BUSINESS VANCOUVER

Published July 14, 2014

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Mongolia attempting to win back alienated mining investors

By Jonathan Manthorpe

Mongolia is attempting to inspire market confidence in its economically crucial mining sector after foreign investors started staying away in droves in response to years of political vacillation.

Early this month Mongolia's parliament, the Great Hural, passed a series of new laws and amendments to existing legislation aimed at providing a sound and predictable structure to regulate the mining industry. The changes by the government of Prime Minister Altankhuyag Norov come after two years of slowing growth and sharp declines in foreign investment.

Economic growth in Mongolia was a world-leading 17.5% in 2011, but that fell to 11.5% last year, and the Asian Development Bank is predicting a rise of 9.5% this year. Foreign money coming into Mongolia fell 52% last year over 2012, and in the first six months of this year it was down a further 64% over the same period in 2013.

Investors have greeted the changes with muted optimism. But the main influence on investor confidence will be whether the government and the Anglo-Australian Rio Tinto Group can resolve their differences over the massive Oyu Tolgoi copper and gold mine, which is expected to provide 30% of the country's gross domestic product when in full production.

Amendments to the 2006 Minerals Law expand from 8% to 20% the proportion of Mongolia available to mining exploration.

The previous limit was based on environmental concerns and a 2009 law aimed at protecting rivers and forests. These amendments also foresee the creation of a National Geological Survey and the establishment of a policy council to oversee future changes to mining law.

Changes include the lifting of the 2010 ban on new licences and increasing the period of exploration from nine years to 12.

At the same time, the government wants to encourage investment in coal, shale gas and oil exploration. The hope is to attract investments of about $1 billion this year and end the country's dependence on energy imports by the end of the decade.

Still unresolved is the question of 106 mining licences that the government revoked late last year. The licences were cancelled after officials in the Mineral Resource Authority of Mongolia were charged with corruption.

On several occasions government officials have said they want to resolve the issue as soon as possible.

Some of the mining companies have launched court challenges against the government, claiming their licences were illegally revoked. In court actions by 31 of the 106 companies, they say they have spent about $19 million and have further costs of $36 million pending.

Mongolia emerged as one of the world's most enticing storehouses of untapped mineral resources after the country achieved independence from the collapsing Soviet Union in 1990. The country has some of the world's largest reserves of coal, copper and gold as well as economic deposits of uranium, silver and molybdenum.

The bonanza mentality has been spurred on by Mongolia's closeness to the industrial areas of neighbouring northern China, where the appetite for natural resources appeared, until recently, to be insatiable.

But developing the institutions to manage the mining industry and adapting the culture of an economy based on mineral extraction has been a tempestuous and emotional experience for the country of only three million people.

Until the mineral potential of Mongolia became apparent in the early 2000s, most Mongolians subsisted on the semi-nomadic herding of sheep, goats, horses, cattle and camels.

Mongolia has become a vibrant democracy with frequent changes of government.

A constant theme, accompanied by several changes of direction that have unnerved investors, is how best to ensure all Mongolians get the best value from their national assets.

See “Mongolia expands its resource exploration options” – page 16. •

Government in tug of war with companies over copper-gold mine

Mongolia's vast Oyu Tolgoi copper and gold mining project has become a daily barometer of the health of the country's nascent resource industries since the deposit was discovered by Vancouver-based Ivanhoe Mines in 2001.

At the moment the barometer is recording stormy weather, but with the chance of clearing conditions ahead as the Mongolian government tries to put in place workable and predictable mining regulations.

But for the time being, relations between the Ulan Bator government, which owns 34% of the Oyu Tolgoi project, and Anglo-Australian miner Rio Tinto, with the other 66%, are difficult. Although the open-pit section of the mine started production last year, the government is concerned that the ballooning of development costs from a predicted $5 billion in 2010 to $11 billion last year will eat into its revenues.

Political parties have been free with their promises to voters on how they will benefit from the vast treasure house of untapped mineral reserves under the deserts and steppe grassland. They need the Oyu Tolgoi revenues.

Earlier this year Rio Tinto missed a deadline to secure about $5 billion in investment in the underground mine portion of the project. Meanwhile relations have deteriorated further since the government announced last month that $130 million in evaded taxes and penalty payments are owed by Turquoise Hill Resources, the

Vancouver-based manager of the Oyu Tolgoi project created by Ivanhoe and now owned by Rio Tinto.

Story URL: http://www.biv.com/article/20140714/BIV0345/307159979/0/BIV0331/mongolia-attempting-to-win-back-alienated-mining-investors