre-X cores for the find to be believable. Those in the know, some of whom may well have been P. Geols., chose not to make this information generally available. This leads to the second question: would the Internet have helped in this case?

The information highway is the gateway to the future, so we are told. It will provide a cornucopia of information on every conceivable subject of importance, economically or otherwise. Governments are pouring millions of tax dollars into school computer systems and libraries are being emptied of boring books or shut down altogether so that the resources can be diverted to electronic information systems. Would this have helped the hapless investor in this case? No.

Stock analyst Z: "There have been lots of strange rumours about that Bre-X stock. I know, let's check it out on the Internet! We can find out anything we want to know nowadays, from one of all those databases we can access!"

That information about the mineralogy would never have made it onto the information highway because it was in someone's interest to keep it private. And so it is with everything on the information highway. Those who have something to sell are filling the Internet with commercials. You can buy or rent just about anything you want on the Internet now. Those with an argument about something also fill the Internet with their advocacy. Those people who used to carry around picket signs now post their stuff on the web as well. Some of it is deliberately misleading (e.g., the web sites of the Holocaust deniers). Lots of cheap information is there, but much of it is posted by amateur enthusiasts and therefore cannot be relied upon.

Reliable stuff, such as professionally written and edited electronic textbooks, you have to pay for, just like you have to pay for real books. And of course the really, really valuable stuff, such as that mineralogical report, is kept as far away from a computer as possible. So how is the Internet supposed to inform us or enlighten us or liberate us from anything? It's just another tool for communication, and is not going to change the world.

So there, gentle reader, are two lessons to be learned from Bre-X.

But what about Bre-X itself? How can we prevent that sort of thing happening again? The Australians faced a similar problem several years ago, and increased the requirements for independent checks and audits for companies wishing to raise money on the stock exchange. Investors should have asked Bre-X for this themselves long ago, but did not. The Australian system works, but, as they have also found, it makes it more difficult to raise speculative capital. So there is a clear choice: a loosely regulated market with lots of risk and excitement, many failures and occasional real payoffs, or more regulation and less fun. Those who were having lots of fun under the old system knew there were risks, and do not really have much of a claim on our sympathy now.

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