

Minegolia - Mining in Mongolia

'Minegolia' became the nickname of Mongolia when the country rushed into a boom of mining in the beginning of the decade. Foreign nations were searching to play a part in this economically promising game. So in 2011 Angela Merkel came to Mongolia to sign a bilateral resource partnership ("Rohstoffpartnerschaft") between the two countries¹. The goal was to integrate industry, development and foreign trade policy but Phillip Rösler, Minister for Economy at the

Mongolia: General Information (data 2014-2016)	
Population	2.959 million
Area in km ²	1,566,000
People/km ²	1.9 (least populated country)
GNI/capita	US\$ 4,280
Economy	Agrarian Sector: 30% of nomadic or semi-nomadic herders (16.6% of GDP), Mining Sector (20% of GDP)
Main minerals	copper, gold, coal, tungsten, tin, molybdenum, fluorspar uranium
Largest exports	Minerals (80%) especially copper ore (44.6% of total exports)
Main export partners	China (87.7%), Great Britain (4.8%)

time, clearly stated Germany's priorities: "With the resource partnerships (...) we make a contribution for a safe raw material supply of the German economy. Because raw materials are the indispensable basis for industrial production and economic value creation."² Civil society organizations have heavily criticized the partnership as being too narrowly focused on the interest to secure the raw material supply of the German industry. The contract with Mongolia does not mention human rights or environmental standards at all. On the contrary, here is the risk to foster mining and thereby to increase the risks of human right abuses and environmental problems. The traditional labor division of industrial countries and resource exporting developing countries is consolidated without creating economic alternatives for the partner country³.

So far the partnership has brought less trade than expected. Germany imports goods of merely US\$9.3 billion from Mongolia with a downward trend. This is mainly due to the necessity to cross Russia or China for transport and because of currently low prices of raw materials. However, there are some signs of a slowly deepening economic relationship. For example the German Mongolian Institute for Resource and Technology in Ulaan Bataar has opened in 2014 with three bachelor studies focusing on mining engineering. This can be seen as a long term investment in the training of mining specialists. Also, in October 2015 German president Joachim Gauck visited Mongolia and presented Germany's motivation in the partnership between the countries: "The business delegation which accompanies me today shows our continuous interest."⁴ As the result, the German copper producer Aurubis was able to make a purchase agreement on copper concentrate

with the Mongolian company MAK. The contract will run for 15 years and has a maximal inspection value of US\$3.8 billion from the planned copper-molybdenum mine Tsagaan Suurga⁵. To secure this deal, the German government might issue a loan guarantee (“Ungebundener Finanzkredit”) of US\$745⁶. Problematically these loans are given without having to follow any standards of human rights or environmental protection.



The Kopf System, Aurubis_flickr_23269547760 with CClicense

Aurubis, the biggest copper smelter in Germany, secures its bits of Mongolian resources.

German companies are also getting involved in supplying equipment, building infrastructure, and facilities in the mining sector. Germany exports goods with a value of US\$117 billion to Mongolia, mainly machines, some food, and chemicals. For example BASF is a supplier for the Oyu Tolgoi mine and has cooperated the design of its bulk storage facilities⁷. ThyssenKrupp AG signed a memorandum of understanding to construct a coal-to-liquids facility. Another one was signed by the German company SAX Energy Power to partner in the construction of a power plant run with coal, wind and water to serve three Mongolian provinces. According to the German-Mongolian Business Association (DMUV) Siemens is supposed to deliver the technical equipment and the Berliner Landesbank will finance the project. Other developments under discussion are cooperation in the construction of the eco-city project Maidar City by Transsolar Energietechnik or the construction of a rail work network in the Tavan Tolgoi mine by Deutsche Bahn. However, it currently seems that Mongolian officials are currently favoring Chinese companies for the project⁸. Further, the German Federal Institute for Geosciences and Natural Resources (BGR) has signed a contract in 2014 with the Mongolian mining ministry to research exploration, extraction, marketing and processing certain resources⁹. Also the GIZ supports mineral extraction as for example in its currently running project “Integrated Mineral Resources Initiative” which aims to “promote inclusive and sustainable growth based on mineral resource wealth”. Moreover, it serves as an access of German companies into the Mongolian market as stated on the project’s website: “By involving German companies in development measures, the project helps to implement the agreement on cooperation in the field

of mineral resources between Germany and Mongolia. German business representatives act as speakers at dialogue events and training courses; at the same time, the market access of German companies is also promoted”¹⁰.

The largest foreign investor in Mongolia is currently the European Bank for Regional Development (EBRD). Germany is after the US, on the same level as France, Italy, Japan and Great Britain one of the six biggest shareholders of the bank¹¹. Despite the EBRD’s of having a diversified portfolio supporting sustainable growth, the bank has



Dr. Bernd Gross, Coal mine of Tavan Tolgoi JSC_wikipedia with CCLicense

The coal mine Tavan Tolgoi is another project financed by the EBRD and associated with many environmental problems.

since the beginning of its operations in 2006 in Mongolia invested a majority of its fund into the mining sector. The copper and gold mine Oyu Tolgoi has for instance received significant support by the EBRD with a US\$1.2 billion syndicate loan arranged in 2015¹². Riccardo Puliti, EBRD Managing Director for Energy and Natural Resources, said: "The EBRD is pleased to see the successful completion of the financing and the adoption of best practices in all aspects of the development of this project”¹³. Regarding the negative consequences for the local communities in the vicinity of Oyu Tolgoi it is difficult to see how Puliti came to this conclusion.

The mine Oyu Tolgoi (Mongolian for Turquoise Hill) is located in the South Gobi Desert. Since 2013 it is in operation by a joint venture of the Mongolian government and Canadian Turquoise Hill Resources. The UK-based multinational Rio Tinto owns 51 percent of Turquoise Hill Resources and is also the manager of Oyu Tologoi since 2010¹⁴. It is the biggest financial undertaking in Mongolian history and is expected to account 30 to 40 percent of the national GDP by the end of the decade. In 2016 the Oyu Tolgoi phase 2 underground development has started with an additional investment of over \$US5 billion and a provisioned production of 500,000 tons of copper per year¹⁵. Since the beginning the huge deposit has generated investors’ enthusiasm. Robert Friedland, founder of Turquoise Hill Resources summed up the initial euphoria: "We're only 70km from the Chinese border. You've got lots of room for waste dumps without disrupting the populations and we are building the biggest new mine in the world." And further adding: "The nice thing about this is that there are no people around, the land is flat, there's no tropical jungle, there's no NGOs.”¹⁶ Whatever the investors dream, as a matter of fact there are many herders living in the Gobi.

Around eleven families had to be displaced and the lives of more than 600 other families have been negatively impacted by mining¹⁷.



John Poole, Pumping water for the family camels in Mongolia_flickr_7248837384 with CCLicense

Mining in the Gobi exhausts local water resources

a local herder says: “Water levels are decreasing, our household can only sustain 60 animals instead of 200. This is not sufficient for earning a living, it is even hard to feed the family.”²⁰ Another said: “I was not resettled by [Oyu Tolgoi], but I am one of many who had to move without compensation, because of no water.”²¹ The company’s answer to these problems is to shift to the responsibility to the herders asking them to reduce the amount of the animals to save water. However, this reduction can only lead directly into poverty because opposed to what was promised beforehand, the mine did not bring alternative ways of development. Very few herders received jobs in the mining operations. This is because modern mining creates few jobs and local herders are often unskilled in the required tasks competing with people coming in from outside the mining areas. Especially women remain without perspectives as only men are employed. A local resident of the South Gobi describes the situation as such: “What can the Oyu Tolgoi company show as the achievements of its community programs? You see we have no infrastructure, no electricity ... the promised benefits are not being realized as fast as the destruction of our health, land and livelihoods.”²²

Another point is that the mine is endangering the local environment. As pointed out correctly by Friedland the Gobi is not a tropical rainforest but nevertheless a unique and fragile ecosystem and home to many endangered plants and animals. Increased concentrations of dust from the mine exacerbate desertification and threaten vegetation. The severely increased water scarcity induces the risk that species like the Asiatic wild ass or the black-tailed gazelle disappear²³. Additional mining in the Gobi in Tsagaan Suurga, located 150km in the North West of Oyu Tolgoi, as

supported by the EBRD, German government and company Aurubis may aggravate the human rights violations and environmental issues connected to mining in the region²⁴.

Further north, a two-hour drive away from the capital Ulaanbaatar, another mine is attracting much heated debate: The Gatsuurt open-pit goldmine is under the development by the Canadian mining company Centerra Gold since 1997. The company is already operating the Boroo gold mine 35km away and plans to transport the ore from Gatsuurt to Boroo to process it. The new project is associated with many environmental risks such as massive deforestation in one of the few forested areas of Mongolia and consequently a negative impact on the local water balance. The water sources could be further under threat by pollution of the mining process. Activists and Mongolian public are also very concerned with their cultural heritage since tombs of Hun warlords dating back to the 3rd century BD are located near the mining site and are at risk to be destroyed²⁵. As seen in other mining projects such as Oyu Tolgoi, people also fear a lack of community investment, and the idea that locals will not benefit from the exploration of the mine. Chimedregzen, a local activist, states that the local communities are majorly against the Gatsuurt project. They have filed 14 public complaints and petitions and collected 160,000 signatures against the mine²⁶. However, the local government has ignored the protests as he states.

So far the production in Gatsuurt has been delayed because the 'Law with the long name', passed in 2009, prohibits "mineral exploitation and extraction in or near headwaters, protected zones or forests areas." Mining in the vicinity of 200 meters of water and forests sources like in the case of the Gatsuurt mine were cancelled. However, in January 2015 the government granted Centerra Gold special permission to mine on its property in Gastuurt, designating this a project of strategic importance despite the protections by the Long Name Law. The plans of the government were met with a hunger

Gatsuurt is not Centerra's only mining project which raises environmental concerns and invokes protests. In Kyrgyztan the company is operating the Kumptor open-pit gold mine. These activities pollute crucial freshwater resources of an active glacier next to the mine³⁴. Villagers therefore massively protested in 2013 and invoked a temporary shutdown of the mine. As a consequence, local activists were imprisoned and tortured³⁵. Centerra has been recently sued for US\$10,000 by the Kyrgyz government for environmental damage at Kumptor ³⁶.

strike of members of Mongolian environmental organizations which was violently dispersed by the police. In general, civil society activists and organizations are massively repressed. Being called "Green Terrorists" they face criminalization, police violence, aggressive media campaigns and

imprisonment. In this way, it was surprising that recently, in May 2016, a group of environmental activists were successful with a law suit at the administrative court to stop the approval of mining at Gatsuurt²⁷. However, the future remains unclear as Centerra is filing an appeal. Also the EBRD bank continues to support Gatsuurt with giving a recent five-year corporate revolving debt facility of US\$150 million to Centerra²⁸.

Also on the macro level Mongolia faces many challenges connected to mining. The high economic reliance on mining makes prosperity critically dependent on international commodity prices and on the Chinese economy as the by far main importer of the minerals. This is dramatically shown by the development of Mongolia's GDP. After being one of the fastest growing economy with 17 percent until 2011²⁹, the growth radically declined and is currently at 0.1 percent. This breakdown is mainly due to low raw material prices, economic crisis in China and sunken foreign investments. Because of huge investments in mining related infrastructure, the state is deeply indebted. According to the rating agency Fitch, it has the second biggest debt to GDP ratio³⁰. Under pressure to create a stable budget, the government has tried to raise the state ownership the biggest mining project Oyu Tolgoi from 34 to 51 percent but was not successful due to binding contracts with the company³¹. Another concern is that Mongolia fails fairly distribute the mining benefits. Although the growth during the mining boom lifted some people out of poverty, it also increased inequality. One quarter to one fifth of the population still lives under the poverty line, mostly in rural areas. It can be expected that these people will be hit the hardest by the crisis. Critics also voice that mining licenses are not given away in the best interest of the public but because of corruption. This was confirmed for example by the Panama Papers listing forty names from Mongolia and revealing close connections between key politicians and mining companies³².

The huge debt and the volatile GDP growth show that for Mongolia as a whole the dependence on mineral wealth extraction for export is unsustainable. The boom in mining did not lead to a long term growth that would benefit Mongolia as a whole. Local communities and environments suffer under the impacts of mining and traditional nomadic livelihoods are under threat. We therefore demand a change in the focus of the German resource strategy. Human rights and environmental damage should not be sacrificed in the name of securing resources for the German industry.

The EBRD has recognized that a focus on mining increases Mongolia's vulnerability. Nevertheless, the bank falls short of its goal to promote the diversification of the countries' economy, as a large part of its investments support huge mining projects. NGOs such as Urgewald, OT Watch and

CEEWatch therefore urge the EBRD to keep its claim to diversify its portfolio in Mongolia, to assess the social and ecological impacts of its projects much more carefully and to abstain from financing projects with such negative impacts like Oyu Tolgoi.³³ The EBRD will have this chance to implement these changes with the revision of the country strategy in 2016. As a huge shareholder Germany should support the EBRD in its efforts.

¹[Abkommen zwischen der Regierung der Bundesrepublik Deutschland und der Regierung der Mongolei über Zusammenarbeit im Rohstoff-, Industrie- und Technologiebereich](#)

²[BMW: Erste Rohstoffpartnerschaft mit der Mongolei unterzeichnet](#)

³[AK Rohstoffe: Damit aus Rohstoffpartnerschaften keine Leidensgemeinschaften werden- Forderungen an die Bundesregierung](#)

⁴[Der Bundespräsident: Staatsbankrott in der Mongolei](#)

⁵[DMUV: Deutsch-Mongolische Wirtschaftsbeziehung durch Projektvereinbarungen belebt](#)

⁶[BDSEC: Germany to issue 745 m US-\\$ loan for Tsagaan Survarga project.](#)

⁷[Laurenz Melchers: Mongolian Supply Chain, Slide 15](#)

⁸[Bloomberg: Mongolia Seeks \\$1.3 Billion from China to Complete Coal Railway](#)

⁹[Georesources: Vertrag für BGR-Projekt in Mongolei unterzeichnet](#)

¹⁰[GIZ: Integrated Mineral Resources Initiative](#)

¹¹[EBRD: Shareholders and Boards of Governance](#)

¹²[EBRD: EBRD arranges US\\$ 1.2 billion syndicated loan for Oyu Tolgoi mine](#)

¹³[EBRD: EBRD arranges US\\$ 1.2 billion syndicated loan for Oyu Tolgoi mine](#)

¹⁴[Rio Tinto: Oyu Tolgoi](#)

¹⁵[Tradelink Publications: Rio Tinto approves development of Oyu Tolgoi underground mine](#)

¹⁶[Resource Investor: Nothing Like it on Planet Earth - Robert Friedland's Tour d' Tolgoi](#)

¹⁷[Urgewald et al.: Spirited Away, p. 7 and p. 23](#)

¹⁸[UB Post: Uncovering the Gobi 'Watergate'](#)

¹⁹[OT Watch: Comments on September 2015 Report of the Independent Environmental & Social Consultant, Oyu Tolgoi Mining Project, p. 4](#)

²⁰[Urgewald et al.: Spirited Away, p. 7](#)

²¹[Guardian: 'When I was herding I had a plentiful life. Now I am working for another and have lost my independence'](#)

²²[Urgewald et al.: Spirited Away, p. 7](#)

²³[China Dialogue: Mining threatens Mongolia's fragile environmental balance](#)

²⁴[OT Watch: Review of the Oyu Tolgoi Copper/Gold Mine Environmental and Social Impact Assessment, p. 24](#)

²⁵[Digital Journal: Mongolia's 'Sutton Ho' threatened by Canadian Mine](#)

²⁶[The Diplomat: Mongolia Protests Centerra Gold Mine](#)

²⁷[InfoMongol: Licenses of Centerra Gold are suspended](#)

²⁸[EBRD: Centerra Gold](#)

²⁹[World Bank: GDP Growth \(annual in %\)](#)

³⁰[Lost in transition - 25 years of the European Bank for Reconstruction and Development, p.23](#)

³¹[Reuters: Rio shuns Mongolia plan to swap Oyu Tolgoi equity for royalties](#)

³²[Munx Tenger: Rundbrief Mongolei Mai 2016](#)

³³[Urgewald et al.: Spirited Away, p. 26 and Lost in transition - 25 years of the European Bank for Reconstruction and Development, p.24](#)

³⁴[Aljazeera: Environmental cost of Kyrgyzstan's gold mine](#)

³⁵[Aljazeera: Conflict continues at Kyrgyzstan's massive gold mine](#)

³⁶[Mining: Centerra Gold fined for environmental damage in Kyrgyzstan](#)

Contacts

PowerShift e.V.

Michael Reckordt

E-mail: Michael.Reckordt@power-shift.de Tel.: +49-(0)30-42805479

OT Watch

Sukherel Dugersuren

E-Mail: otwatch@gmail.com, Tel.: +976 99185828; +976 98905828

Urgewald

Regine Richter

E-Mail: regine@urgewald.org, Tel.: +49-(0)30-28482270

German Embassy in Mongolia

E-Mail: germanemb_ulanbator@mongol.net, Tel.: +976-11-323325, +976 323915

BGR

Thekla Abel

E-Mail: thekla.abel@bgr.de, T: +49 (0)511 643 3334

GIZ Büro Ulaanbaatar

Stefan Hanselmann

E-Mail: stefan.hanselmann@giz.de; giz-mongolei@giz.de, Tel.: +976-11-315340, +976 70115340

EBRD

Ulaanbaatar Resident Office

Tel: + 976-11-317974

SaxEnergy Mongolia GmbH

Frank Kockisch, Executive Director

E-Mail: info@saxenergy-mongolia.com, Tel: +49-(0)35 -4375208

Aurubis

E-Mail: info@aurubis.com, Tel.: +49-(0)40-78830

ThyssenKrupp AG

E-Mail: info@thyssenkrupp.com, Tel.: +49 2018440

Author / Editorial:

Katja George and Michael Reckordt, PowerShift, June 2016

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