

# TWO SIDES OF THE COIN

CRYPTOCURRENCY HAS ITS FANS — AND DETRACTORS

STORY: JAMES SALMON

**C**lustered together in a secret location near a wind farm south of Geraldton are a few large shipping containers. Inside these forty-foot long metal boxes are shelves lined with dozens of computers, whirring away furiously, lights blinking. The air-conditioning is cranked up and the noise is deafening: the most powerful machines are as loud as a lawnmower. Far removed from the iron ore pits of the Pilbara, this is a new breed of mine. Rather than digging up iron ore or gold from the dirt, they are 'mining' the ether for cryptocurrency, by solving fiendishly complex mathematical puzzles. The computers, which cost as much as \$45,000 each, guzzle an enormous amount of electricity despite being no bigger than two briefcases. They need constant air flow to cool them down as they would quickly overheat if left to their own devices.

To reduce power bills and avoid leaving a

massive carbon footprint, they receive their energy from the neighbouring wind farm.

The computers are owned by crypto-speculators and entrepreneurs from all over the country and beyond, and from all walks of life — from investment consortiums to IT geeks. But all of them have the same goal: to earn freshly 'minted' cryptocurrency such as Bitcoin or Ethereum to put in their digital wallet.

Instead of doing this noisy, hot work in their spare bedroom or office, where they would quickly run up a crippling power bill, they pay a third party — in this a Perth-based company — to look after their precious hardware for them.

To many this will sound utterly baffling. But these 'mines' are springing up across Australia, as a digital gold rush sweeps the globe.

Cryptocurrency has captured the public imagination, with everyone from Uber drivers to investment bankers trying to become the next Bitcoin millionaire.

But the craze has also polarised opinion.

Enthusiasts rave about its ability to give people more power over their own money, and the fact that anyone can invest.

But critics — from US investment guru Warren Buffett to Donald Trump — argue this is part of the problem.

For them, crypto is a get-rich-quick-scam, a giant bubble, and a God-send for Russian oligarchs and drug lords wanting to launder money or dodge sanctions.

Despite this there are now more than 5000 cryptocurrencies worth more than \$2 trillion, with glamorous celebrities ranging from Reese Witherspoon, to Kim Kardashian and retired boxer Floyd Mayweather promoting it.

And Australians have been lapping them up, with about 800,000 dabbling in cryptocurrency so far, according to the tax office.

The market is growing exponentially, with 200,000 investors joining the fray last year.



Many have been seduced by the hype, including the first Bitcoin transaction more than a decade ago, which is now part of crypto legend.

In 2010, computer programmer and early Bitcoin convert Laszlo Hanyecz bought two pizzas at Papa John's in Florida for 10,000 Bitcoin. At the time, they were worth \$US40 – or \$53.

If he had held on to them, they would be worth about \$600 million, making these the most expensive pizzas in history. Each Bitcoin was worth about \$60,000 at the time of publication.

But while Hanyecz has insisted he has never lost any sleep over his pizza purchase, the same cannot be said for many ordinary savers who have lost money.

Plans are afoot to regulate the sector to protect investors from unscrupulous dealers following a string of high profile scandals, including the collapse of two crypto exchanges in Melbourne within the space of two months last year.

The reforms, described by Treasurer Josh

Frydenburg as the biggest overhaul of the nation's payment systems since the early days of the internet, will also introduce a taxation system for cryptocurrency.

It is now well over a decade since Bitcoin, the world's first decentralised digital currency, emerged on the scene in the wake of the global financial crisis in 2009.

It was the brainchild of a mysterious individual or group of people who went by the pseudonym Satoshi Nakamoto.

The idea was to create an alternative payment method which removed the need for a middleman. Instead of relying on a bank, the user logs into a digital wallet with a private key and the transaction is shared with thousands of computers on the decentralised Bitcoin network.

They race against each other to verify the purchase by solving a complex maths puzzle with a 64-digit solution. The first of the miners to solve it gets rewarded with newly minted Bitcoin.

Once the transaction is approved a block is created. It's then added or 'chained' to a shared list of all the transactions ever made. That's called the Blockchain.

Blockchain technology, a secure, encrypted public ledger of all transactions, has been widely adopted by most of the other cryptocurrencies and is being explored by a host of big companies, including Rio Tinto.

Ian Love, who set up Australia's first crypto asset fund in Perth – Blockchain Early Opportunities – five years ago, in describing cryptocurrency and the technology behind it says: "It is probably ten times more impactful than the internet and as important as the invention of electricity in terms of how it is fundamentally going to change many aspects of our lives."

The biggest benefit, he says, is for those living in

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the majority of countries outside the Western world which often have unstable currencies prone to collapse in value and unreliable banking systems.

But even in Australia, Love says, policymakers and central banks are focused on benefiting the common good, to the detriment of the individual.

This ranges from devaluing currency and pumping up inflation by digitally printing more money through quantitative easing, to slashing interest rates to encourage us to borrow and spend more to boost the economy.

"All these policies are designed for the greater good," he says. "But for me as an individual I want to do the opposite. I want to save in an asset that's not devaluing. I want to not spend, and I don't want to get into debt.

"Bitcoin gives you that off ramp."

For those who argue Bitcoin's wild fluctuations in value hardly make it a safe haven, Love points out that crypto is still in its very early stages, and that even mature markets like oil or iron ore prices are highly volatile.

"Nobody is saying put all your wealth in it," he argues. "But if you've got an investment portfolio of \$100,000, perhaps put \$1000 in Bitcoin. If it goes wrong, so what.

"But if it goes right, then it could be the most valuable asset you have and could change your life."

For fans of crypto like Love, the war in Ukraine has also provided a vivid example of its potential, beyond making a quick buck.

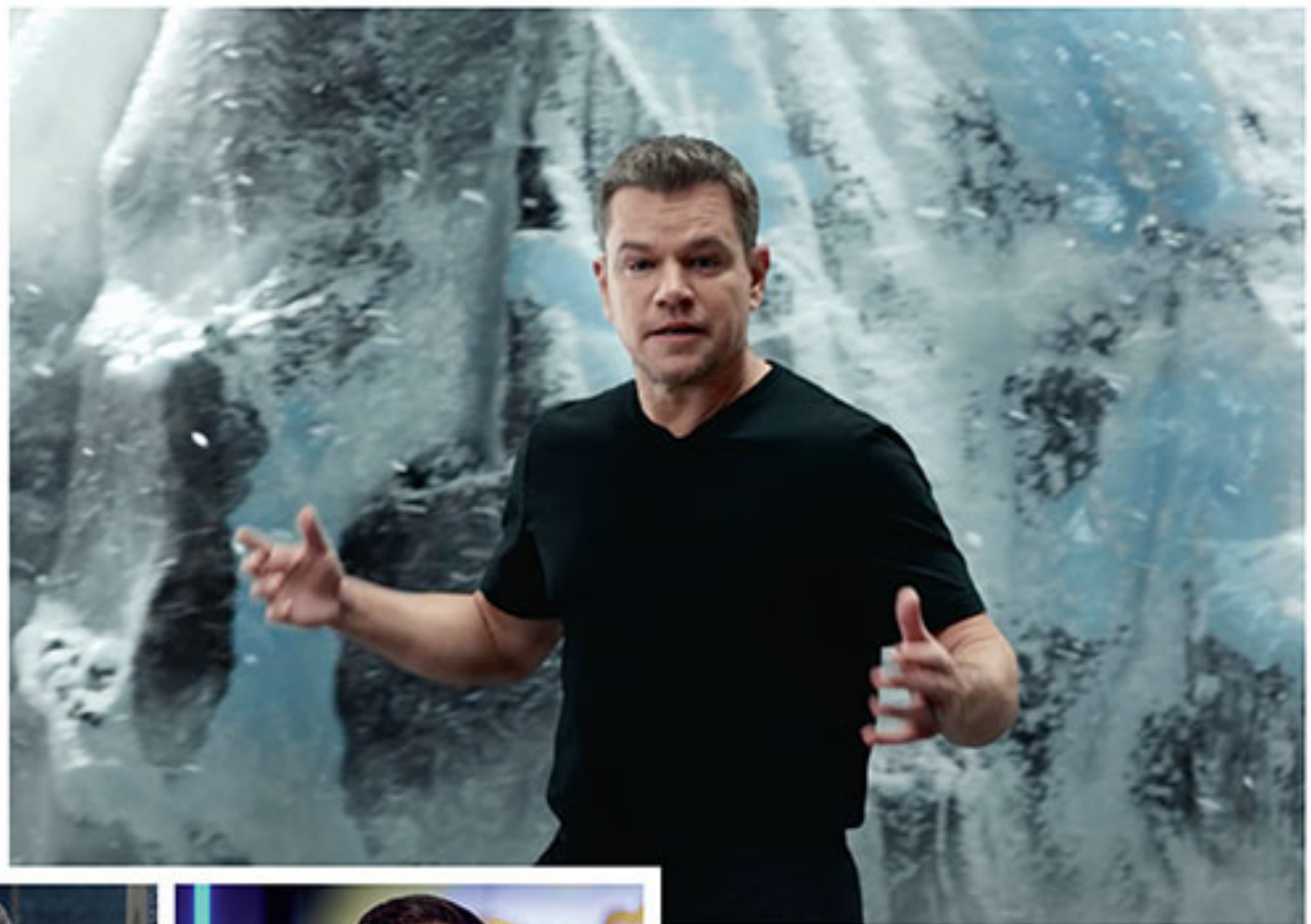
On the second day of the Russian invasion, the Ukrainian Government's 31-year-old digital transformation minister Mykhailo Fedorov ordered his deputy to set up official wallets that could accept payments in cryptocurrency.

The banking system was under enormous strain as Ukrainians rushed to take their money out, with queues building up outside cashpoints and supermarkets in Kyiv. Martial law had been imposed, with the central bank banning foreign currency withdrawals, most cross border transactions, and fixing the national currency the hryvnia against the US dollar to prevent its collapse. President Volodymyr Zelensky went a step further and signed legislation last month that legalised cryptocurrency.

For the Ukrainian Government, a key advantage of circumventing its own banking system is that, unlike international wire transfers which can take days, crypto transfers take a matter of minutes.

So far, it has received more than \$US100 million for its war effort from crypto donations, which is being spent on non-lethal equipment such as bullet proof vests, food rations and helmets to not deter future donors.

Believers say there is another potential advantage of cryptocurrency, if it is more widely adopted as currency.



CLOCKWISE FROM ABOVE: MATT DAMON IN A CRYPTO.COM AD; CRYPTOCURRENCY MINE FARM; REESE WITHERSPOON & KIM KARDASHIAN ARE CRYPTO FANS; UKRAINIAN PRESIDENT VOLODYMYR ZELENSKY; ANDREW FORREST IS SUIING META.

## 'IT COULD CHANGE YOUR LIFE.'

IAN LOVE

As Ukrainian refugees pour across the border, those lucky enough to have managed to withdraw cash before they fled to Poland or elsewhere have been unable to find a foreign bank willing to convert hryvnia into euros. If they had invested in Bitcoin, all they would need is the key code for their digital wallet to access their money.

But the conflict has also revealed a dark side of cryptocurrency, with fears it is being used by Russian oligarchs to dodge Western sanctions.

According to the Australian Computer Society, the volume of high value daily cryptocurrency transactions quadrupled to \$64 billion two days after Western countries blocked Russia from the international Swift payment system.

Liberal Senator Andrew Bragg has echoed calls in Washington for a crackdown to prevent crypto being a "loophole in international sanctions" for "the most nefarious actors in the world".

Some, however, are undeterred.

"What's happening in the world now with Russia and Ukraine shows the benefits of having crypto that government can't control," says Daniel Ibbitson, who runs the family furniture business Quokka Beds with his father Brett in Wangara, in Perth's northern suburbs.

Their business is one of the few to accept Bitcoin after the 28-year-old persuaded his father to adopt the cryptocurrency last year.

After initially dismissing it as "stupid internet money" he started looking into it more closely a few years ago when some of his friends started to invest.

Apart from ultimately benefiting from lower transaction fees by cutting out the bank, he also believes that the key advantage of Bitcoin is taking control away from the State and big banks.

"The government prints money and inflates its debt away to the detriment of the small guy, and the benefit of big business, and holders of assets and stocks," he says.

Having been fully converted, he now ploughs any spare cash he can afford to tuck away into Bitcoin, while the company keeps any payments made in the digital currency on its balance sheet.

Only a handful of customers have paid in Bitcoin so far – and some have ended up paying far more than they bargained for a bed as the value of the digital currency has soared after the purchase.

"Selling bitcoin to buy a bed is a bad move," Ibbitson says. "You should be holding onto it not selling it."

Although he personally has only broken even after initially investing in Bitcoin when it was trading about \$70,000, he is confident it will pay off in the long term.

But he is aware of the potential to get burnt, with Bitcoin almost halving in value from a high of





a bad thing and we need to speak out about it," he says.

"It's just tragic. Many people are being absolutely scammed by this dream of becoming rich by companies trading on their desperation."

In October, Melbourne-based cryptocurrency exchange Blockchain Global Limited collapsed owing investors \$21 million.

This was followed just two months later with the collapse of MyCryptoWallet, which claimed to have signed up 20,000 customers.

Unlike with banks, there are no government guarantees for the exchanges which buy and sell cryptocurrency.

Senator Bragg has led calls for new legislation to govern cryptocurrencies and the blockchain technology underpinning the industry.

This would bring in proper regulation and a tax regime, both to protect Australian investors and allow the industry to thrive.

Having led a Senate inquiry into the sector last year, he is convinced that blockchain technology provides an "endless list of opportunities", including enabling peer-to-peer lending which strips out the bank, and allowing artists to eliminate expensive dealers to sell their work.

"The technology is sound, and provides more agency, control and lower prices," Bragg says.

"It could break down a lot of the established industries and unshackle people from having to be subject to a major bank for their whole life."

Like it or loathe it, it seems cryptocurrency is here to stay.



about \$92,000 in November to \$47,000 in January.

"If you don't know what you're doing and are not in it for the right reasons it's very easy to lose money. It becomes like gambling," he admits.

Many have not been able to resist a flutter.

Huge sums of money are being spent to promote cryptocurrency as widely as possible, making it seem glamorous and exciting.

Singapore based cryptocurrency exchange Crypto.com has struck multi-million dollar sponsorship deals, including with the Australian Football League, F1, and the Ultimate Fighting Championship.

Its "fortune favours the brave" global advertising campaign featuring Hollywood star Matt Damon has been widely criticised as tone deaf.

Mining mogul Andrew Forrest is suing Facebook-owner Meta after his face was used in one of the many scam ads for crypto-currency on the social media platform.

David Gerard is among those who believe cryptocurrency should be avoided at all costs.

Gerard, a London-based journalist from Perth,

has devoted a book to the subject: *Attack of the 50 Foot Blockchain*.

"The whole pitch is you can get rich for free, and there is no such thing," he says.

"I'm from Perth and I'll tell you there is no one on earth who is keener to find a get rich scheme than Australian suburbanites. They are the perfect suckers; they have a good lifestyle but they want more. And they like Bitcoin because they can feel really cool."

Gerard argues there is not enough focus on those whose savings are wiped out in an unregulated market with very little consumer protection.

"My view is that ripping off mums and dads and grannies is