

Mining, a wealth of prospects

By NICK LYNE


SENIOR STAFF WRITER, FIRST

Mongolia produces gold, copper, coal, fluorspar, zinc, iron ore, tungsten, and uranium

October 6th 2009 will likely be remembered as one of the most significant dates in Mongolia's recent history. On that day, Canada's Ivanhoe Mines signed a long-term investment agreement with the Government of Mongolia establishing a comprehensive framework for the construction and operation of the huge Oyu Tolgoi copper-gold mining complex. The deal has been described as shaping the future of Mongolia's mining sector. And in keeping with such a propitious event, the signing, which had been postponed several times, took place on the most auspicious date in the Mongolian Buddhist calendar, when people traditionally occupy a new house, get married, or, in this case, launch a fresh business venture.

Oyu Tolgoi, in the country's South Gobi region, will be one of the largest copper-gold mine developments in the world. The largest foreign investment ever in Mongolia, the project will have a tremendous impact on Mongolia's economy. Furthermore, the deal marks a change in the way the mines of Mongolia are exploited. It took years of negotiations that have now redefined the country's mining and investment laws, setting a precedent for future foreign mining investments in Mongolia.

Mongolia produces gold, copper, coal, fluorspar, zinc, iron ore, tungsten, and uranium, and exports nearly all its produced copper concentrate, molybdenum, coal, and zinc to China, its fluorspar to Russia and the United States, and its gold to Canada, the United States, the United Kingdom and China. With its rich range of resources Mongolia should already be a top mining player. But overzealous legal restrictions imposed by previous administrations hungry for an ever-greater share of mining profits scared many investors away.

That said, for the last decade, mining has been a main driver of economic growth, which has averaged over 7 per cent a year. The industry's share in the total GDP more than tripled just in five years, increasing from 10 per cent in 2002 to around 35 per cent, and accounting for 65 per cent of the country's industrial output and 42 per cent of its export revenue. Currently, Mongolia's mining and minerals sector generates more than three quarters of its total export revenues, and employs up to 50,000 people, which accounts for more than 32 per cent of the total manpower in the industrial sector. Little wonder that the government chose the most auspicious day of the year to sign a deal that will usher in a mining boom that will transform Mongolia's economy. 

The Big Three

Mongolia's gold mining sector has experienced spectacular growth over the past 20 years, with a thirty-fold increase in gold production. Besides the significant contribution of the Gold Program launched in mid-90s, the sector saw a big leap forward of 71 per cent in 2004. Almost all of this increase was a result of Centerra's Boroo gold mine, which produced 7.5 tonnes of gold after it launched commercial operations in March 2004. Gold production dropped following the 2006 windfall profits law, but is now expected to pick up again to pre-2005 annual levels of around 24 tonnes. Other major players include AngloGold and Entrée, as well as Asia Gold Resources.

Copper is critical for the Mongolian economy. Since the mid-70s Erdenet, the Mongolian-Russian copper concentrate producing joint venture, has been the economic driver, contributing almost a quarter of total industrial output. The Erdenet copper mine produces around 120-135,000 metric tonnes of copper annually and mainly exports to China, Russia, and the US. For production of pure copper, Erdmin Company, an American-Mongolian joint-venture, is the first-ever producer and exporter of cathode copper, which has been operating at the tailings of Erdenet Copper Mine since 1997. Current yearly output stands at around 370,000 tonnes.

Coal is the prime source for power generation in Mongolia. Mongolia possesses over 300 coal deposits, and around 200 of them are currently exploited as open pit mines. Major foreign players include Red Hill Energy. Coal extraction has been steadily growing over the last few years and stands at around 8 billion tonnes. It is likely to increase thanks to high coal prices and increasing demand for energy in neighbouring China. The Tavan Tolgoi coking coal deposit in the southern Gobi of Mongolia is seen to be a deposit of great potential. The deposit is endowed with 5 billion tonnes of coking coal reserves, of which 2.8 billion tonnes are available for an open pit extraction. The European Bank for Reconstruction and Development, which plays an active role in Mongolia's financial system, has also moved into the coalmining sector.