

## **HAVE GOLD BUGS BEEN BARRICKED BY THE U.S.?**

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### **Battle of Titans**

Newmont has eliminated its entire 1.85 million ounce hedgebook (Reuters, July 5) and, in doing so, it has catapulted itself into the position of the world's largest unhedged gold producer. As those who have followed the gold-hedge saga will know, this is a most serious challenge to Barrick since it has wrested for itself the title of the world's largest gold producer, even though at the expense of swallowing the poison pill of hedge-books worse than its own, for no better reason than propaganda. Whatever ephemeral advantage it may have bought is spent by now. Gold bugs are flocking (not to say stampeding) out of so-called hedged companies into unhedged ones. Newmont's *coup* is likely to be profitable to its shareholders — and unprofitable to the shareholders of Barrick who have been bleeding 24 karat gold by the ton ever since the bull market started back in 2001. If you believe in bigness and want to own a piece of the biggest gold mining concern, you go Newmont. Analysts have calculated that Newmont could recover the \$578 million it has spent on hedge buybacks, if the share price went up 1 or 2 dollars. After the announcement was made, the price jumped almost one dollar to 40½ on the kerb.

By contrast, Barrick is on record that it will *never* become totally unhedged, even though it has grudgingly reduced its hedgebook some in when the new gold bull was born response to shareholder unrest. In the words of President Greg Wilkins, a 'reasonable' amount of hedging is an 'essential risk-management tool' for the company. It is supposed to stabilize revenues. It is supposed to satisfy banks that finance its projects.

Newmont and Barrick have been arch-rivals not only on the Carlin trend, but also on the global battlefield. Barrick has been taking blows ever since its hedge-strategy, so called, started to unravel in 2001, when the new gold bull was born, as was predictable. I have pointed out in several of my papers that Barrick's hedging is no hedging at all under any circumstances. It is a fraud. As an unlimited forward sale program, it is the most stupid and dangerous kind of gamble, especially in an environment where the collapse of the international monetary system in the wake of the collapse of the burgeoning debt-tower is a distinct possibility. So much so that the question arises how responsible businessmen, such as the officers of Barrick, could commit the capital of their shareholders to such a demonstrably insane and self-defeating policy that would burden them with a liability that could never be lived down.

### **Contingency plan to keep the dollar as the world's reserve currency**

How? Why, it has been publicly suggested by some analysts that Barrick is a front. It is not a profit-seeking business. As such, it is used by the U.S. in order to cap the gold price. According to this view the strength of the dollar is that it has only one viable alternative as a global currency: gold. Therefore, if the U.S. wants to keep its enormously profitable privilege to issue the world's global currency, it has only to cap the gold price. Conversely, if the U.S. failed to do it, sooner or later the rising gold price would lead to an ignominious collapse of the dollar, by far the worst currency debacle in world

history. It would be the height of naivité to believe that the U.S. would idly stand by watching monetary events to unfold, while doing nothing, regardless how daunting the task of stopping the gold train in its track may be.

I want to make it clear that this is not my view. I haven't bought into the conspiracy theory. At least not yet, but I think soon enough I shall know for sure. Newmont's *coup* may reveal that the Emperor has no clothes. We have to wait and see what Barrick's response will be. It is still possible that Barrick will throw in the towel and follow the lead of Newmont. Just watch the spread between the two stocks.

Be that as it may, the question arises naturally what the best procedure to cap the gold price may be from the point of view of the U.S. Obviously it would be self-defeating for the U.S. overtly to put the remnant of its gold reserves to risk in an effort to pacify surging demand. The ploy of the U.S. twisting the arms of other countries to sell *their* gold reserves, while retaining *its*, has been exploited for whatever it is worth. As the U.S. was preaching water while drinking wine, it was not very persuasive in the first place. A more intelligent and more promising strategy is to find a gold mining firm that would covertly put its unmined gold reserves to risk in support of the dollar. If a gold mine could convince the world that its unlimited forward sales program, promoted as an honest-to-goodness hedge plan, could attract imitators, then the fraud might never be exposed, and chances were that it could be perpetuated. The regime of the irredeemable dollar, like the Third Reich, could claim that it would last „a thousand years”.

So it is at least a plausible assumption that the U.S. has enlisted Barrick to come out with its so-called hedge-plan to fool the world. Here is the deal: the U.S. would covertly underwrite the potentially unlimited losses of Barrick in exchange for its complicity in the scheme of capping the price of gold. As an incentive, Barrick would be given the green light to gobble up its weaker brethren to become the world's largest gold producer. Neat, isn't it? Yes, if you bypass the ethical problem that the betrayal of shareholder trust on the global scale would be unprecedented in the annals of business. However, that problem could be managed by an ironclad stonewalling of the arrangement to guarantee secrecy.

I repeat that this is not my view. But the conspiracy hypothesis is being bandied about by sufficiently many observers that it is impossible to ignore.

### **True versus fraudulent hedging**

I have long realized that there was only one way to unmask the fraud, if there was one, and this was to prove that the so-called hedges of Barrick were in fact no hedges at all, but unlimited forward sales backed by gold as yet unmined, and in some cases might not be mined for as many as fifteen years. Never mind that such a commitment is meaningless because, while the gold may still be there fifteen years hence, Barrick may not be there to get it. It could be wiped out by the surging gold price.

To call Barrick's plan 'hedging' is not simply creating another misnomer. It is a terrible violence against language. It is a malicious distortion of the true meaning of perfectly honest word describing a perfectly honorable business activity.

True hedging for a gold mine must be *bilateral*. It must be a strategy involving balanced and limited forward selling *cum* forward buying in order to take advantage of the fluctuating gold price. Net forward purchases and sales must be limited to one year's output and, most importantly, forward sales must be balanced by forward purchases. *In this way the loyalty of speculators would not be permanently anchored to the short side of the market.* By contrast, under the hedge plan of Barrick speculators could rest assured that it was perfectly safe to go short because they had the benefit of the back-wind of the miners' forward sales. Note that this would no longer be the case if hedging was bilateral, since the next move of the miners could very well be forward purchase, catching the speculators off-guard. The unmitigated blemish on Barrick's hedge-plan is precisely this: it unilaterally commits speculators to the short side of the market. To the insult of short sales by Barrick, it adds the multiple injury of short sales by speculators whose appetite has been whetted by Barrick's example. Individual speculators would consider going long an unacceptable risk. Without any further ado, this fact alone makes the sincerity of Barrick's management suspect. It also brings the competence of banks into question that finance Barrick's projects. How come that heads at those banks haven't been rolling along with the head of Randall Oliphant, former president of Barrick, after

the utter fiasco of unilateral hedging has become publicly known? Something stinks in those banks. If the real culprits are the financiers of Barrick, then perhaps the world has the right to hear from them, and get a clear policy-statement. Can it be that the banks, like dutiful shills, knowingly bet on losing horses on behalf of those who have rigged the race?

### Correction and apology

It could be objected against this argument that Barrick's management has acted in good faith all along. It was simply a mistake on their part to read only half of the dictionary entry on 'hedging', the half about forward sales. In their rush to cash in they have forgotten to read the other half on forward buying. Unfortunately, we cannot offer this excuse in defense of Barrick. I have positive proof that Barrick's top brass was conversant with both halves of the dictionary entry that defines „hedging”.

Last year I published a paper with the title: *To Barrick Or to Be Barricked, That Is the Question*. In that paper I mistakenly stated that Chairman Munk fired CFO Jamie Sokalsky, along with President Randall Oliphant. While it is true that Randall was fired, Jamie was not. For this mistake I have been upbraided by a reader of my column, Doug Peter, who says he is the brother-in-law of Jamie. Here is his letter in its entirety:

Dear Professor Fekete:

Your last two articles appearing on gold-eagle.com have references to Barrick and contain misinformation on at least two counts.

First you stated that Jamie Sokalsky was fired by Peter Munk. He was not. In fact, he was promoted and is now Executive Vice President. I know this because he is my brother-in-law, and his position can be easily verified by reference to the company's Annual Report.

Secondly, you claim that Barrick does not mark to market its derivative positions. In fact, the company must by law publish this information. Recently it was spelled out on page 25 of its Second Quarter Report (2006) showing the fair value of these positions in deficit to the extent of \$4.13 billion.

One can only wonder what other information you have misconstrued in your articles.

Doug Peter  
Toronto, Ontario

Let me now discharge an old debt. I hereby publicly acknowledge that, indeed, Jamie was not fired; he was promoted. I offer my apology for this mistake. The reason I have waited for so long to state it in public is that I sent a message to Jamie through Doug. In that message I reminded Jamie that, at his invitation, we had had a long discussion on gold mining and hedging at company headquarters. At the time I was still a shareholder, and our meeting took place with the knowledge, perhaps even at the behest, of Peter Munk with whom I had corresponded on the subject previously.

I submitted a 50-page study for the benefit of Barrick management, entitled *Gold Mining and Hedging: Will Hedging Kill the Goose Laying the Golden Egg?*, written for the purpose. It covered the subject of both unilateral and bilateral hedging. Jamie promised that he would read it and let me have his comments in due course. That was almost ten years ago; his comments never came.

I apologized to Jamie for my mistake of stating that he was fired. I congratulated him on his promotion. I told him that I would be happy to receive his comments on my study even after a ten-year delay. I stated that an important public issue was involved. We have to clarify the real distinction between proper hedging that must be bilateral and limited, and fraudulent hedging that is unilateral and unlimited.

## **Public challenge to Barrick**

You might say that I was issuing a private challenge to Jamie through Doug so that, from his elevated position as Executive Vice President of the company, he could authoritatively refute my charges that the hedges of Barrick are fraudulent, and state his reasons why Barrick did not take my advice, in setting up proper bilateral hedges that would not commit speculators to the bear side of the market unilaterally and permanently. If it had, Barrick could have avoided horrendous losses and would have spared its shareholders from unending agony.

Jamie Sokalsky has not deigned to answer my private challenge for half a year. So I take this opportunity to re-issue my challenge, this time in the glare of full publicity.

**I demand an answer why Barrick ignored my recommendation of ten years ago which I personally presented in writing to the then Chief Financial Officer Jamie Sokalsky. During those ten years my worst fears have materialized. It turned out that the hedging policy of the company was, as I had stated, deeply flawed. It was an unmitigated disaster of the first magnitude. It resulted in horrendous losses to shareholders. It is not clear why Jamie Sokalsky, widely rumored to be the author of Barrick's hedge plan, got rewarded with a promotion for executing a disastrous policy, and why his new boss, Greg Wilkins, has stated in public that the company is standing by its original hedging policy, if only on a reduced scale. I categorically state that Jamie Sokalsky had been thoroughly familiar with the alternative, what I called the correct principles of hedging, already ten years ago. He and I discussed the subject together at great length, and he received from me a Memorandum that spelled it all out. This Memorandum found its way into the book of the late Ferdinand Lips entitled *Gold Wars* and can be seen there by any interested party.**

Two world-class companies, Barrick and Newmont, cannot be both right when one insists that unilateral and unlimited hedging is a valid management tool, and the other insists that it was a mistake from start and puts its money where its mouth is: it covers all net short positions, by taking the loss while it is not too late.

## **An appeal to analysts and accountants**

I hereby invite all gold share analysts and public accountants conversant with the dispute to help adjudicate. *We must know the truth.* Shareholders have the right to this information. Other people who are still vacillating between so-called hedged vs. unhedged gold mining companies also have the right to know the answer. It is not beyond science to provide an unambiguous answer to the question what constitutes a valid hedge and what does not. I pledge my sincere cooperation in this dispute and inquiry. I am staking my reputation as a monetary scientist in this challenge. I am willing to declare in advance that I shall abide by the verdict of a committee of unbiased experts with impeccable credentials, even if it rejects my claim that unilateral hedging (perpetual net short positions) means taking of unacceptable risks with shareholder capital, while bilateral hedging (balanced forward sales and purchases) is limiting risks and could be potentially profitable. In fact it is the only permissible way of hedging, since it does not permanently line up the very considerable speculative following in the short camp, thus imparting an unacceptable bias to the bear side of the gold market. The chips shall fall where they may only if the hedge plan is bilateral and limited.

## **Gambling with the funds of widows and orphans**

My challenge is eminently reasonable. There is nothing frivolous about it. It is not negative. While it is critical, it offers an alternative. My alternative has been worked out in greater details than what Barrick has ever revealed about its own hedge plan in public.

I may add that I have been a student of gold since I immigrated to Canada in 1957 and could have access to the literature that was denied to me in my native Hungary. When the first gold futures market opened in Winnipeg in the early 1970's, while it was still illegal for Americans to trade gold futures contracts, I purchased a seat on the Winnipeg Commodity Exchange in order to have first-hand access to information. I am a careful researcher, and I have no axes to grind. I am interested in the truth, and nothing but the truth.

*I am willing to grant that the government of the U.S. has the right to defend the value of its currency, **provided that this defence is not based on outright fraud and mass-deception.** If the solution to the problem of gold is to sell out the U.S. Treasury stock to the last bar, as you often hear suggested in academic circles, then be it. But selling unlimited amounts of paper gold, or unlimited amounts of unmined gold instead, thereby surreptitiously placing the funds of widows and orphans in clear and present danger, is a procedure that is blatantly unfitting to the government of a great nation with a proud monetary heritage. Moreover, it is deeply immoral. It is contrary to scriptural admonitions.*

### **Barrick's barracudas**

I keep an open mind about the dark suggestion that a conspiracy exists between the U.S. and Barrick to cap the gold price through a fraudulently conceived and falsely promoted hedge-plan with the side-effect of deceiving and harming innocent third parties. I shall continue doing so for a reasonable length of time, as I want to give a chance to Messrs. Munk, Wilkins and Sokalsky to examine my challenge and accept it. This is not a request to open the secret minutes of Barrick's Advisory Board, of which such figures as former U.S. President Bush, former Canadian Prime Minister Mulroney, not to mention several former heads of various central banks are members, even though this body is unseemly to me as it evokes the epithet *Barrick's Barracudas*. This is merely a request to have a free and open academic discussion on the business question what constitutes valid hedging and what does not. I claim to be an expert on that question myself, as I have studied it for several decades. But I will accept the verdict of my peers against me if they can find a weak point in my reasoning.

It would please me if we could dismiss the bogeyman of a conspiracy between the U.S. government and Barrick Gold for once and all. Personally I would be greatly relieved to have a confirmation of the fact that the world is *not* governed by evil and vindictive men.

Declining or ignoring my challenge would not be a slap in my face. It would be a blot on the character of those who have done the ignoring.

### **„Most compelling catalys for re-rating”**

Earlier this year a report appeared from the pen of Dorothy Kosich, [www.web.com](http://www.web.com) : *Citigroup Analysts tell Barrick: Close Hedge Book, Then Stand Back*. Reno, Nevada, February 14, 2007. Citigroup metals analysts John H. Hill and Graham Wark urged Barrick Gold to reduce aggressively its hedge book or repurchase it in its entirety — an action that could be „one of the most compelling re-rating catalys in the metals industry”... Apparently, Barrick is not interested in re-rating. Still less is it interested in the opinion of its shareholders. Could it be that its real bosses are not the shareholders, but those who sit on its Advisory Board? Shareholders, it seems, can only „vote with their feet”.

Indeed they may and will. As the saying goes, the real proof of the pie is in the eating. The market will ultimately decide this issue as well. From the feedback to my column on the Internet I know that present and prospective owners of gold mining shares are deeply troubled by these issues, and they reject the obfuscation that seems to be emanating from Barrick. I want to put the resources of my Gold Standard University at their disposal. I suggest to them that they should think twice before they buy Barrick stock, unless they are fully satisfied with its response to my challenge.

In case of no response, I have no advice whether to buy or to sell. The refusal will speak for itself.

We are at the cross-roads. People who seek protection in numbers will have to choose between Barrick and Newmont. The record of the so-called hedged gold mines appears dismal in comparison with that of the unhedged ones. Could it be that the former, in a rear-guard action, want to save their own skin by refusing my challenge because they know that by taking it up they would surely lose? I leave it to my readers to figure it out.

Here is my parting shot. Dr. Bernanke would not want to use Barrick as the helicopter from which to dispense Federal Reserve notes. The notes would end up in the wrong hands. No sooner had the Fed bought Barrick stocks than speculators sold them.

## Gold Standard University Live

Session Two of Gold Standard University will take place between August 17 and 29, 2007, at Martineum Academy in Szombathely, Hungary. It will feature a one-week course (13 lectures) entitled *Gold and Interest*, as well as a blue-ribbon panel discussion entitled *The Last Contango | Basis As an Early Warning Sign of the Collapse of the International Monetary System*. The second week is reserved for sight-seeing and recreation, including the famous *Savaria Roman Festival* featuring Roman togas and other habits, Roman cuisine, Roman games, etc. Enrolment is limited; first come first served. For more information please contact: [GSUL@t-online.hu](mailto:GSUL@t-online.hu)

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*George Bush's „Heart of Darkness” — Mineral Control of Africa*, Executive Intelligence Review, January 3, 1997, see in particular:

Barrick's Barracudas

Inside Story: The Bush Gang and Barrick, by Anton Chaitkin

George Bush's 10 billion giveaway to Barrick, by Kark Sonnenblick

Bush abets Barrick's Golddigging, by Gail Billington

See also: [http://american\\_almanac.tripod.com/bushgold.htm](http://american_almanac.tripod.com/bushgold.htm)

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