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Mongolian political and economic observer, columnist

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WEEKLY

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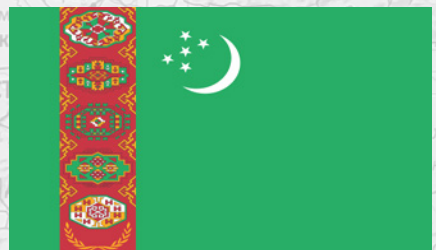
A WEEKLY GLOBAL NATIONAL INDEPENDENT ANALYTICAL NEWSPAPER COVERING THE POLITICS AND ECONOMICS OF MONGOLIA

Thursday, 2019.06.06 №8 (97)

(IN ENGLISH, JAPANESE, RUSSIAN AND MONGOLIAN)

[www.defacto.mn](http://www.defacto.mn)

*Eurasia's distant*  
**INTEGRATION**





**JARGALSAIKHAN Dambadarjaa**

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## *Eurasia's distant*

# INTEGRATION

The Eurasian Media Forum took place in Almaty, Kazakhstan, on 22-24 May 2019. The forum was organized for its 16th year and saw an attendance of 600 people from 40 European and Asian countries. The discussions mostly revolved around many topics, including crisis of confidence, global power balance, the age of AI: the renaissance of humanity, and deglobalization: the world in search of new development models.

The forum also had workshops on photojournalism, environmental journalism, and mobile journalism. As participants, we heard

from some very well-known people, including Steve Bannon, who managed Donald Trump's presidential campaign, George Galloway, who served as MP in the British parliament and is currently a broadcaster and a writer, Benita Ferrero-Waldner, who is Commissioner of the European Union, and Ukrainian journalist Dmitry Gordon. It was a great opportunity to observe the current political, economic, and civil society circumstances in Kazakhstan and the wider Eurasia region, understand the ongoing changes, listen to significant figures in politics and media, and meet and exchange thoughts with them.

### **KAZAKHSTAN'S ASPIRATIONS**

Kazakhstan is bidding farewell to the era of one-man rule. Fifty days ago, Nazarbaev, who is almost 80 years old and has spent 30 years ruling Kazakhstan, gave up half of his presidential authority to 65-year-old Kassym-Jomart Tokayev. At his inauguration, Tokayev proposed to rename the capital city from Astana to Nursultan. There will be an official presidential election on 9 June, and there are 7 candidates. But it will run in a very similar fashion to how Russia had 8 candidates and one candidate won 77 per cent of votes.

For the last 20 years, Kazakhstan has been pursuing a political policy to become the center of the Eurasian dimension. As part of this policy, Kazakhstan organized has the Astana Economic Forum every year for 12 years now. The 2019 forum attracted political, business, and academic representatives from 74 countries, which was dubbed as 'Asia's Davos' by the Delovoy Kazakhstan newspaper. A week later, the Eurasian Media

Forum was held in Almaty. It is now becoming a tradition that the big names from the United States, the European Union, China, and Russia come to Kazakhstan and attend these forums.

At the media forum, a question came from the floor "Why is a forum as important as this is taking place in a country that violates human rights, puts reporters in jail for voicing their opinion, deliberately reduces the speed of internet in evenings, and limits the freedom of speech?" The answer was "That's why we're doing the forum here. To change things."

In Kazakhstan, media is controlled and owned by the Government or some oligarch. Thus, media lacks its freedom and is running under pressure if they criticize Government policy. As of 2019, Kazakhstan takes 158th place out of 180 countries, according to the World Press Freedom Index, conducted by "Reporters without Borders. ►►

► Crude oil is the only pillar of Kazakhstan's economy and the sole reason why Kazakhstan can keep up their extremely high government expenditures. Owing to their oil, Kazakhstan has always been able to build and maintain strong infrastructure. In 2018, Kazakhstan earned 42.7 billion USD from oil, which comprises 70 per cent of their exports.

Kazakhstan is doing a great job at learning from others' experiences. When building their capital city with a unique design, they received proposals from 52 internationally competent companies and picked the proposals from Japanese architect Kisho Kurokawa and English architect Norman Foster.

## ON THE PATH OF EURASIA'S INTEGRATION

Although Eurasia technically includes all countries in Europe and Asia, the Central Asian countries, including Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan, have become the key platforms to discuss about integration and cooperation.

Central Asia						
	Country	Population (million, 2019)	Territorial Area (sq km, 2018)	GDP per capita (USD, 2017)	Freedom of the Press (2019)	Number of Presidents (between 1990 and now)
		<a href="http://worldometers.info">worldometers.info</a>	<a href="http://data.worldbank.org">data.worldbank.org</a>	<a href="http://tradingeconomics.com">tradingeconomics.com</a>	<a href="http://rsf.org">rsf.org</a>	<a href="http://worldatlas.com">worldatlas.com</a>
1	Uzbekistan	32.8	425,400	2031	165 / 180	2
2	Kazakhstan	18.6	2,699,700	10857	158 / 180	1
3	Tajikistan	9.3	138,790	1015	149 / 180	3
4	Kyrgyzstan	6.2	191,800	1070	98 / 180	5
5	Turkmenistan	5.9	469,930	7317	178 / 180	2
Central Asia						
1	Mongolia	3.2	1,553,560	4071	71 / 180	5

These former Soviet nations share a lot of commonalities, including their history, culture, religion, government structure, as well as their growing dependence on Russia and China. In his book 'Genghis Khan and the Making of the Modern World', Jack Weatherford wrote that the Mongolian empire protected the traders on the silk road (that go through the land of these countries today), which made it the bridge between Asia and Europe, connecting their culture and civilization.

At a roundtable discussion on Eurasia's integration, one of the participants said that until recently these five countries haven't been able to set clear borders, which resulted in landmines being buried along border lines.

Integration of nations usually means a shared

market in terms of commerce, manufacturing, supply, finance, and labor. These five countries have only started talking about these possibilities. If you combine it all, their population will reach nearly 70 million – a market as big as Germany's. In this era of information and communications revolutions, there are more opportunities to cooperate on this market.

For any cooperation to start, all parties must have mutual dialogue and trust. These five countries have only started that dialogue at the state level. It looks like that this work will require a great deal of patience and composure to have a shared understanding of words, a shared vision, and a shared goal.

This region is distant from what is happening ►►



▶ in the world, and fully dependent on Russia and China. So, it is very similar to Mongolia. Kazakhstan and Kyrgyzstan have joined the Eurasian Economic Union, along with Armenia, Belarus, and Russia. Otherwise, there are no notable memberships

in any other international unions or associations. When we were in Bishkek, we discussed about the Eurasian Economic Union and how it is allowing manufacturers in smaller countries to be hit by untaxed products from larger countries.



In any case, it is encouraging to see the communication and dialogue have started at the state level. The grounds of the European Union today were laid with discussions between European countries on regulating the coal and steel production post World War II. Similarly, the Eurasian five countries can start their discussions focusing on water. Tajikistan supplies 70 per cent of the water demand of the other four countries, but there always were disputes until recently.

For a mutual understanding to be reached between countries, their people and civil society should also be communicating with each other. Economic relations are driven by mutual understanding of ordinary people and small and medium businesses. Currently, it is the other way around.

To be able to communicate and understand each other, people need to be able to express themselves freely. However, this freedom is restricted in these countries, except for Kyrgyzstan. Such restrictions block the voices of civil society and informed people. China's Road and Belt initiative is being intensely implemented in this region and some countries are taking on projects that are too large for them to carry, which is creating political and economic risks.

In comparison to Central Asian nations, Mongolia has achieved great success in protecting people's safety, rights, freedom, and property. Even though there is corruption, Mongolian people don't depend on one individual, and the government cannot make any decision without listening to citizens.

2019.05.29 ■

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Jargal Dambadarjaa

## OYU TOLGOI AGREEMENT

A parliamentary group looking into the Oyu Tolgoi agreement concluded that the agreement should be revoked. There is a general misconception that the agreement is not beneficial with populist politicians that initially signed the agreement putting forward the narrative. The main talking point is whether the 34% revenue sharing is adequate. In the 9 years since its inception, the project has evolved from over ground mines to preparations taking place for underground mining with a total of 9 billion USD investment into it.

The Mongolian share, following taxes and payments stands at 2.3 billion USD. Another 2 billion USD was paid to Mongolian vendors and 90% of Oyu Tolgoi employees are Mongolian. Including the employees of its vendors, there are about 40,000 Mongolians connected to Oyu Tolgoi. The discussion point arises from the fact that our 34% share in Oyu Tolgoi entails that we need to secure 34% of the investment. Given our inability to secure those funds, it was brought by Rio Tinto with an obligation that we return the funds in the future.

Erdenes Oyu Tolgoi, responsible for the Mongolian share in Oyu Tolgoi, the project will not become profitable until 2029 after which the payments for the Rio Tinto loans will take 11 years. This in essence entails that we will not see dividends from the Oyu Tolgoi project until 2040. This disappoints many people and leads to questions on the necessity to own 34% shares.

The Parliamentary working group consisted of 13 members headed by longtime MP Terbishdagva. It has been working for the last two months augmented by a sub-committee of 20 or so NGO's and entities. The report that was delivered was only signed by 9 members of the committee raising questions over its mandate.

The first of three findings presented that in 2008 and 2009, the government operated outside of the mandate presented to them by parliament in



regard to Oyu Tolgoi. The second finding was that the Oyu Tolgoi contract should be revised and the third finding was that the Dubai contract regarding the extension of underground mining operations needs to be annulled. There is also a management contract through which Rio Tinto receives 2% for operations costs and a certain other percentage for collateral should Mongolia fail to make payments given that the funds were generated through the combined efforts of 20 or so companies.

Mr. Sumiyabazar, our Minister of Mining stated that while he does not justify the Dubai contract, there is no mechanism through which to void it, rather we should work to amend it and add new regulations to it. Annuling the contract would bring Mongolia back to square one as in 2013 where there was uncertainty about the costs which was ultimately solved in Dubai. During the dispute, Mongolia refused to acknowledge 1.5 billion USD in costs, leading to 8,000 Mongolian workers being laid off. Following the contract, 6.6 billion USD was committed by over 20 international banks.

The difference between six years ago and now lies in the fact that those companies will allow for Mongolia to simply annul the contract. Another important thing is that the Prime Minister is opposed to the annulment of the contract. We should realize that Rio Tinto is one of the largest mining companies in the world with the other being BHP and that Rio Tinto was in a position to write

off 11 billion USD from its mines in Indonesia and Mozambique, selling its controlling shares.

Therefore, for Rio Tinto, it is simply a matter of how long they are willing to put up with hostility from Mongolian society and various elements of Parliament. While Oyu Tolgoi is a big project, Rio Tinto can afford to leave in order to protect its reputation should it face sustained hostility from the Mongolian side. Given that the mining sector is the main driver of the Mongolian economy, a seizure of Oyu Tolgoi's operations will fail to provide any benefits to either side.

Rio Tinto is amicable to a renegotiation of terms in the future but not at the moment. Perhaps, they are aware of the wave of populist politicians and discussions that arise in the year immediately preceding an election. While I don't believe that

owning 34% of shares is ideal, the terms should be renegotiated following the election after preparations for underground mining is complete. It is expected that the total output of Oyu Tolgoi shall increase 3-4 times by 2023. In this case, it would mean that 40% of Mongolia's budget shall be related to Oyu Tolgoi.

It would be prudent to negotiate a 10% free carry interest which would entail that we would own 10% of shares simply on the basis of the fact that the deposits are located on our territory. It should also be feasible to increase the royalties which now stand at 5% to 10-15%. Erdenet, formerly a joint venture with Russia is paying 15% in royalties today. A restructuring of the Oyu Tolgoi contract in this manner would put us in a win win situation.

## VETOING THE GENERAL ADMINISTRATIVE LAW

General Administrative Law exists in many civil law jurisdictions with it being less prevalent in common law jurisdictions. This is due to the fact that in common law, all laws are founded upon the constitution while in civil law jurisdictions, there is a need for administrative law given that there are issues which can not be resolved through simply civil and criminal law. President Elbegdorj approved the General Administrative Law in 2015 despite opposition from Parliament.

Since 2016, the law has been amended on a yearly basis leading to the question of why to create legislation which needs to be amended every 10 or so months. This points to the fact that either politicians don't know what they are doing or that they are serving a particular interest group, but I believe it is a combination of both factors. It is abundantly clear that our Parliament does not consist of the most talented and competent politicians.

One of the rationales for the President vetoing the most recent amendments was that they infringed on the rights of people to speak out regarding indiscretions carried out by Parliament and their rights guaranteed by the constitution as well as the government. Secondly, it alleges that it

is an attempt to move the government further from people's control. There were some good points made but it is difficult to speculate on whether those will be heard.

The general purpose of the amendment is to remove the government from the General Administrative Court and to ensure that government decisions receive immunity from oversight. This is a dangerous proposition as an individual with grievances against the government will have no legal mechanism through which to express their concerns should the law be accepted. This law would also ensure that government tenders shall not be subject to oversight, raising concerns as to whether this is an attempt by the government through which to hide illegal activities in the lead up to the election.

There is little chance of the veto holding up in Parliament however as it would need the support of two thirds of Parliament. Given that this proposed legislation would free them of any liability in for example the Small and Medium Enterprise scandal where politicians appropriated 3% interest rate loans to their own companies while the market rate was 16-20%, it is unlikely that the veto will receive any traction in Parliament.

## REVOKING NAIRAMDAL CAMP'S LAND PURCHASES

The government has instructed the Ulaanbaatar administration and Ministry of Environment to revoke the sale of land surrounding Nairamdal Camp and demolish any existing structures built on those lands. This is yet another example of years of mismanagement of our public lands by Ulaanbaatar administration. There are discussions that have taken place, but no one has been held responsible so far.

Despite Bogd Uul being designated as a protected area, those with connections in the Ministry of Nature have been able to sell off land on the valleys of the hill. The Yarmag area on the way to the airport has been completely built up but we are still unaware of who bought the land. The Ministry of Nature Protection should be held responsible and we should protect our nature from the Ministry of Nature Protection.

Nairamdal is a heavily wooded area northwest of the city and originally served as the International Children's Camp. Beginning with the Mayor ship of Munkhbayar, the lands began to be purchased by influential individuals. His successor, Mr. Bat-Uul provided a significant amount of land in the area to the head of the Democratic Party, Mr. Erdene, where he has built three buildings. There is nothing inherently wrong with the sale of those lands, but the process should be open with everyone being privy to what land is being sold to whom.

The Russian embassy has an area for dachas in the outskirts of Ulaanbaatar but it's surrounding lands have also been sold to those in places of influence. It is too late for the sales to be revoked and I don't believe, that the issue will be taken farther than the demolition of one or two buildings to save face. There is no one to pay for the damages to private property. The only feasible solution is through taxation of real estate and establishment of high taxes in the areas in question.



Moreover, those who are responsible for the sale of those lands should be held accountable. Imprisoning those responsible is a solution but we would need to build more prisons to house them. This venture at least brings to the attention the fact that our lands have been misused for generations. In order to mitigate the situation all public properties should be registered and clear boundaries between private, public and common properties should be drawn up. Taxation of real estate and a clear, comprehensive zoning of Ulaanbaatar would also be possible solutions. The fact that the three parties have been intertwined in their misrule leads us to question the effectiveness of this measure but it is certainly a step in the right direction.

*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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