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Discover Mongolia forum hears new ministerial tune

Mongolia has been off the beaten track for several years – it’s challenging to access new exploration licences, and a range of policies adopted in the last decade were strongly nationalistic. Consequently, there have been no new entrants to the country to explore for some time. However, the country now hopes to achieve a foreign listing for its state-owned Tavan Tolgoi coal company and passionately spoken rhetoric points to a change of attitude toward foreign miners. If words can be made into actions then Mongolia may be about to reappear on the map.



Oyu Tolgoi in Mongolia. Image: Hedley Widdup

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In 2007, Mongolia was one of the hottest exploration destinations on earth.

The geology is well known to be prospective - the Oyu Tolgoi discovery in the Gobi Desert played out through the early 2000s, strongly complemented by the promotional machine of Robert Friedland loudly proclaiming the virtues of the project and the jurisdiction. Explorers, who love a frontier that looks like "elephant country", flocked to Mongolia and investors clamoured for their stock.

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The sheen began to wear off in 2008 with the Global Financial Crisis, as risk aversion crept into the market and took the wind out of exploration funding globally. This disruption proved to be short term, however, the sands had also been shifting in Mongolia in a way that made mining investors uneasy.

In 2009, against a backdrop of a still fragile market for miners, the government of Mongolia exercised its right (which had only been legislated in 2007) to obtain a 34% project interest in Oyu Tolgoi, raising the spectre of future projects potentially being classified as "strategic" and thus also requiring a Government holding.

Then in 2010, Mongolia shut down access to new exploration ground with a moratorium on granting new licenses. In the years that followed, most hopefuls took their exploration budgets elsewhere and only a hardy few have remained.

Fast-forward eight years and Mongolia is emerging from a financial crisis of its own, which led to an IMF bailout. There have been several changes of government, and of leadership within serving governments (although to be fair, no Australian can point the "too many prime ministers" bone at any other country).

The few junior companies that had ground, and remained, have produced some of the best collective exploration progress in the industry. The likes of Erdene Resources (TSX:ERD) and Xanadu Mines (ASX:XAM) have made impressive discoveries in this time.

Oyu Tolgoi has been built, world class in scale and executed to a very high quality. In these intervening years, the rumble from the government toward miners has never been positive, and from time to time there have been calls from prominent politicians for further nationalisation of Oyu Tolgoi.

Resource nationalism is neither new nor uncommon.

Australia's aborted Resource Super Profit Tax and Mineral Resource Rent Tax haven't quite been forgotten, and Tanzania's tax/government free-carry changes are a very recent example. Resource nationalism goes hand in hand with intertwined and very common misconceptions about the complexity and

profitability of mining and the invisible (to those outside the industry) requirement to invest large amounts of capital to establish and perpetuate mining businesses.

These are brought about by a general lack of awareness of mining. In many countries, artisanal mining, which generally operates outside the tax system and doesn't feature the proper waste storage or chemical containment generally required by mining laws, further contributes to the misleading impression of what constitutes a sustainable business.

Nowhere are these misconceptions more pervasively obvious than in Mongolia. For many politicians, pandering to the nationalistic tendencies of the electorate toward miners has been an easy free kick. The result is that capital chasing growing miners and explorers flows to opportunities in other countries - the investment markets have certainly taken a wide berth around Mongolia the past eight years.

However, there is a sense that the sands are shifting again in Mongolia, and this time in a positive fashion.

The minister for Heavy Industry and Mining used the platform of the Discover Mongolia Forum in Ulaanbaatar last week to make the first positive noises from a mining minister for some time.

Minister Sumiyabazar attended an entire day of the conference and had a simple message for miners: he wants to attract foreign capital to the sector, which is the largest sector of Mongolia's economy. His overarching goal in the short term is obtaining an IPO for the government's holding of Tavan Tolgoi, which produces high quality coking coal within a stone's throw of the Chinese border, and has reserves of more than 5 billion tonnes.

To attract the kind of money needed to list that sort of business, Mongolia needs to not only roll out the proverbial red carpet to foreign investors, but also address concerns of the industry around fairness and stability of fiscal settings for miners.

The minister appears well aware of this, and has flagged a push to complete approaching tenders for new exploration licences (previous tenders have had mixed success, and remain the only way to obtain new exploration licences),

as well as responding positively to suggestions that the government might interact directly with companies over specific exploration areas.

The rhetoric included positive remarks toward Oyu Tolgoi, which are highly significant because they mark a total reversal of tone from previous mining ministers. In laying out these intentions, the minister implored the industry to help him by providing a list of the concerns of the industry and educating Mongolians about mining - particularly the benefits such as jobs and economic opportunities that are created by mines.

There is no clarity on the government's intended future use of its right to obtain a 34% project interest. However, prevailing wisdom suggests that this will only ever be considered for projects of considerable importance to country GDP.

There have been many moments over the past eight years where Mongolia appeared convinced that mining capital had only fled the country owing to the global mining cycle - almost wilfully unaware that there were factors unique to Mongolia which influence the holders of investment capital.

That penny appears to be dropping now, and with a major IPO as a motivating factor to open the doors to foreign investors, it seems logical that the tantalising geology might once again begin to attract explorers.

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