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JARGALSAIKHAN Dambadarjaa

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CARROT AND STICK POLICY:

FUEL

Penn State University professor Randall Newnham talked about how Russia turned its energy resources into a leverage used for its foreign policy in his [paper](#) published in 2011. He used specific examples to describe how Russia has utilized its energy resources in their carrot and stick policy to reward friends and punish enemies. Newnham used facts and evidence to show Russia supplied Armenia, Belarus, and Ukraine (during the time of President Kuchma, who was pro-Russia) with specifically low-priced energy resources, namely natural gas and fuel, but consistently punished the countries such as Georgia, Moldavia, President Yushchenko's Ukraine, who opposed Russia's policies by imposing higher energy prices and even disrupting its supply.

Since 2011, Russia increasingly used this energy leverage. A clear example would be Kyrgyzstan, whose first president Akayev and his family made tens of millions of dollars by allowing a U.S. military base inside the country and supplying the Manas airbase with Russian fuel. Their second president

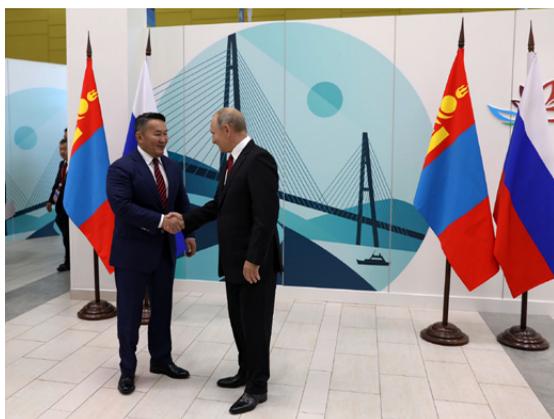
Bakiyev and his family replaced the U.S. military base with a Russian one and got wealthy by supplying Russian fuel as well.

When public governance is poor and corrupt and if your fuel supply is dependent on a single nation, it is inevitable for any country to experience political instability and existential challenges depending on actions of the fuel supplier.

Until 2010, Mongolia used to purchase fuel at the price set by Rosneft. There was no other choice. At the time, Rosneft was making a profit of 400 USD per tonne from the fuel they supply to Mongolia. Mongolian ministers kept visiting Rosneft, begging them to reduce its prices. But it didn't take long for Mongolians to start buying fuel from China or from a third party via China. As a result, Russia started using Singapore's Platts price as base, which relatively reduced Mongolia's fuel dependency.

However, the situation is about to change starting from this year.

VLADIVOSTOK MEETING BETWEEN TWO PRESIDENTS



In September 2018, Mongolian President Battulga met with his Russian counterpart Putin during the Eastern Economic Forum held in Vladivostok. They agreed to co-celebrate the 80th anniversary of the victory of the Battles of Khalkhin Gol, which will be marked this year, and work together to organize a joint exhibition and produce literary works as well as a movie and a documentary. President Battulga also used the time to share with President Putin his plans to reform Khalkh gol soum ahead of the anniversary celebrations.

A month later three executives of Russia's largest oil company Rosneft visited Ulaanbaatar and held meetings ►►

▶ with Z. Enkhbold, President's Chief of Staff, on investing in Mongolia, doing oil explorations, and meeting Mongolia's increasing demand for energy and fuel. They also donated [10 million USD](#) to the project to celebrate the Khalkhin gol anniversary and reform the soum.

Two weeks later, [a groundbreaking ceremony](#) to redevelop the soum was held in Dornod aimag's

Khalkh gol soum. The ceremony was attended by B. Saruul, President's Deputy Chief of Staff, M. Badamsuren, Governor of Dornod aimag, Ts. Nasankhuu, Head of Citizens' Representatives' Khural of Khalkh gol soum, and Kh. Khurel-Erdene, Governor of Khalkh gol soum. They intend to have the project completed by the time the two presidents visit them in August this year.

A COUNTRY IS NOT A COMPANY

President Battulga is a nimble businessman. Having entered small-time trading following the democratic revolution, he eventually went on to privatize some huge assets for himself, including the country's biggest meat, bread, and sweets factories as well as Bayangol, the largest hotel at the time. He also was able to raise enough capital to erect the world's largest equestrian statue. Since 2004, he had three tenures as an MP and a cabinet member. When he was the Minister of Industry and Agriculture in 2013, he initiated the New Soum project and reformed Bayankhongor aimag's Bayanlig and Buutsagaan soums – his constituency and where he is originally from.

However, after assuming the office of presidency, President Battulga started proposing leaders of other countries to invest in or donate to his own private project Maidar to build a town. It makes sense to reform soums and develop a satellite town when the capital city cannot contain its people and cars and when the migration from the countryside to urban areas cannot seem to stop. However, it is

more ethically appropriate for the government, not the president, to do this line of work.

A country is not a company (as said by Paul Krugman). You cannot run a country with the same principles you follow when running a company. When one president requests another president for investment or funds, it is a tricky situation to oblige or not oblige. If the funds go through business channels or it is in the form of donations to a state-owned company, it is often the case that the money comes with specific interests.

Rosneft's chief executive Igor Sechin obliged President Battulga. Although Sechin might be earning a million dollars a month, it is clear that the 10 million dollars he donated did not come from his own pocket. It has come from Russian taxpayers' money, given Rosneft is a state-owned company. Therefore, we should expect the President's Office to report on how they used the 10 million dollars to reform one soum, at least to Mongolian citizens, and if not to Russian taxpayers. After all, Mongolia is a democracy.

IS AN OIL REFINERY PLAUSIBLE?

Rosneft's 10 million dollars came with the interest to control Mongolia's fuel market. Mongolian government representatives have been actively meeting with Rosneft in both Moscow and Ulaanbaatar, discussing about a potential investment in the oil refinery intended to be built with the one billion USD aid from India.

Russia has a track record of opposing many of Mongolia's ideas, including building a narrow-gauge railway, building a hydroelectric power plant, and processing our own crude oil. It is probably why none of these initiatives amounted to anything concrete. However, this time Prime Minister Khurelsukh has already started implementing the project to build

an oil refinery, having made a promise to do so and reduce Mongolia's fuel dependency.

Ninety-five per cent of Mongolia's energy and fuel supply comes from Russia. Ninety per cent of the trade turnover between our two countries account to crude oil imports. Mongolia is currently using 1.5 million tonnes of crude oil products. If we were to make these products domestically, we will need 1.5 billion USD.

It is reported that the Indian loan is just enough for building a refinery. If we were to build a 670-km-long pipeline from Dornod aimag's Tamsag deposit where a Chinese company is mining oil to ▶▶

- ▶ Dornogovi aimag's Altanshreee soum, it would cost 350 million USD.

The Mongolian side proposed Rosneft to invest into the oil refinery to be built and supply crude oil that may be needed to meet its full processing capacity. Rosneft responded by saying that the capacity of the intended oil refinery is too small, Mongolia's crude oil is too heavy, and building a pipeline is too costly. Then they suggested the Mongolian side to invest into their Angarsk Refinery and become a shareholder.

The Angarsk Refinery is the closest refinery to Mongolia and boasts high quality products. Rosneft accounts for one third of Russia's market by processing 118 million tonnes of crude oil annually. The Angarsk Refinery is responsible for 8.4 per cent of this processing power, which translates to 10 million tonnes a year. It doesn't hurt to assess what their market value is, what percentage, if Mongolia was to purchase, would be optimal, and how plausible it is.

FUEL SUPPLY FOR NEW AIRPORT



Rosneft put forward a proposal to urgently establish a concession agreement to supply the new airport at Khushigt Valley with avia kerosene, operate the fueling facilities at both the old and new airports, and build its own fuel station in Mongolia.

In 2008, Prime Minister S. Bayar supported the idea of Rosneft building its 100 fuel distribution stations in Mongolia. This proposal ended up getting stuck in the parliament. There is a specific regulation in the law in relation to supplying petroleum products to domestic market. Mongolia's Law on Petroleum Products states in its Clause 7.2 that "Any foreign legal entity that supplies more than 30 per cent market share of petroleum products cannot sell its products in the domestic market through entities or units they own or control."

SMALLEST CHANNELS IN FUEL SUPPLY

Allowing one foreign company to have full control over the fuel industry at national level would likely result in total economic dependency. Therefore, no matter how small it may be, Mongolians must

In the recent years, Rosneft has been supplying kerosene to the Buyant-Ukhaa airport via Merge Van company, which was invested 50:50 by them and Sod Mongol Company. There is another company named A-Jet (Eznis co) in Mongolia that supplies kerosene, which means Mongolian aviation companies had a choice until recently.

It is expected that fuel supply will come with a choice when the new airport becomes operational. When it comes to aviation fuels, there are two standards: Russian TS-1 and International Jet A-1. Aviation companies usually use both of these fuels, but don't normally mix them until they get to the wings of an aircraft. However, due to repeated requests from our government to the Japanese side, the new airport is going to be equip all four of its 2,000 tonnes fuel tanks with the TS-1 standard. If we were to have fuel with the other standard available for choosing, we would need to have additional two tanks at least.

Mongolian political and business groups are currently in a fierce struggle to take control of the right to supply fuel at the new airport. But, in the end, it looks like Rosneft will take full control of the entire fuel supply for aircrafts and vehicles.

retain all other channels for fuel supply other than Russia. It may be too small, but it is critical we have a choice when it comes to fuel.



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**PETER C. AKERLEY**

President, Chief Executive Officer and Director

THE GREATEST VALUE TO OUR MARKET CAPITALIZATION FROM THE MONGOLIAN LISTING IS A STRENGTHENING OF OUR SHAREHOLDER BASE WITH INVESTORS BEING ABLE TO LOOK AT US AS INVOLVING THE MONGOLIAN SOCIETY IN OUR COMPANY

Mr. Akerley has 30 years of experience in mineral exploration, corporate financing, project development and management of publicly listed resource companies. He is one of the founders and principals of the Corporation and has held the position of President and Chief Executive Officer since March 2003. He is a geologist who has worked extensively in foreign jurisdictions throughout his career, predominately in North and South America and Asia, with a recent focus on Mongolia, where he has led the technical team through the confirmation of a major molybdenum and copper deposit, the discovery and definition of the Altan Nar gold deposit and recent discovery of the Bayan Khundii gold project. He has extensive experience in corporate mergers and acquisitions, joint venture arrangements, asset purchase and sales, and financings, leading the Corporation and its subsidiaries through more than 20 such business arrangements since taking the Corporation public in 2004. Mr. Akerley is past-chairman of the TSX-V listed Morien Resources Corp. where he was responsible for leading the creation of the company as a spin-out of assets from Erdene and the subsequent sale of the Donkin Coal and Black Point Aggregate projects, converting those interests into royalty interests. Mr. Akerley has a BSc (1988) from Saint Mary's University in Halifax, specializing in geology, and has completed the Institute of Corporate Directors Audit Committee Effectiveness course in December 2012.

Jargal Defacto: Please tell us about your dual listing in Mongolia

Peter C. Akerley: It is a very exciting time for our company. We have spent a long time exploring in Mongolia and we are finally at the point where we have found what we began to look for almost 20 years ago. We now have significant gold deposits in Bayankhongor province and have thought about the idea of listing on the Mongolian Stock Exchange for many years. Through the work of the FRC, MSE, the Mining Ministry and ourselves, we have been able to find the regulations that have allowed us to take advantage of this opportunity. We felt that it was the right time for our company with our assets underground and it is wonderful to expose the upside of these discoveries to Mongolian citizens.

JD: What was the major challenge for a company listed in a Western Stock Exchange to receive a listing in Mongolia?

PA: The regulatory system is very bureaucratic with many rules and regulations built around the previous system. It took us several months of working with the FRC and MSE to work through those bureaucratic questions and hurdles. We were able to get through that with the

assistance from our team and our determination.

JD: What are the advantages of being listed in two stock exchanges?

PA: There is a direct advantage for our company in having more Mongolian participants. Being able to share the ownership of the company directly and having mutual shared benefits gives us an opportunity to communicate more widely with the Mongolian audience. It allows Mongolians understand more fully about our company. I think our company is a leader in Mongolia in terms of transparency, corporate governance and having those things in front of investors to demonstrate that we are an open company is a benefit to us.

For the broader Mongolian economy, a successful foreign company listing in the Mongolia will allow that company to bring international moneys into the Mongolian Stock Exchange. We will raise a small amount of money during this financing but if we are successful, we can bring investors through the brokerage community in Mongolia rather than going to Toronto, New York or London for financing. This will see the brokerage commissions paid here in Mongolia as opposed to those capital cities. This would serve as a real strengthening of

the Mongolian capital market system.

JD: Mongolian and international investors have to take into account both listings. How do you see this manifesting itself?

PA: There is an important element of strengthening of the confidence of international investors who are often concerned about the Mongolian legal tax framework. If they can look at the Mongolian market and see that we have a Mongolian shareholder base that is interested in foreign companies coming to work in the country, it would increase their views on Mongolia.

From a trading perspective, because we are in two different time zones, there will be some that trade in both of those jurisdictions and use the arbitrage between the two. This can also increase the liquidity and the volumes traded on the Mongolian Stock Exchange.

JD: With Mongolians becoming privy to information first due to the time difference, do you think the Toronto exchange will follow Mongolian investments rather than vice-versa?

PA: I think that is a very good possibility. Things will happen in both those time zones that could impact the shares as they open on either exchange but now we effectively have a live market operating almost continuously. This potentially can also bring international investors into the Mongolian market.

JD: How do you deal with the concerns of diluting yourself when issuing shares in Mongolia and Canada?

PA: From a dilution perspective, we would be looking at dilution regardless. Had we not raised money in the Mongolian market, we would have raised it in the international market. The dilution is equal on either side. In fact, we are finishing an international offering concurrently with our Mongolian offering at a higher price than we are in Mongolia. We stopped that raise at a certain level so we can raise an amount in Mongolia as well.

JD: This means you issued the same amount of shares in Mongolia and Canada?

PA: We are raising about 4 million in the Canadian market and 1.3 million in the Mongolian market. I view this listing in Mongolia is somewhat of a test case to make sure the system works and get through the FRC and MSE regulations. If this is successful, we will look at something larger in Mongolia in the future. As I spoke about earlier, perhaps the offering here actually brings in those international dollars. We are raising money in Toronto but it the money is coming from Switzerland,

Malaysia or Singapore so it can be done here with the local brokerages. Anytime I can do something to increase the benefits for Mongolia, I believe we should do that and that's why I look at this MSE offering as a great way to share those benefits.

JD: Would Asian investors be more inclined to buy Mongolian shares?

PA: I think there is an increase in Asian market looking at Mongolian shares but many of our investors are from Switzerland, Toronto, or New York and they are more focused on those funds that are interested in the gold sector.

JD: Would exchange rates serve as an issue as the Mongolian listings are in MNT?

PA: Initially, it could have a dramatic impact but you will always find equalization through the exchange rates and exchanges because there are smart people who will look to take advantage of that. Those using arbitrage and looking at the exchange rates will stimulate trading back and forth between Mongolia and Toronto.

JD: Can this impact the reserve of the country and subsequently the exchange rate?

PA: It is certainly a possibility but as a first test case, it is probably premature to say that. If we can see other companies continue to follow and it attracts more foreign investment through the exchanges it ultimately aids Mongol Bank. It is an icebreaker where we have opened the door to a much bigger flow of foreign investment directly into Mongolia.

JD: To you envisage a substantial positive impact on your market capitalization from having two different listings?

PA: The greatest value to our market capitalization from the Mongolian listing is a strengthening of our shareholder base with investors being able to look at us as involving the Mongolian society in our company. I have always had a view that we are guests in this country, the resources are Mongolia's and we have to do everything we can to share benefits. Foreign investors that are looking at our company will be given added confidence in our ability to go through the entire cycle from exploration, development and mining because of the moves that we are making to broaden our shareholder base in Mongolia.

JD: How will this first influx in investment affect the company?

PA: We have a significant milestone coming up in the next couple of months. Over the last two years, we have

done the drilling necessary to define a resource at Bayan Khundii, our flagship gold project. That project is now on the verge of going through the independent evaluation to establish that resource. Quickly on the heels of that, we will begin the economic studies exploring for other discoveries in addition to those studies. By the latter part of this year, we will have our resource in hand, our first economic studies, and we will be able to tell the market what the economics look like. We have high confidence because of the internal work we do but part of the Canadian regulatory system when you are listed on the TSX is that it all has to be done by independents verifying both the technical and economic values.

JD: Following the independent evaluation, you will have fulfilled all the requirements for a mining license?

PA: Yes. At the same time as we complete that initial economic study and resource estimates, we will then move towards the mining license applications for both of our projects. That work will likely take somewhere between 8 to 12 months to carry out the full mining license and resource registration through the feasibility study and DEIA which is required by the Mongolian government to issue that ultimate feasibility approval that then allows you to move onto the mining stage.

JD: Do you expect to receive both licenses at the same time?

PA: We will stagger them so they will probably be applied for with two months in between but by the time we get into late 2019, ideally our target would be to have both of those in hand and to have completed our Western style pre-feasibility which is the 43-101. As we move into 2020, we intend to have a bankable financing in place which allows us to get the project financing in place to construct the operation.

JD: Do you expect any obstacles and how are you handling the negative public perception of the mining industry?

PA: There are always going to be hurdles and this is one that we recognize. We have the benefit of having worked in Bayankhongor province for over a decade and much of this work has been done in Shinejinst and Bayan-Undur soums. In those soums we have worked very closely with government and really focused on working directly with the community. We established community liaison committees, we worked very closely with the schools and hospitals, looked to provide local employment and worked very hard to educate the local people on what we are doing.

We have just hired an environmental officer in

Bayankhongor province and we have employees from Bayankhongor province who are very high level in the company. They are constantly looking to educate the population not necessarily through seminars but by being in the community, talking to people and making sure they understand without promising anything. This doesn't mean there won't be hurdles but we have probably done more than most companies our size on the community side.

We continue to work with the community through scholarships as we have issued scholarships for the last 10 years but as we move closer towards a mining decision, we look to amp that up so that we can actually bring skills training to the local community where people are interested in the skilled jobs of a mining operation whether it is heavy duty equipment operators, welders or electricians. I would like to see us focus on the Bayankhongor area, those soums and identify young people that want that training so we can help start that vocational work soon.

JD: So you will have two simultaneous operations?

PA: Likely again staggered, Bayan Khundii is the leader of the two projects because of the grade of the gold and the simple processing required to extract it. So we will start with Bayan Khundii and I expect to bring on Altan Nar within a 4-8-year period in a single facility. The two projects are 16 km apart so they are close enough to have a central processing facility. One of those projects straddles the Bayan-Undur – Shinejinst soum border with the other fully in Shinejinst soum. We look at those two soums with equal dedication to making a difference

JD: How deep are the gold reserves?

PA: The first unique aspect about the reserves is grade because it is so rare to find high grade deposits anywhere in the world that is sitting at surface. These two deposits are effectively exposed at surface and they generally continue down 150 meters. We will use open pit but at some point in the future, we may consider some underground development.

JD: How many people do you expect to employ when both mines are operating at full capacity?

PA: We are still working through those numbers but I would estimate between 200-400 people. We owe it to the local community to offer local employment and it is one part of that community benefit and community relationship where if we can make a difference, we should do everything we can to bring that skills training to the local community first.

JD: How long will the operation last?

PA: The other unique thing about this is that we have discovered a new district and we are the first ones to explore it. My expectation is that there is going to be new discoveries in this area. When you look at the potential lifetime of this operation, it could be for decades. Today, we see it as a 10 – 20-year operation with the resources we can see in front of us but I have never worked in a district like this before where the opportunities are so strong. Our expectation of the reserves is 45 tonnes but those are the first two areas we have discovered and they are sitting at surface so what is the potential at depth and the other areas that are yet to be explored. So I see this as a center for mining for the long term.

JD: As a geologist, how did you decide to get into mining?

PA: As a young geologist just graduating out of university, I always looked at the opportunity to become an executive in one of these companies or start my own company. That was a dream I had from early on and when I first set foot on Mongolia in 1997 with the opportunity to witness the geologic potential, I thought to myself that this was the best place for me to hang my hat and take that risk to start my own company. It took a while to do that because I was here in 1997 and 1998, and the financial crisis hit Asia in 1998 with Mongolia going into its first real downturn with very little activity here from 1998 – 2001. When Mr. Robert Friedland and Ivanhoe Mines hit their first deep hole at Oyu Tolgoi, I saw that as an opportunity to springboard and seek financing to start our company and I did that in 2002, becoming public in 2004.

JD: It seems you are living every geologist's dream to find deposits in the middle of nowhere

PA: It is one of those goals you have as an exploration geologist just to go out there and find something. We started from satellite imagery down to boot and hammer to find this in an area no other geologist ever explored. There are a series of strong methodical regional exploration approaches that we carried out to find these deposits. This sounds like what most geologists and exploration companies would do but exploration teams are fleeting in their activities. Many companies have been here but very few employ strong, methodical regional exploration programs. They come, buy a property, the cycle changes and they leave. What we have done differently is had patience and used a methodical approach. I knew when I stepped on the ground in 1997

that deposits were out there but it takes time, its high risk, we have invested 50 million USD in looking for these deposits.

JD: What are your views on the prospects of the Mongolian mining sector?

PA: Mongolia will be on a trajectory of a rising economy because of the natural resources that are sitting in the ground. How quickly they are developed is dependent on cycles as well as a stable, competitive tax and legal regime. We need to see this stability over a long period of time to attract foreign investment. With the right environment, many deposits will be developed and Mongolia will reach its full potential. I really believe in the things we do which seem like small steps but we want to help Mongolia attract that foreign investment. It is not just about our company and our shareholders but we are stakeholders in Mongolia too. The MSE provides mutual benefits but our team really wants this done to help Mongolia as well.

JD: Why do you think the sovereign wealth fund has not been established till now

PA: I don't think the established deposits have been there long enough to form the critical mass for the sovereign wealth but they are coming together. With the right approach, I think Erdenes Mongol is coming close to having the internal capacity to launch that. It is the right approach to take but you still have a somewhat immature mining industry here.



This interview originally aired in June, 2018. It has been edited here for space and clarity. You can watch the full 30-minute interview at www.jargaldefacto.com



PUBLIC DEMONSTRATIONS DEMANDING RESIGNATION OF SPEAKER

At the end of December 2018, five members of Parliament organized public demonstrations at Sukhbaatar square with thousands of people in attendance. The organizers of the demonstrations threatened country-wide demonstrations on January 10th should the Speaker fail to resign by that time. Last Friday, President Battulga submitted draft amendments to the legislations on the State Great Khural and on Parliamentary procedure that would hold for the removal of the Speaker with the support of a simple majority of legislators. It is however not clear whether these amendments will see the floor.

The government is in a deadlock and it is clear that this parliament has become incapable of addressing the issues facing the country, forcing the five parliament members to organize the protests. This demonstrates the defectiveness of Mongolian



In a functional democracy, the distribution of power between political parties is determined by the proportion of seats in the legislature. In Mongolia, the People's party has 65 seats and the Democratic Party has 9 seats. However, in a defective system like ours, the power distribution takes the form 40 members in favor of the Speaker's resignation and 35 against. This demonstrates that interest groups rather than political parties influence the votes of members. There is also a division between those that misuse the SME funds and those that protect the reputation of the establishment. Finally, a division manifests itself between those in favor of the privatization of 49% of Erdenet and those that oppose it. This demonstrates an infeasibility of reaching solutions and while I am not aware of how long this situation will last, it is clear that this deficiency has gone too far.

It is possible that the Speaker himself would prefer to step down, but that those controlling him are preventing him from doing so. This is somewhat paradoxical given that he himself helped those individuals gain influence and money while he was the Mayor of Ulaanbaatar. The mismanagement of Ulaanbaatar city land and funds that was carried out during that time allowed for certain individuals to ascend to the helm of Mongolian society and the Speaker will not be able to step down without their consent.



democracy where public officials serve the interests of their financial backers rather than the people that elected them. The Czech author Michael Klima coined the term *democratura* referring to quasi democratic-authoritarian regimes that have become prevalent in post-Soviet countries. This is manifesting itself in Mongolia as individuals that came to power through democratic means are now operating as dictators.

CHAOS AROUND SALKHIT DEPOSIT

The license of Salkhit deposit was revoked on the 28th December allegedly due to fraudulent tax reports. Soon afterwards, the deposits containing 770 tonnes of silver and gold along with other rare earth elements were seized by military and law enforcement units. There is currently a 100 million USD worth of resources ready for sale with 60 meters of the 200-meter mine already developed. It seems that Mr. Zandanshatar, Chief of Cabinet Secretariat overstepped his authority in carrying out the operation which is firmly the jurisdiction of the judiciary. Mr. Zandanshatar claims that the operation was carried out following a number of unsuccessful attempts to deliver the decision to revoke their license to the Salkhit administration.

While these actions should not be carried out by the cabinet secretariat, Mr. Zandanshatar's statements regarding a syndicate of 30 influential families who control Mongolia delivered onsite were equally troubling. He went on to allege that the media and public officials are controlled by a few individuals without naming either the families nor individuals. This can potentially ignite a political struggle between the haves and the have nots within parliament. Mr. Zandanshatar would also elude to major political agents fighting over the Salkhit deposit. With the statement amounting to little more than allegations without concrete facts, Mr. Zandanshatar runs the risk of being perceived as simply attempting to garner mass support.

Salkhit deposit was initially owned by two Mongolians but one of them sold it to a Chinese company using a fraudulent signature of the other. These initiated court proceedings that are yet to conclude but there is also infighting between the two Chinese individuals that purchased the mine. A 1.5 million USD in cash found in an Ulaanbaatar apartment allegedly earmarked for bribes adds more uncertainty to the issue.

The seizure received significant support on social media as people are becoming increasingly disillusioned with the management of Mongolia's vast mineral resources as only a handful of people reap its benefits. They see individuals who have dedicated their lives solely to public service somehow becoming millionaires. Moreover, while 30% of the royalties are meant to go to the local aimag, the central government is collecting all the royalties without any being distributed to the local aimag.

A spike in individuals attempting to claim the rightful share for the people which can be seen as resource nationalism can be attributed to the unwillingness of the government to distribute the royalties in a fair manner. These events will serve to put off any potential foreign investors who would prefer a more stable portfolio. We are treading dangerously close to mirroring the histories of mineral rich Latin American and African countries who blamed the mining industry for the lack of distribution of the benefits of the resources to the people. Mongolia does not possess the necessary resources to operate our mines and develop resources so we can ill afford to scare away foreign investments. In Latin America and Africa, people ultimately exaggerated ethnic differences for example to embark on infighting within the country.



TAVAN TOLGOI POWER PLANT

According to their investment agreement, Oyu Tolgoi was meant to receive or generate its energy within Mongolia within five years of beginning their operation. Following a number of setbacks, the Tavan Tolgoi power plant was agreed upon last week. Feasibility and environmental impact studies will most likely be carried out next year with work on the power plant set to begin construction in 2020 and become operational in June of 2023. It is encouraging that Oyu Tolgoi will take on the construction of the power plant as they have already secured a 7 billion USD credit line from 20 major Triple A companies. Moreover, Oyu Tolgoi will own 51% of the power plant and they will undoubtedly be able to operate the power plant more efficiently than the government.

The 20-year discussion on Power Station 5 and the 10 laid foundations may be worth an entry in the Guinness Book of World Records. They ultimately settled on renovating Power Station 4 with outdated Russian technology. This new power station promises to be an efficient one operating under a Western model. It will provide domestically produced energy to a domestic company which is good news. It will also create a modern labor force capable of operating the power station.

It will be a coal power station at the site of the mine and I think there will be another study carried out on the compatibility of Tavan Tolgoi's thermal coal deposits with the power station. Minister Ts. Davaasuren also mentioned that the development of renewable energy was also covered in the agreement, an encouraging sign given that south Gobi a large source of renewable energy capable of powering the whole of Asia. Oyu Tolgoi will attempt to begin buying power from Mongolia as early as next year.



A transmission line will be laid from Tavan Tolgoi to Oyu Tolgoi covering a distance of approximately 137 km after which they can purchase power from our central system. They would utilize 250 MW when operating at full capacity which is expected to be reached by 2021. The uninterrupted supply of energy to the workers 1.3 km underground is essential and Oyu Tolgoi's power plant will provide them with this security.

I have full confidence that the project will be carried out unless makeshift political obstacles are created as was the case in a number of previous Oyu Tolgoi projects. The power plant can be operated for the next 50 – 60 years and we are also talking about wealth for the next 3 – 4 generations. There is no evident reasons this project will fail so I hope it will be carried out within the timeframe set out.

This review has been edited here for space and clarity. You can watch the full 30-minute review on the Defacto website [HERE](#).

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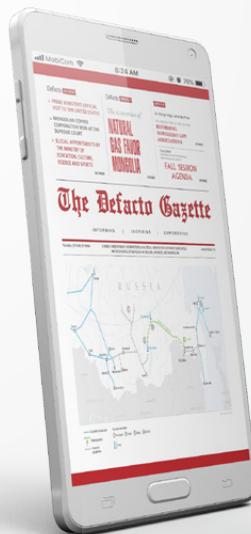
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