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Worldwide Association of Suppliers of Gold and Gold Products
Association Mondiale des Fournisseurs de l'Or et des Produits de l'Or

April 16, 2002

Draft Report Comments
MMSD
1a Doughty Street
London WC1N 2PH UK

Ladies and Gentlemen:

The Gold Institute submits herewith its comments on the draft Mining, Minerals and Sustainable Development report that was made public on March 4, 2002 (the "draft"), as it relates to the exploration, uses and economics of gold. These matters are treated primarily in two chapters of the draft: Chapter 5, *Case Studies on Minerals*, and Chapter 16, *Agenda for Change.*

We have identified a number of gaps and apparent misinterpretations of relevant data that, in our view, weakens the reliability and ultimate value of the report to potential users. We will be pleased to provide the authors with the additional detail and source material they may need to make the necessary revisions, and to discuss any issues of interpretation that may arise.

Following are examples of our concerns with the draft.

Chapter 5

Page 18, second paragraph

The statement in this paragraph that "gold is seldom used for industrial purposes" is demonstrably untrue. Gold is widely and increasingly used for industrial purposes, notably in electronics, but also in applications ranging from astronomy to medical science. Gold is integral to the reliable functioning of virtually all consumer electronics, from laptop computers to cell phones, digital cameras, televisions and VCRs. It helps operate the computers in every modern automobile and airplane. Gold is used in the sophisticated electronics of space exploration, weather and communications satellites, which it also protects from solar radiation. It has numerous applications in advanced astronomy and telecommunications. And some of its most exciting uses are in the field of medical science, from ensuring the reliability of lifesaving pacemakers to the effectiveness of lasers that have revolutionized surgery. It is used in the treatment of several forms of cancer, and every day surgeons use gold instruments to clear coronary arteries and literally give new life to patients with once-inoperable heart conditions. This industrial use of gold has grown exponentially since it was used soon after World War II to develop the world's first transistor and, a generation later, the first microchip, giving birth to modern electronics. The use of gold in electronics increased by 15 percent in 2000 alone.

(continued)

Page 18, fourth paragraph

The statement that "Exploration activities for gold are currently at a relatively low level, given the stagnant price and abundance of identified resources," also requires clarification. It is true that exploration activities have been scaled back in recent years, due in part to lower gold prices, but also to a number of other factors relating to the world economy. However, an "abundance of identified resources" has not been one of these factors. An abundance of resources could not, *ipso facto,* be a reason for reducing exploration. It might more justifiably be a reason for increasing exploration. As with all minerals, there is a difference between identified resources, which may or may not be economically recoverable, and actual reserves, where sufficient data is available on the mineralization and recoverability.

Page 19, top of page

The statement that "non-jewellery use of gold has been relatively stagnant over the last 10 years" is untrue, as indicated in our comment on the equally misleading statement on page 18 that "gold is seldom used for industrial purposes." Our earlier answer addressed some of these many uses. In the 10 years in which the authors claim that non-jewellery uses were "relatively stagnant," the use of gold in electronics alone increased nearly 40 percent. By comparison, use of gold in jewellery rose 35 percent in the same period.

Page 19, top of page; page 21, first paragraph; page 22, fifth paragraph

The above paragraphs discuss the pricing of gold and the various influences that impact on it, but tend to oversimplify to the extent that they are sometimes misleading. In discussing the decline in gold prices in recent years, they fail to note that while gold has historically been bought as a hedge against inflation and uncertainty in times of political or economic turmoil, the past decade has been the opposite: a period of virtually zero inflation, record low interest rates and a robust equities market. In this context, gold prices have been notably resilient.

On page 21, the draft states that "the dominant factor in the future demand for gold is the policy followed by central banks." This may or may not prove to be true, but it ignores other important and perhaps more significant factors, including political tensions and the potential for the spread of armed conflict in South Asia and the Middle East, the increasing demand for gold in developing countries, as well as possible energy disruptions, uncontrolled inflation and the performance of the equities markets.

On page 22, the draft states, "at higher rates of disposal, however, the price would again collapse." This statement too, is misleading. Such disposals would inevitably have an impact on price, but since central banks have an obvious interest in maintaining the value of their gold stocks, disposals tend to be self-correcting and a price collapse is so unlikely that to suggest it in these stark terms cannot be justified.

Indeed, according to leading monetary economist Robert A. Mundell of Columbia University in New York, gold's role as a reserve asset may become even more important in the new millennium. Professor Mundell was awarded the 1999 Nobel Prize in Economic Sciences for his pioneering research and analyses in the field of international finance, including what the Royal Swedish Academy called his “almost prophetic accuracy” in predicting future monetary developments.

In 1999, Mundell predicted that the total reserves in the world’s monetary system will double over the next decade, and that the value of gold — the only commodity still held as a reserve asset by central banks — is also likely to double. The price of gold, he said, could rise to US$600 an ounce by 2010.

“Gold is a good investment for central bankers,” he explained. “Gold provides a stabilizing effect in a world of entirely flexible currencies. Countries will simply not risk just holding paper currencies, especially if there is any change in the international monetary system.” In particular, he expected gold to be a major factor in moderating any future exchange-rate fluctuations between the U.S. dollar and the euro.

Although some countries have sold portions of their gold reserves in recent years, Mundell asserted that gold is going to remain an important and increasingly valuable reserve asset “for a long time to come.”

Page 25, first full paragraph

The statement that "there are few if any uses of gold that do not have competitive substitutes" is not only untrue, but would seem to indicate an underlying bias held by the authors. If there really were competitive substitutes for gold in high-precision electronics, where performance and reliability are paramount, they would surely be used. The fact that gold is *increasingly* used means that whatever substitutes may exist are not considered competitive by the technical experts and designers who make the decisions. This is particularly true in telecommunications and in intricate life-saving applications in space, aviation, other military uses and medical science. In the latter, gold possesses a unique combination of qualities that no other metal or material can duplicate.

The use of gold in jewellery is a cultural and historical tradition dating back many thousands of years. Gold-colored alloys are not competitive substitutes, because they are not *acceptable* substitutes for people who want gold. Gold is valued for its natural properties, its rarity, beauty, and a mystique that cannot be duplicated or imitated.

Chapter 16

Page 17, second paragraph

On this page, the authors promote the notion that the 15 European central banks party to the Washington Agreement should voluntarily contribute a percentage of the proceeds of their future gold sales to a fund for the purpose of reclaiming the sites of abandoned mines. Without elaboration, they claim that this arrangement could have a stabilizing affect on the price of gold. The authors are silent in explaining why a central bank would establish the precedent of directing the proceeds from any asset sale to fund social works, however noble, or how this would not comprise a central bank’s fiduciary responsibility. The authors note that this is not a "mature concept" but is rather "a trial balloon to test reaction" and "is not based on a comprehensive analysis of central bank policies toward selling gold." For the above reasons, and others we could add, we believe inclusion of this admittedly ill-considered concept undermines the credibility and usefulness of the draft and should be omitted from any final version.

We thank you for the opportunity to present our views and for your consideration of our concerns over the draft's several apparent misunderstandings relating to gold. As I have indicated, we stand ready to provide additional detail and any further assistance you may require in correcting and finalizing this report so that it may be of the greatest value to those concerned with the issues involved.

Sincerely,

Paul Bateman
President

PB/jr