

DeFacto **REVIEW**

➤ THE REQUEST TO NULLIFY THE IMMUNITY OF FOUR MEMBERS OF PARLIAMENT

➤ SECOND ROUND OF PROTESTS

➤ MINING LICENSE TRANSFER

IX PAGE

DeFacto **ARTICLE**



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economic observer, columnist*

# VIVA VENEZUELA

II PAGE

DeFacto **INTERVIEW**



*DAVID WILLIAM SPROULE  
AMBASSADOR OF CANADA  
TO MONGOLIA*

## THE ROYALTIES AND THE CORPORATE TAXES GO THE PROVINCES

V PAGE

WEEKLY

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**JARGALSAIKHAN Dambadarjaa**

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# VIVA VENEZUELA

“Viva Venezuela!” was the slogan Hugo Chávez used when he won the 2012 presidential election. Six years later, Venezuela found itself suffering heavily from poverty, unemployment, hunger, violence, crime, desperation and an exodus of people escaping to other countries. Currently 5 million of Venezuela’s 32 million strong population have fled abroad with the flow of people to the neighboring Colombia continuing nonstop (The Economist, September 2018).

The economy of Venezuela has shrunk in half since 2014, which marked the worst economic decline among countries who are not affected by war. Ninety per cent of their exports are crude oil, but the external government debt has exceeded its exports fivefold. Their President of the National Assembly, who has now become the opposition, stated that hyperinflation started in 2017 and prices increased 1.2 million per cent within a year. Their government even stopped producing reports

of currency depreciation.

As people have weaker purchasing power, the overall consumption level has fallen significantly, which led the private sector to cut its goods and services production. As a result, a lot of businesses went bankrupt. When it became cheaper to import the products that were used to be made in country before he became the president, Hugo Chávez stopped the domestic production altogether, creating a shortage of goods. Hospitals are left without medicine while people have been going hungry because the limited options for food items they can get are only provisioned via coupons. In 2015, Venezuelans lost 8.5 kilograms on average (The Economist, April 2017).

Venezuela was an exemplary democracy in Latin America and a wealthy country that led the world by its oil reserves. How did they manage to drive the country into this decline?

## THE BEGINNING: HUGO CHÁVEZ’S VENEZUELAN SOCIALISM

Hugo Chávez, who finished a military college, took part in a failed coup in 1992 and was imprisoned as a result. Following his release, Hugo traveled around Latin America and befriended Fidel Castro when he was in Cuba. Shortly afterwards, he founded a political party named ‘The Fifth Republic Movement’ and was nominated for the 1998 presidential election. Venezuela’s poorer demographic had first noticed Hugo Chávez at the time of the failed coup and started supporting him because of the fiery speeches he gave on TV.

In the election, Hugo Chávez promised a broad socio-economic reform, and the way he expressed his ideas was seen as revolutionary and inspiring. It allowed him to gain support from the poor and the working class, in a country where the gap between the rich and the poor was huge. The election turnout stood at 63 per cent, and Hugo Chávez was elected President with 54 per cent of the vote.

After assuming his presidency, Chávez reshuffled the parliament and put his people in. At the time, the presidential term was set at five years by the ►►

► constitutional law, and re-election was allowed only after two elections. But Chávez managed to have changes made, extending the presidential term to six years and removing the limits on re-election. He branded the Supreme Court as corrupt and replaced its members with his people, which enabled him to centralize the legislative, executive, and judicial powers under his authority.

During his presidency, the price of crude oil reached 100 dollars per barrel. It meant Venezuela, the most oil-rich country in the world, became extremely wealthy.

As promised, Chávez started his work to establish a Venezuelan socialism, building on Cuba's experiences. He made social care free for all and started handing out food and cash to people. A total of 15,726 food distribution stations were set up across the country. Under the name of radicalization, which was claimed to be intended for diversifying the economy, Hugo Chávez went on to establish a large number of state-owned companies and made them assume control

of private companies in oil, banking, cement, health, food, and other industries. This pushed international companies such as ExxonMobil and ConocoPhillips out of the country.

However, it didn't take long before oil prices went down. Venezuela hadn't accumulated enough capital to ride out the commodity cycle, so the government started issuing bonds abroad and raising loans, only to be able to avoid having to discontinue their free-for-all social care policy. They imposed a strict currency control and introduced fixed rates, which created a black market and devalued their national currency.

Chávez had his own TV program named 'Aló Presidente', where he spent hours expressing his opinion and scolding those who had different ideas. He even used to dismiss his cabinet ministers and officials during the program.

In 2013, Hugo Chávez died in Cuba, where he was being treated for cancer. As Chávez stated in his will, his close partner, Vice President Nicolás Maduro became the acting President.

## THE BUILD-UP: ECONOMIC AND HUMANITARIAN CRISIS

Two months later, Maduro won a special election with an edge of 1 per cent of the vote over his opponent and was elected President. Maduro, who hasn't completed high school and used to drive a bus, did not possess the same leadership skills as Hugo Chávez did. At the time, the price of oil was reduced to 40 dollars per barrel, which put the Venezuelan economy in a very difficult position. The government became eroded by corruption, and the private sector had no future because everything they possessed was being transferred to state ownership.

The government started printing money to be able to give government employees their salaries. As a result, the national currency heavily depreciated. As the extent of poverty expanded in 2014, people started protesting on a daily basis, opposing the government policy. Subsequently the protesters entered a heavy clash with the police and the military, which cost the lives of 43 people. The



opposition gained control of the National Assembly after the 2015 election, and made a decision to hold a 2016 referendum on dismissing President Maduro from his office.

President Maduro reacted to this development by denouncing the National Assembly and suspending the salary of its members. Maduro was able to take such action only because Venezuela's Supreme Court, the National Election Council, and the ►►

▶ military have always been under the president's control since Hugo Chávez's time. To replace the National Assembly, President Maduro established the Constituent Assembly of Venezuela and held a new election in June 2017. The majority of the new assembly consisted of President Maduro's people. In May 2018, President Maduro was re-elected as President in an election that had a turnout of 27 per cent.

These two elections were refused to be recognized by many countries internationally. Some countries even imposed a visa ban on President Maduro and some of his ministers and froze the assets that belonged to them.

At the same time, Venezuela has increasingly suffered from soaring crime rates. In 2012, 73 out of 100,000 people were murdered, and the number rose to 82 within two years as reported by the Venezuela Violence Observatory NGO. With a shortage of food, Venezuelans are suffering from hunger, which is forcing them to escape abroad. The number of Venezuelan refugees has now exceeded those from Syria. Venezuela

has been going through both an economic and a humanitarian crisis at the same time. Meanwhile, President Maduro has been claiming that what is happening is not a crisis, but propaganda by the United States and other capitalists and an economic warfare waged against Venezuela.

A dictatorship that has the military under its full control has stopped caring about its people, whether they have become refugees, are going hungry, or losing their lives.

This is the story of "Viva Venezuela!" – A country that is dependent on one commodity and has non-transparent public governance, a nation that has sunk in corruption and allowed its government to get rid of the free market.

How much time is needed before the people become capable of holding the government accountable and providing oversight, in addition to voting to elect? This is an underlying principle of democracy.

2019.01.09 ■





**DAVID WILLIAM  
SPOULE**

AMBASSADOR OF CANADA  
TO MONGOLIA

## THE ROYALTIES AND THE CORPORATE TAXES GO THE PROVINCES

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*David Sproule began his career as a Foreign Service officer with External Affairs Canada in 1981. Following his first posting as Third/Second Secretary in Singapore, Mr. Sproule held other positions in embassies abroad, including as First Secretary in Bangkok and Counsellor in Washington, D.C. From 2000 to 2004, Mr. Sproule served as Counsel and Deputy Agent of Canada before the International Court of Justice, in the "Case Concerning the Legality of the Use of Force (Yugoslavia v. Canada)". He was first appointed as a Head of Mission in 2004, serving as High Commissioner to Bangladesh, then as Ambassador to Afghanistan, followed by Ambassador to Thailand, after which he was appointed as Ambassador to Norway, and more recently as Ambassador to Libya before his current position as Ambassador to Mongolia.*

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**Jargal Defacto:** How do you find your job in Mongolia?

**David William Sproule:** It's terrific, Mongolians are easy to work with. There are a lot of similarities between our countries in terms of climate and people as well as challenges like communications and dealing with our climates. I find the whole apparatus here, government and private sector very accessible. It is easy to do business here and it is a great environment to live in, especially outside the capital when you get to the provinces and see the traditional way people have lived for hundreds of years.

**JD:** What are the main features of relations between our two countries?

**DS:** It is also significant because it is the 10th anniversary of our embassy being established here. I think that really marked a development in our commercial and economic relations. It was the advent of a large scale investment from Canada here. Insofar as Canada's presence here, I think you have seen it rapidly increase as Mongolia has moved towards a market economy and a democratization of its institutions.

**JD:** Let's talk about Canadian investment in terms of the role it plays in the mining sector?

**DS:** It is quite natural and understandable that Canadian investors would be investing in the mining sector, in part because Canada has such a long and large history in mining. It goes on in almost all our provinces and is one of the backbones to our economy. We have had to learn, sometimes by trial and error, how best to manage our mining industry to maximize the benefits for Canadians and protect the environment while enhancing investment incentives for those who wish to come to Canada and participate in the mining industry. A lot of those lessons and experience, our investors bring here to the benefit of Mongolia and Mongolians.

**JD:** What is the size of the total investment and how many Canadian companies invest in Mongolia?

**DS:** I couldn't tell you but I think it is pretty much restricted to the mining industry. Also, it is not just the investors but it is the suppliers and the contractors who come with that. That in turn helps in terms of bringing expertise, jobs, and that extends to the Mongolian economy which is stimulated by having that investment here. As you



know, there are increasing numbers of Mongolian companies that are assuming the full aspect of the mining participation and that is a benefit to both the Canadian investor to have that talent here but also to the Mongolian economy.

**JD:** How much do you believe the Mongolian mining sector emulates the Canadian one, at the government level in particular?

**DS:** When Canada became a big investor in Mongolia, our government decided to complement that with trying to help Mongolia develop its regulatory regime and its management of the mining sector. We have two very large multimillion dollar, multiyear programs which primarily assist the government in terms of how to manage the industry to the best benefit of Mongolians. For example, how to protect the environment, how to encourage investors to come, how to establish regulatory standards, how to improve revenues. Canada felt that it had a responsibility to not only be an investor but to be a helper and a partner with Mongolia in terms of the development of its industry.

**JD:** How does royalties work in Canada with it going to non-mining areas as well as mining areas?

**DS:** Mining in Canada is overseen at the provincial level and mineral resources are within the jurisdiction of provinces. Therefore, they each have their decisions to make in terms of the royalties and the taxes charged and they in turn have to decide how to spend those revenues. Some of the revenues that are derived go into helping local communities such as indigenous communities which might be around mine sites and also to protecting the environment.

Also, stringent requirements are set for the companies so that their investment doesn't only benefit the provincial government as a whole but the local communities. Needless to say, some tax revenue goes to assist the government in doing all the things governments do: provide roads and infrastructure, social programs for the residents of the province and so on. That means that the provincial governments see revenue from the

mining industry as essential to their economic health.

**JD:** So the benefit of the local mines goes to the provincial people under the management of the provincial government?

**DS:** The royalties and the corporate taxes go to the provinces. There will be taxes paid by the corporations if they are incorporated federally and also employment income of those who work and benefit from the mines are shared between the provinces and the federal government. However, primarily, the responsibility and the benefits derived from the mining industry go to the provinces.

**JD:** Do you currently have or have a history of state owned mining companies?

**DS:** We have had state owned resource companies but Canada has divested itself of most of state owned resource companies such as oil companies in part because I think there is an appreciation for and a general trend towards privatization over the last three or four decades. There is also a recognition that it is better for Canada and the governments to become regulators. I always look at governments as having this huge advantage that they can regulate and derive benefits, royalties and taxes without actually accepting the risk of being shareholders in the companies themselves.

**JD:** How do you see the commercial income tax issues that have arisen in Mongolia?

**DS:** The issue raised about state having an ownership share in companies goes back to thinking from times past. The difficulty is that it sometimes puts the state in a conflict of interest's situation when they are both the benefactors as company shareholders but are also there to regulate, oversee and derive revenues as a government of the people. As far as corporate income tax is concerned, I do know that the industry was concerned about a tax that was imposed in the last budget which taxed corporations for the transfer of mining licenses. I think the government wanted to discourage speculation mine licenses but they may



have inadvertently discouraged mining exploration.

Canada for its part, asked experts to come to Mongolia and provide the government with our experience on how to discourage speculation mine licenses and we do it through things like establishing rules for when exploration must take place, how much can be done, adherence to environmental standards and those are the things to encourage active, beneficial exploration. I think the mining industry would prefer an approach along the latter lines as opposed to the tax that was imposed, unexpectedly for many of the investors.

**JD:** How is the situation in Canada when you transfer a license?

**DS:** There is no specific transfer tax imposed but the new owner has to adhere to the rules that were established for the giving over of the license. That includes rules about how much exploration must go on, proof of activity, payment of the taxes that go with it from the profits and the royalties and of course, protections for the environment.

**JD:** You mentioned Canada helping Mongolia on minimizing the environmental impact of mining. What kind of programs do you operate?

**DS:** For example, last year, we gave over to your Ministry of the Environment, surveillance equipment to be able to monitor the use of the land from the air. Also, requirements in terms of reporting, about meeting technical standards and how those are overseen and monitored. The surveillance equipment was drones that fly over the mines and see the before and after as well as the developments to see if there are any negative changes that are going on in order to rectify them. It is a preventative measure so if a problem is perceived, the company gets together with the government to find solutions.

**JD:** Does the surveillance equipment involve training?

**DS:** Yes, there is the technical experience that comes with it but drone technology is well advanced in Mongolia but it is a question of orienting them so

that they are most useful for regulating the mining industry. But that's only one aspect, much of it has to do with helping establish the regulations, the writing up of legislation, making sure that they are consistent with the taxing regime, the role of the officials and how licenses are given out. There is a whole area of regulatory experience that we believe that Mongolia would benefit from in terms of working with Canada in this regard.

**JD:** What are your thoughts on the currency regulation amendments and legislation currently on the floor?

**DS:** The intention behind it is the concern of hard currency leaving Mongolia. Therefore, the Central Bank would be given some role in controlling, affecting or limiting the transfer of foreign currency in and out of the country. The concerns are twofold with one that it is giving a role to the Central Bank that a Central Bank does not traditionally take on and putting it in a difficult position. Usually a Central Bank to oversee monetary policy and establish exchange rates. Secondly, the bringing in and taking out of foreign currency is an essential part of any sizeable business. As soon as you get restrictions on that, it affects the possible viability of the investment itself.

**JD:** The mere discussion of these measures will restrict foreign investment.

**DS:** This is a little misunderstood or perhaps a little underestimated. Things like those corporate income tax, taxes that were imposed on the transfer of licenses and these new provisions as well as the parliamentary group that is looking into the investment agreement for Oyu Tolgoi are examples of where those that are recommending them may have the best of intentions but send a very negative signal to the investment community. They become confused and uncertain about how these new measures will be implemented, whether they will be hurt by them, and they seem to change the rules upon which they made their investments.

**JD:** It was interesting that people were coming from Canadian provinces were coming to PDAC to



seek investment.

**DS:** It is funny you mentioned PDAC because if you go to it, you realize how fierce a competition for investment is. PDAC is a place where companies raise money and Mongolia has to compete against those who would like those investments to go to Canada, America, Africa and so on. When you see hundreds of exhibit booths, bankers, investors and lenders, mining experts and companies, you realize that you have to really present a good product. Canada competes because mining done right is such a benefit in terms of revenue streams for the government and receiving taxes to in turn do all the things that a government needs to do to provide for Canadians.

**JD:** How do you see the public service reform initiated in Mongolia?

**DS:** I'm glad you mentioned that because we have a very large multiyear, multimillion dollar program where we are asking UNDP to help us implement that program. This is in response to a strong feeling by the Mongolian government that they could improve and professionalize the Mongolian civil service. Canada has repeatedly been rated as having the top public service in the world in terms of transparency, rules, continuity of people and professionalizing them.

We hope that maybe we can offer some ideas and guidance and help with the cost of doing so. For example, it is important in Canada that the public service continues whatever government comes into place. We have that ongoing expertise that whatever happens politically, the ship of government continues and people get their benefits. Public servants are not politicized.

**JD:** What initiatives are there to stimulate cooperation in the education sector?

**DS:** We are mostly focusing on various sectors. For example, we have a large cooperation program with Mongolian armed forces to bring Mongolians over for training in Canada and to bring trainers over here in various areas including English and

French language training. We cooperate in terms of training in peacekeeping, with both our countries having long histories in that. Also, we are doing police training and we just had a course a couple of weeks back in conjunction with your big conference here.

We are also doing it in the mining industry and also developing much more interaction and trying to attract Mongolian students to Canadian universities. We have about 300 students right now and I think we could have more. Many of them are focusing on areas Mongolia really needs such as quite a few students at the University of British Columbia studying mining engineering. More generally, we are welcoming Mongolian students in any area and our education institutions actually come here and encourage them to come.

**JD:** Where do you see the need for closer relations between our two countries?

**DS:** I would like to see more Canadians coming to Mongolia and more Mongolians going to Canada. The visa is always an issue but we have to be sure that Mongolians will be able to look after themselves when they get to Canada and that they in turn bring back the skills that they learn to their own country. So those kinds of restrictions are quite common. There is no set amount of time set for multiyear visas, it depends on the individual and the purpose of their visas. One common type is a student visa and we have made more flexible some of our rules. For example, students who come study in Canada are now allowed to work in the evenings and weekends part-time if they wish. This in turn allows them to subsidize their educational expenses. You can come to our visa application center to fill out your application who will then send it to our embassy in Hong Kong who will process the application.

*This interview originally aired in December, 2018. It has been edited here for space and clarity. You can watch the full 30-minute interview at [www.jargaldefacto.com](http://www.jargaldefacto.com)*



## THE REQUEST TO NULLIFY THE IMMUNITY OF FOUR MEMBERS OF PARLIAMENT



**D.DAMBA-OCHIR**



**L.ENKHBOLD**



**G.SOLTAN**



**B.UNDARMAA**

The prosecutor's office requested that the immunity of parliament members B. Undarmaa (MPP), G. Soltan (MPP), L. Enkhbold (MPP) and D. Damba-Ochir (MPP) be removed in connection with the SME case. However, the parliamentary immunity committee, standing committee on state structure and standing committee on legal affairs dismissed the request as unfounded given that there are no current legal proceedings against the members. These decisions would also be supported by the full parliamentary session.

This decision was a result of the influence of the Mongolian People's Party who control 64 of the 76 seats in parliament. The three committees mentioned also belong to the People's party. In fact, the latest sessions of parliament, to me, resemble a very well-orchestrated show. In the process of these shows, we uncovered the criminal activities of other members of parliament in addition to the four mentioned above. The Prosecutor-General, Speaker of Parliament and legislators played their roles aptly with the spectacle culminating in an attempt to portray a full wolf and live sheep, an anomaly that is obviously unfeasible.

The Prosecutor-General has stayed silent on the actions taken against his deputy who was also involved with the SME case. Another interesting question that arises is why the four members were singled out when there were 30 members who

misused the SME fund. With about a 1000 requests for funding from the SME, only 400 made it to the second round of funding with the requests of the four aforementioned members failing to do so. The fact that they embezzled money in the first round is being used to target them but there is no viable reason for not addressing the other 26 members who also misused the SME funds.

This further demonstrated that parliament is simply putting on a show to convince people that the government is still functional and that the rule of law still prevails. This is simply not the case as parliament has shown no indication that they are capable of punishing individuals that have embezzled our funds collectively. As far as immunity is concerned, one Member of Parliament remarked that immunity should not only be granted to those who mismanage our funds, lands and resources but to every Mongolian citizen. It is disheartening to think that the SME issue may eventually fade away as many other issues either by a manufactured event designed to distract the people or naturally. For example, Mongolians forget the smog in the spring and remember in the fall.

There are some different circumstances this time around however. First, Mongolia is seeing the unprecedented increases in the price of meat with 1kg of beef reaching 14000 MNT. Secondly, the MNT is undergoing a steep devaluation reaching

around 2750 with no stabilization in sight. The third circumstance is the stagnation of coal exports to China with them decreasing imports of coal in general with the situation set to continue until the end of February. Further devaluation of the MNT is also possible given that the parliament is not currently fully functional. Moreover, while Mongolia has gone through its fair share of criminal cases and mismanagement of funds, we have never seen a collective embezzlement of funds by so many individuals concurrently.

The Prosecutor-General stated his intention to bring other cases forward but it is questionable how much success they will see. The events taking place in parliament are agreed upon by the People's

party well in advance but a democratic system calls for full transparency and the SME as well as other fund mismanagement coming to light is a result of that. Eventually, this will lead to better governance with people becoming more aware of what they can and cannot do.

My concern is that the pursuit of transparency in this format will force us down the road to dictatorship through the same mechanism that many developing nations fell victim to. The time may eventually come when ultimate power vested in a single individual may seem more palatable than the current chaos that is Mongolian politics.

## SECOND ROUND OF PROTESTS



The second round of protests on January 10th was attended by twice or three times as many people than the December 27th protests. Continued denials of the Speaker to step down has even initiated calls for the dismissal of the whole of parliament. These protests demonstrated that the current political crisis can't be solved within the confines of government behind closed doors. More clarity in the SME fund mismanagement and the 60 billion MNT case that arose as well as the increase in the price of meat and continued devaluation of MNT following the initial protests led to the increased attendance of the second protests.

While the Speaker himself may be inclined to resign, his political backers prevent him from doing so in an ironic twist of faith as those backers reached their positions with significant help from the Speaker when he was the Mayor of Ulaanbaatar by

giving them land titles as well as public properties. As the next Speaker is likely to initiate changes in the composition of the judiciary, the anti-corruption agency and other entities as well as opening cases such as Erdenet 49%, the backers of the Speaker are invested in him staying in his position for as long as possible.

The purchase of 49% of Erdenet by the Trade and Development Bank who finances both political parties is of special interest. The report from the parliamentary inquiry group on the purchase has been removed from the internet and those voicing concerns in parliament and in the media were silenced one by one. No one talks about the purchase now and while I support the purchase in principle, there is a question of whether it is ethical to use public money for those means.

The report also eluded to bank leadership creating companies to buy concessions and from the government and privatize state owned companies using illegally acquired Mongol Bank, Chinggis Bond and other loans since 2011. In the immediate 6 months following the purchase of 49% of Erdenet, the new shareholders would receive 67 million USD in dividends. Illegally acquired funds were also used to purchase the Khutul cement factory, Darkhan metallurgy plant in addition to commissioning a

railway. A total of 700 billion MNT of public funds were used to finance these ventures.

While it will not happen voluntarily, it is possible that the parliament would be dissolved at some point by virtue of 30 of its members receiving prison sentences for their involvement with the SME fund. The refusal of the Speaker to step down despite numerous attempts by his detractor's hints at a deeper political crisis facing Mongolia.

## MINING LICENSE TRANSFER

The Asgat silver deposit in Bayan Ulgii aimag became the third deposit confiscated by the government last week following Salkhit, in Dundgovi aimag and Tsagaan Ereg in Khovd aimag. The Tsagaan Ereg molybdenum deposits were seized for redirecting the flow of the river and harming the environment which is inevitable with mining operations of its size. In a democratic country, those seizures have to be carried out in accordance with court decisions rather than random seizures when the government feels the need.

These seizures distract people and may even serve to discourage both foreign and domestic investors from investing in the mining sector. The main issue with those actions is that it will take a lengthy process to fix the issues that stem from them. More than simply discouraging future investments, those actions may lead to major mining companies seizing their operations in Mongolia and possibly even force them to take their hard currency abroad.

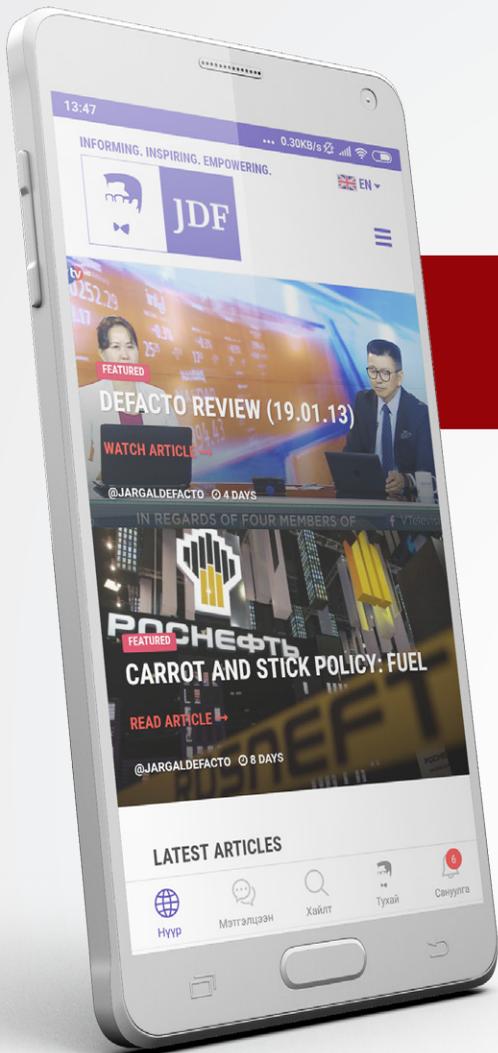
The licenses of the mines were transferred to Erdenes Mongol LLC who now operate close to 20 companies, many of which are strategic mineral

deposit funds. I believe it is meant to serve as a sovereign wealth fund, investment fund or stability fund but in order for Erdenes Mongol to viably operate all its mines, at least two-thirds of its board should be industry professionals but the reality is that 80% of them are politicians. The human resources policies should also be changed and not stem from political parties. A long-term contract with their Executive-Director is also essential for their operations. For Erdenes Tavan Tolgoi to be successful, it should operate as a public company and the budget should not contain any deficit.

Salkhit's licence was revoked with the head of cabinet secretariat, Mr. Zandanshatar staying silent on compensation while the President of Mongolrosvetmet is demanding 7 million USD. Given its unique location with one having to cross the Russian border and return to Mongolia in order to get to Salkhit, I believe that a joint venture with the right Russian investor would maximize Salkhit's operational capacity. We have plenty of joint ventures with Chinese companies so I believe it is time to develop them with Russia as well.

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





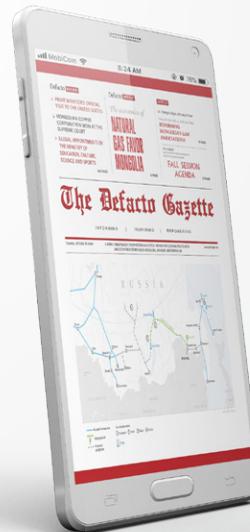
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