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Mongolia Sees $1 Billion Investment From Doubling Area for Mines

By Michael KohnMay 28, 2014

Mongolia is seeking to expand its area available to mining to a fifth of the country, and by the close of the decade to end its dependence on foreign oil, according to a senior government official.

The outlook hangs on the passage of laws governing mining and energy, Vice Minister for Mining Erdenebulgan Oyun said last week in an interview. Both could be signed off by parliament within a month, he said.

The mining plans alone could unlock $1 billion in developments this year, easing pressure on Mongolia's mineral-dependent economy. As recently as 2011, its growth was a world-beating 17.5 percent. That moderated to 11.7 percent last year, amid a collapse in foreign investment that has continued into 2014. The government last month embarked on a 100-day race to improve economic performance via dozens of measures to boost investment and cut imports.

Replacing Mongolia's 1991 Petroleum Law would expand investment opportunities to include different types of contracts between parties, and regulate new energy sources including the nation's nascent oil shale industry.

"The law is outdated and many industries are unregulated," said Erdenebulgan, speaking in Ulaanbaatar. The new law is based on the "best international petroleum laws from different countries."

Erdenebulgan said the mining law amendments would increase Mongolia's area available to mining and exploration to 20 percent from around 8 percent, by lifting a 2010 ban on new licenses. The period of exploration would also increase from nine years to 12 years.

New Investment

The restart of exploration could provide Mongolia with $1 billion in new investment this year, Erdenebulgan said, in an economy with a gross domestic product of $10.3 billion in 2012. Mining disputes, including a high profile spat with Rio Tinto Group over the Oyu Tolgoi copper and gold mine it shares with the government, have chilled foreign interest in the sector.

Extending the term to 12 years "would be an improvement and potentially a competitive advantage to attract investors back to Mongolia," said Sam Spring, president of Kincora Copper, a Vancouver-based miner with operations in Mongolia.

The amendments "get Mongolia back in the game" Spring said, with the caveat that more needs to be done to make the country competitive. Other than the 12-year extension "I haven't seen anything in the proposed changes which would help favorably differentiate Mongolia to other jurisdictions," he said.

Shale Bet

Mongolia's shale oil bet, meanwhile, drew Newark-basedGenie Energy Ltd. (GNE:US) into signing a contract in 2013 to explore for deposits in central Mongolia. After five years, the deal can be converted to a production sharing contract, which would give the government a share of any projects, said Erdenebulgan.

The U.S. Energy Information Administration estimates Mongolia's technically recoverable shale oil resources at 3.4 billion barrels, of a total in the ground of about 85 billion barrels, according to a June 2013 report. Its shale oil and gas reserves are "limited but locally significant," the report said.

Based on its own surveys, the nation has the potential to be among the top ten oil shale producing countries worldwide, according to Khashchuluun Chuluundorj, chief executive of the Mongolia Shale Association.

The nation of 3 million's conventional oil sector is small, although annual output will increase in 2014 to around 7 million barrels of crude, said Erdenebulgan. By comparison, Mongolia's neighbor Russia is the world's top producer with 10.4 million barrels of oil a day.

Rosneft Contracts

Mongolia imported almost 1.2 million tons of diesel and gasoline in 2013, according to its National Statistical Office. Russia's Rosneft OAO (ROSN) last week signed three contracts to supply $2.3 billion in oil products over 5 years to Mongolian importers.

Mongolia can wean itself off foreign oil-product imports by 2020, and the government is planning to build its first refinery in southeast Mongolia to process domestic oil, said Erdenebulgan.

The nation is far richer in coal, with 160 billion metric tons of reserves. It's exploring coal-to-gas or liquid projects, attracting investment interest from China Petroleum & Chemical Corp. (386), Asia's biggest refiner, and Posco, South Korea's biggest steelmaker, as well as domestic companies.

China Petroleum, known as Sinopec, signed an agreement in October to develop coal gasification plants in Mongolia. Erdenebulgan said that, while most of that gas would be exported to China, some would be used to help heat homes in the capital, where temperatures in winter plummet to minus 30 degrees Celsius. Most residents currently heat their homes with raw coal, a significant source of the air pollution that made Ulaanbaatar the world's second most polluted city, according to a 2011 report by the World Health Organization.

"Russia is a big exporter of gas products to China," said Erdenebulgan. "We also want to penetrate the Chinese market."

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