

A Mongolian roulette

(a game of rich mineral wealth and poor governance)

by Jargalsaikhan D (Mongolia)

At Pacific Rim Policy Exchange
Conference

Sep 28-30, 2010

Sydney, Australia

Mongolia and its aim

- **Mongolia, a landlocked country sandwiched between China and Russia.**
- **It is seeking investors as part of a national development strategy that aims to grow its economy by 14 percent between 2007 and 2015**
- **Gross domestic product per capita for the nation's 2.7 million people to \$5,000 from the current \$1,900.**

Rich in mineral wealth

(annual production (2009))

- Copper 130,000 t (in concentrât)
- Gold 11.4 t (official figure only)
- Molybdène 1400 t
- Zinc 55,000 t
- Iron Ore 1.6 Mt
- Coal 6-8.5 Mt
- Oil 2.9 Mbbl

Next Kuwait in Central Asia

- Tavan Tolgoi = 6 billion metric tons of coal in the deserts of southern Mongolia (one of the world's largest unexploited reserves of the fuel).
- Rio Tinto Group and Ivanhoe Mines Ltd. are developing Oyu Tolgoi, (the world's largest copper resource). It may operate for 30 years and generate up to \$50 billion in revenue
- Capital requirements for operations US\$7.5 Bn
- Infrastructure (approx \$5.5 bn)
- The government's capacity to raise financing
- Opportunities for PPPs and private sector investment in support services and businesses

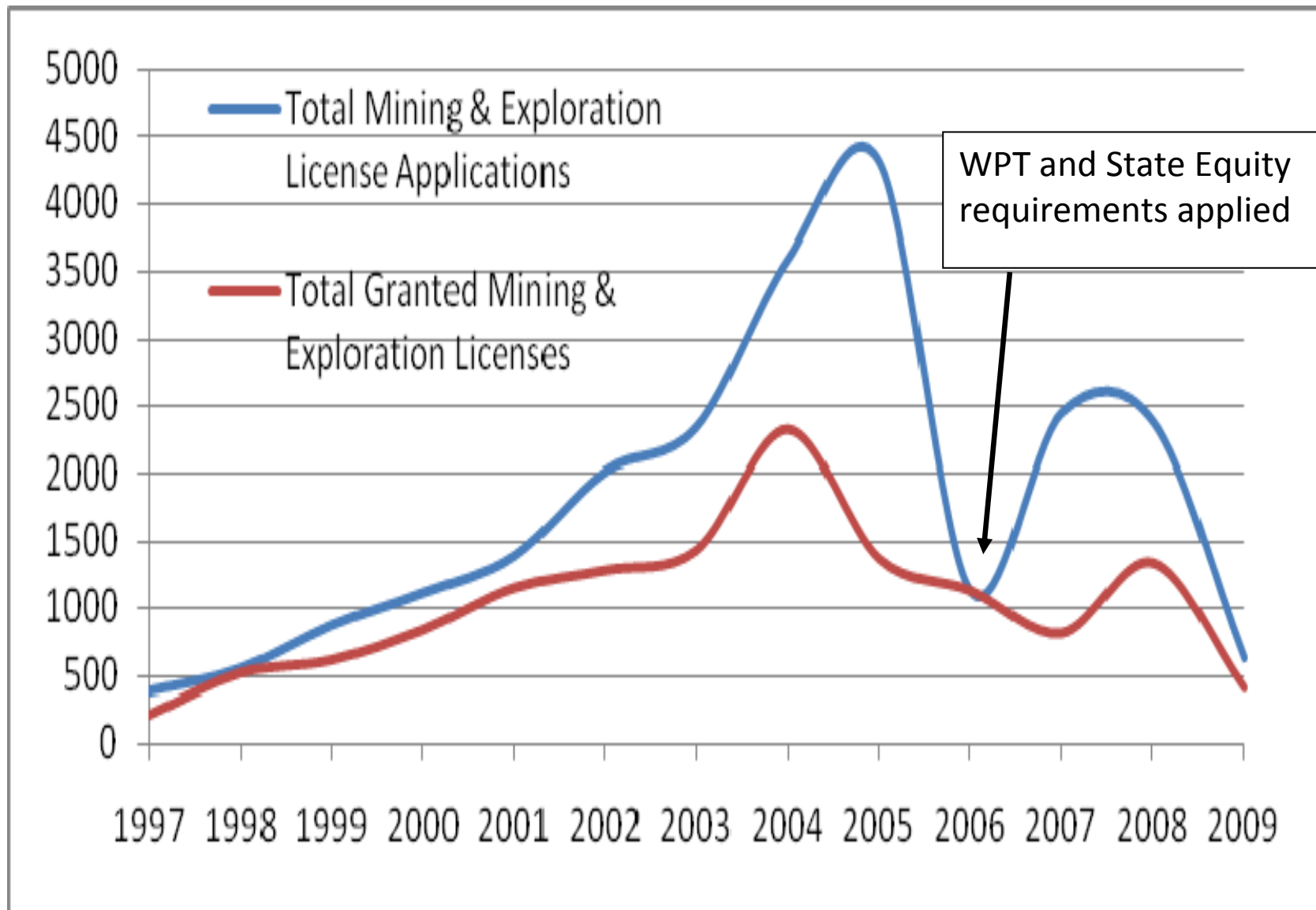
Policies for mineral sector growth

- Some characteristics of the Fiscal Regime for mining:
- Royalty - 5% of Gross Sales Value
- Income Tax rate – 10-25%
- Dividend Withholding Tax - 20% (discounted to 5-15% by treaty)
- Loss Carry Fwd - 4 to 8 years depending on total Capex.
- Depreciation - 10 years or useful life for most assets
- Amortization of Exploration Expenditures - 10 years
- **Results in total ETR of approximately 42%**
- The State has the right to farm in to private sector projects of a strategic nature with a 34% interest for private sector discoveries and 50% for State funded

Policies for mineral sector growth

- Windfall Profits Tax applied to gold and copper in 2006 is repealed with effect from 1 January 2011
- VAT regime promotes downstream processing by zero rating processed mineral products and exempting raw concentrates or otherwise unprocessed products
- Government offers stabilization of fiscal terms for projects developed under an investment Agreement
- Mongolia is an EITI implementing country

Impacts of Government Policy Instability



Some emerging issues for mining sector growth

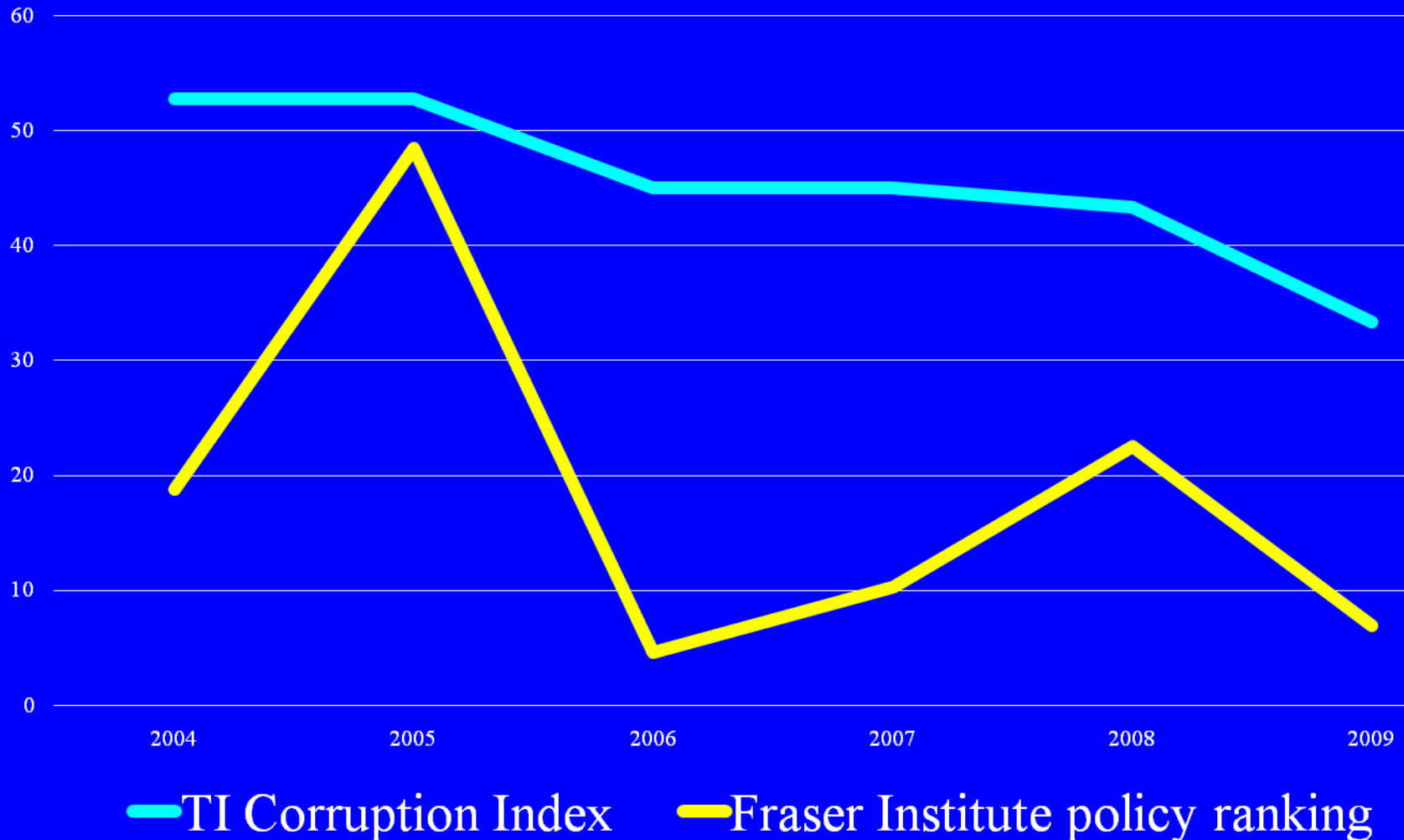
- **Future infrastructure constraints to exports loom large**
 - **Slow decisions on energy sector development with new projects expected to require substantial new generating capacity (initially 600-1000MW)**
 - **Border crossings are a major constraint to new exports of bulk commodities**
 - **Rail issues continue to be a real challenge**
 - **slow decisions on approvals to build and operate railway lines to China for coal exports**
 - **Confusing signals concerning rail gauge**

Poor governance

- **34% ownership: role of monitoring**
- **Huge initial investment diverting from other needed investment for infrastructure**
- **Money is borrowed but used for election campaign cash promises 100 MLN\$**
- **Parliament members gets ~700,000\$ for spending under own decision**
- **Government is too large: ~45% GDP.**

Some Challenges Ahead

Mongolia International Rankings



Poor governance

- **Irresponsible: pension and other social funds**
- **Increasing salary of public service employees 30%**
- **Price increase: intervention with subsidies**
- **Still state-owned companies like National airlines, only railroad company, copper mine JVC and power stations and coal mines (price control leads to power shuts.**

In Summary

- **Mongolia is a rich country with large mineral resources. The world largest buyer is at the next door**
- **Public governance is poor and needs to improve a lot in efficiency, transparency and consistency**
- **The government is becoming larger, populist and corrupt**
- **Business is not competitive**
- **Mongolians are uncertain**