

CURRENT SITUATION AND FUTURE TENDENCY OF THE GEOLOGY, MINING AND HEAVY INDUSTRY

Geology and mining industry of Mongolia, has become one of the leading sectors of Mongolian development and fruits of the sector have been growing for years in due to the increase of the raw material extraction, surplus of the export and sale profits, playing an important role for economic development.

Thus, already has capacity and groundwork to provide with resources in order to develop heavy industry (ferrous, nonferrous and mining resource) based on mining resources.

At present, mining industry of Mongolia is one of primary significant sectors; producing 20 percent of the GDP, 64.0 percent of Gross industrial output, 68.5 percent of export and 47.7 percent of FDI alone with addition of 20 percent of the 20 percent of the state budget income.

The number of extractive mining products has been increasing year by year and iron ore, zinc concentrate and molding copper are starting to be exported in the beginning of 2005.

Due to the favorable legal environment of the geology and mining industry to attract domestic and foreign investors, new industries are starting to intensify.

As mentioned above, foreign investors in geology, mining and petroleum industries are increasing and about 47.4 percent of the total foreign investors are from China, 12.2 percent is from Canada, Korea (7.3%), Japan (5.0%), USA (3.6%) and other foreign investors.

The exploration process of Ivanhoe Mines Mongolia Ltd., Co, invested from Canada, in Oyu Tolgoi deposit, Khanbogd soum of the Umnugobi province is attracting on not only in Mongolia but also in the world. Due to this exploration there is a provisional expectation of increase in Mongolia's copper and gold reserve with a number of times.

However, extracting new kinds of minerals and processing final products to export are in stagnant situation. For example, mines and deposits with copper, coal, pewter, poly metal, phosphorus and uranium etc., have been found with state budget exploration about 20 years ago, still are not in use in industrial process till present time.

The cause of this lack of usage is directly related with infrastructure problems like shortage of water resource, not connected with heat and electricity power and lack of driveway and railway constructions in deposit located places and areas.

Technique and technology of many mining industries are in bad situation except for Mongolian-Russian joint industries. Especially, land damages of per gold and coal production and mineral leavings are high, causing environmental pollution following with extracting process of illegal mining situations.

Some of the newly established deposit sites are using nonstandard toxic chemical causing damage to environment and people at the same time. Due to this, there

are necessity of drafting a law or rules of proper usages of chemicals in mining industry and inspection process of its usages and making clearer on some points like impending, registering and neutralizing of the chemical usages.

Government has been focusing on policy which is transferring from aid and loan based economic mechanism to foreign investment supported economic mechanism. And in order to succeed Erdenet and Darkhan metallurgy industries have to renewed and extended.

In addition, creating middle capacity industries which are going to deeply processing produce products of the extracted and concentrated products of the mining industry are still in under plan.

We also have to mention, the new and amended “Mineral law of Mongolia”, adopted by Parliament to create accomplished legal environment of geology and mining industry.

Furthermore, there are great opportunities to make plan to develop infrastructure complex in deposit sites like Tavan Suvraga, Oyu Tolgoi and Tsagaan Suvraga, located in southern part of Gobi provinces, and there are great opportunity to research and study the establishment of chemical industries like cathode copper, cokes, carbonated coal and to extract liquid fuel following the these sites together with foreign investors.

In order to float some deposit sites we need to have some investors’ proposal to participate in establishment of infrastructure, railway, roads and heating power stations and we are ready to assist in this.

Even though Mongolia is a country rich with mineral resource, raw materials in future we plan on becoming a country that produces the “Value added products”.

To establish the micro and middle extractive industries directed to Asian developed countries along with our resource based Russian and Chinese industries, we are in need of technique and technology, know-how, foreign direct investment, business knowledge and experience and management and ready to cooperate in these fields which are open to everyone.

A complex program to develop mining and heavy industry in Mongolia

Basis of the complex plan

- Today Mongolia came into being sufficient mineral resource base to develop heavy industry which depend on open mining.
- Recently the demand of minerals and mineral products is rising worldwide, which is resulting on its price increase.
- The continuous increase of mineral demands of our neighbour country, PR of China, creates profitable market condition for our landlocked country.
- Recently the demand for construction materials with absorbed metal and mineral costs and its import are increasing.
- Exporting of minerals as intermediate products and with added values is much profitable for economy than exporting them as raw materials.

Goals

- To produce final products with added value that meets international standards and satisfy the demand of domestic market with products alternatively to some imported ones.
- To increase export ability and diversify it by producing products competitive in the world market by price and quality.
- To introduce advanced technique and technology of the mining and mineral industries, create comprehensive cooperation development functions
- To develop small and middle industries which based on heavy industry
- To create new jobs, solve issues of professional community training
- To prepare policy documents on further actions such as legal regulation, decision and other actions to be taken by parliament and government.
- To establish metal-working industry
- To determine the development trend for mining, heavy industry of Mongolia, produce products with added value and ensure the growth of economy and its stability.

Current situation

- The rapid development of mining sector; the growth of the mining output and increase of export year by year pushed mining sector into leading economic positions.
- Heavy industry (excluding Darkhan's metallurgy) produces small amount of diverse final products with added values and domestic market has relatively small capacity.

Legal basis

- "Mineral law of Mongolia", adopted by Parliament in 2006
- "Due on main direction of industrial and establishment of technology park development", adopted 54th resolution by Parliament in 2005,
- "The main direction to develop Mongolian economic and social situation on 2006-2008", adopted 67th resolution by Parliament in 2005
- "About geology and mining sector direction to be followed during near future", adopted 103rd resolution by Government in 2002
- Renewal of action plan for implementation of the Government activity program
- "To approve leading route of Government activity " , adopted 54th resolution by Government in 2006
- Mongolian national program project which are formulate by Government