

**The Current State and Perspectives of
the Mongolian Economy – 2019**

Panel Discussion No. 1 #5 Resource Contract

11:10-11:40, Tuesday 12th March, 2019

Soyombo Hall, Best Premier Tuushin Hotel, Ulaanbaatar, Mongol

**The Necessary Training for the
Resource Management and Contract**

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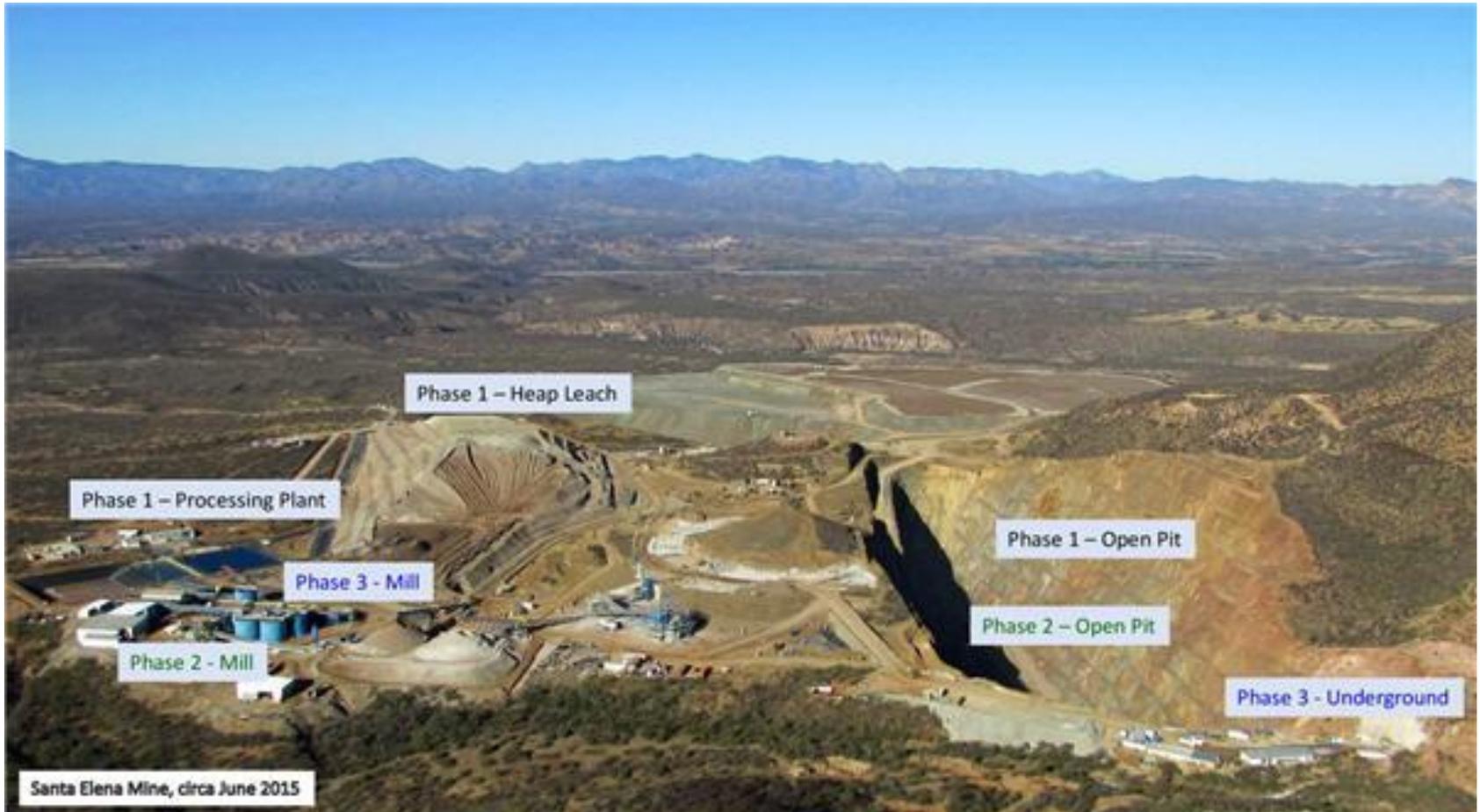
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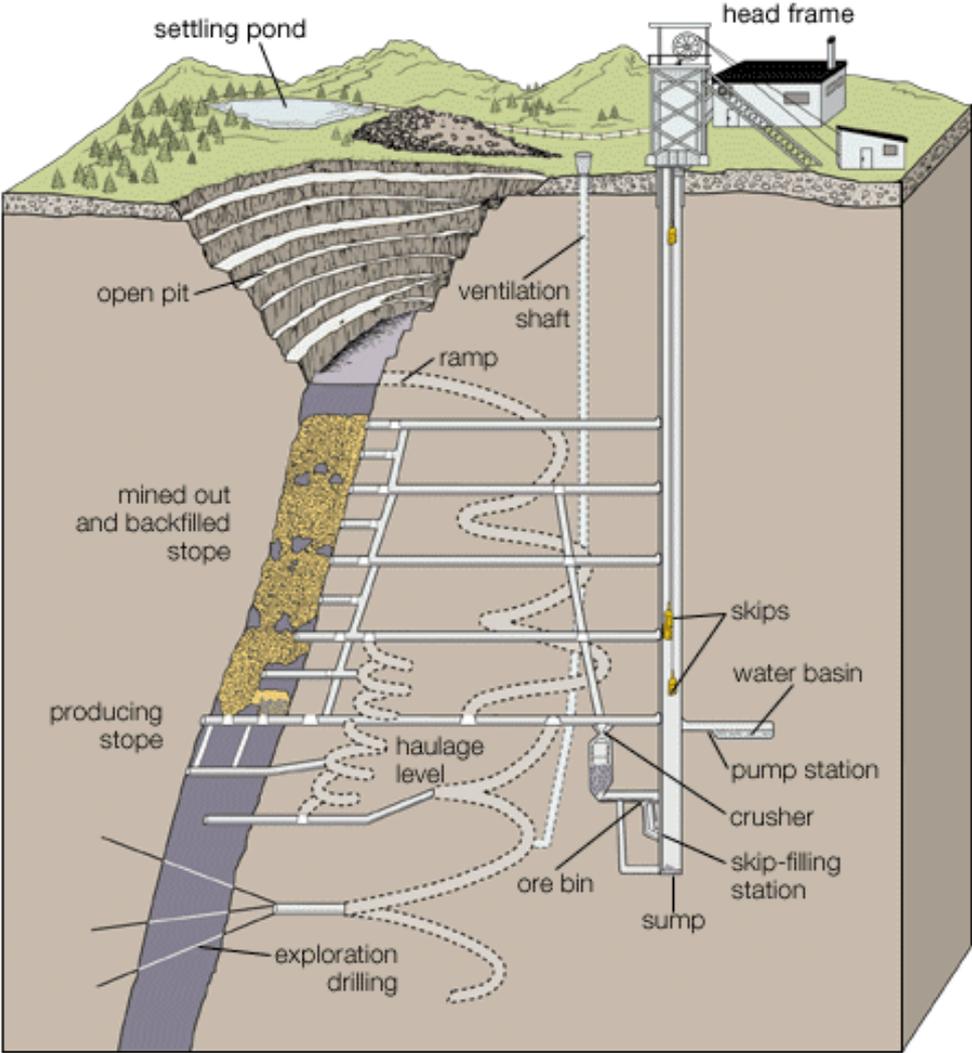
**Member of the Association of Mining Analysis, UK
(Former: Japan Oil, Gas and Metals National Corporation)**

Mine site Overview



From Yahoo

Mine Section



© 2007 Encyclopædia Britannica, Inc. Source: H. Hamrin, *Guide to Underground Mining Methods and Applications* (Stockholm: Atlas Copco, 1997)

Mine Overview



Kiruna overview

From Yahoo

Underground Mine



From Yahoo

STEP of Mine Development

1. Exploration (Regional 2-3 Years, Detailed Survey 3-4 Years)
If deposit was discovered, If it is enough.
2. Feasibility Study (2-3 Years) If it is feasible.
3. Mine Development Construction
4. Operation (Mine site)
Mining > Concentration
5. Operation (Smelter: mine site or coastal site)
Refining/Smelting/Electrolysis

Feature of Mine Development

- Very long lead time
- Big capital
- Affected by commodity price fluctuation
- Affected by country's policy/strategy
- Affected by tendency of metal utilization
- Affected by buyer's country

Mining business has high risk. But it can expect high return.

Sustainable Development for Nation

Mineral Resource Management (MRM) by Government

Definition:

The Management for National Prosperity and Economic Growth by Mineral Resource (national treasure) Development with Long term Operation and without Environmental Load.

Categories needed for MRM

1. Development of Strategy, Law and Administrative Organ
2. Discover and Administration of Mineral Resources
3. Environment Management
4. Development Management
5. Correspondence for Community and Resident
6. Proper management of Resource Revenue
7. Prediction of Economic and Environmental Impact and its Dealing Ways

Issues and Needed Capability for MRM

[1. Development of Strategy, Law and Administrative Organ]

1. Basic Strategy for Mining (Master Plan)
2. System of Law and Related Regulation (Mining Law, Foreign Capital Promoting Law, Land Law, Water Law, Mine Safety Law, Mine Pollution Prevention Law, Mine Environment Law, Law of Mine Closure)
3. Administrative System, Administrative Organ and Human Resources Development

[2. Discover and Administration of Mineral Resources]

4. Remote Sensing for Mineral Exploration and Environment
5. Exploration (Airborne Geophysics, Regional Geological Survey, Geochemical Survey)
6. Collect public and private exploration data
7. Establish and Manage GIS, and Cadastre
8. Making and Maintenance Mineral Inventory (Mineral Cadastre)
9. Monitoring the Balance of Volume of Mineral Resources and Ore Reserves in the country

[3. Environment Management]

[Before Open Mine]

- 10. Checking Use condition of Rivers and Land
- 11. Taking Basic data of Environment
- 12. Making and Management of Environmental Map

[During Mine Operation and After Mine Closure]

- 13. Environmental Monitoring of Operating Mine
- 14. Advice and Execution Monitoring for Environmental Contamination and Prevention of Damage
- 15. Environmental Reclamation during Mine Operating and after Mine Closure

[4. Development Management]

16. Development Permission System and Operation Monitoring System

[5. Correspondence for Community and Resident]

17. Monitoring and Conservation for Living conditions and Society of Community and Resident

18. Monitoring Impact by Mine Development on Surrounding area and State level, and its Sound promotion measures

19. Confirmation and Diffusion about Sharing of roles between State, Local government, Company and Resident

20. Revival and Activation of Mine town after Mine Closure

[6. Proper management of Resource Revenue]

21. Planning Management Method of Resource Revenue

22. Monitoring Proper Management of Resource Revenue

[7. Prediction of Economic and Environmental Impact and its Dealing Ways]

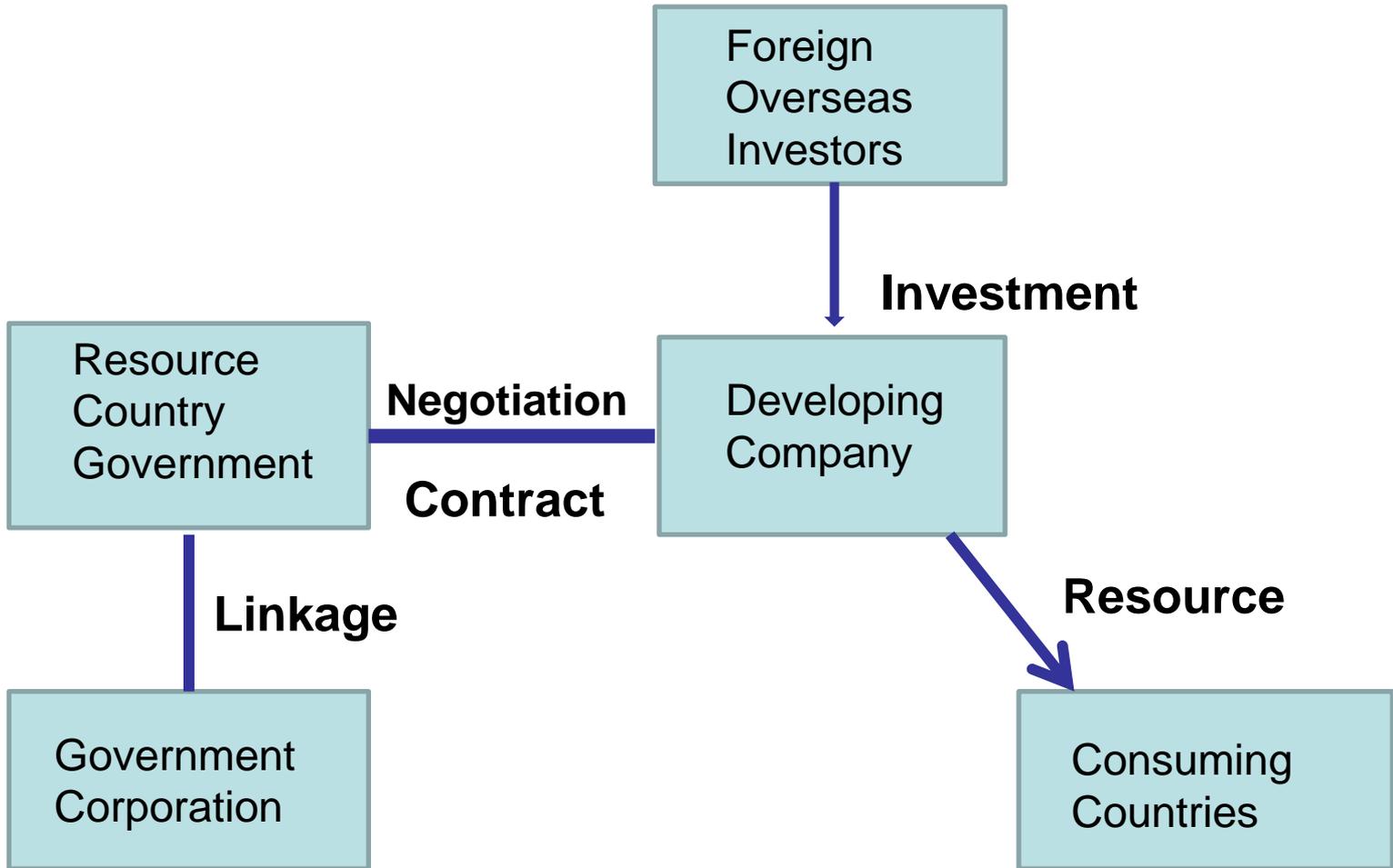
23. Prediction of Economic and Environmental Impact affected on Other sectors by Mining sector and its Dealing Ways

24. Planning Measures for Promotion of Industrial Economy in whole Nation

25. Technology Upgrade and Human Resource Development for Private Companies in home country

**What kind knowledge do they
need for Resource Contract ?**

Relationship



Key Factors for Contract (1/3)

1. Relationships in the Concession Process
Bargaining Models, Mutuality of Interests,
Industrial Structure
2. Mining Codes and Ad Hoc Agreements
Royalties, Taxation, (modern) Equity-
Sharing, Production Sharing, Work and
Service Contracts

Key Factors for Contract (2/3)

3. Financial Provisions

Potential Financial Implementation,
Production Sharing, Tax Incentives, Local
Incorporation

4. Economic Development Provisions

Local Purchasing, Employment,
Infrastructure

Key Factors for Contract (3/3)

5. Dispute Settlement and Contract Revision
Reduction of Concession Area, Equity
Ownership, Periodic Revision
6. Organizing for Negotiation
Government side, Company side,
Negotiating team
7. Search for Stability
Producing countries, Consuming countries

Road Map of Contract (from Columbia Center on Sustainable Investment)

1. Setting the Legal & Policy Framework
2. Pre-Negotiation Stage
3. Contract Negotiation Stage
4. Implementation & Monitoring Stage

NegotiationSupport.org

The diagram illustrates a four-step process for large-scale investments:

- 1. Setting the stage and defining investments:** Represented by icons of a document, a person, and a gear.
- 2. Planning:** Represented by icons of a calendar, a checklist, and a person.
- 3. Negotiating:** Represented by icons of a handshake, a document, and a person.
- 4. Implementing:** Represented by icons of a person, a document, and a gear.

A Portal to support host country governments with planning, negotiating, implementing, and monitoring large-scale investments.

The aim of the Portal is to improve the credibility and reliability of capital flows and resources, including technical support, available to host-country governments with planning, preparing, negotiating, monitoring and implementing large-scale investment projects in the sub-sector industries: food and agriculture, and infrastructure services.

The bottom half of the slide features a photograph of a vast, terraced agricultural landscape, likely a large-scale farming or infrastructure project, viewed from an elevated position. The terrain is a mix of brown and green, with rows of crops or structures stretching across the valley.

Stage 1. Setting the Legal & Policy Framework stage

- Government Policies and Strategies
- Legislative and Regulatory Frameworks
- Sector-Wide Analysis

Necessary Knowledge (Issues) for Stage 1

Various Data of Mining Sector in the World and Domestic, Supply and Demand of Commodities, Tendency of Prices of Commodities, National Resources Inventory, Mining Law, FDI Law, Master Plan of Resource Development, Focusing Mining Sector, Impact Analysis

Stage 2. Pre-Negotiation Stage

- Feasibility Studies
- Impact Assessments
- Tender Process and Financial Structure

Necessary Knowledge (Issues) for Stage 2

Geology, Exploration, Ore Volume Estimation, Mine Development Construction, Mining Method, Concentrating Method, Finance, FDI, Feasibility Study of Mine Development and Operation, Environmental Impact Analysis, Economic Impact Analysis, Resource Economics (Macro and Micro), Tender System, Commodity Price and Its Tendency

Stage 3. Contract Negotiation Stage

- Prepare for the Negotiation
- Assemble a Negotiation Team
- Develop a Negotiation Position
- Contract Negotiation

Necessary Knowledge (Issues) for Stage 3

Profit Sharing, Framework of Contract, Law
firms and Lawyers(Negotiation Team),

Stage 4. Implementation & Monitoring Stage

- Transparency
- Monitoring
- Implementation
- Grievance Mechanism

Necessary Knowledge (Issues) for Stage 4

Study from EITI (Extractive Industries
Transparency Initiative), Monitoring
Standard, Environmental Monitoring, Mine
Closure and Reactivate Mine town

CONNEX Initiative

Complex Contract Negotiations (CONNEX) is very important for resource holding developing countries.

This affect national revenue from mines.

But everybody not feel a familiar matter.

So developed countries started to support resource holding developing countries for world fair resource utilization.



CONNEX Initiative



1. Background

- Launched at the G7 Brussels Summit in 2014
- Aiming to provide developing country partners with multi-disciplinary and concrete expertise for negotiating complex commercial contracts
- To ensure such complex commercial contracts are well-conceived and well-negotiated for a host country's successful and inclusive development

Need to take into account...

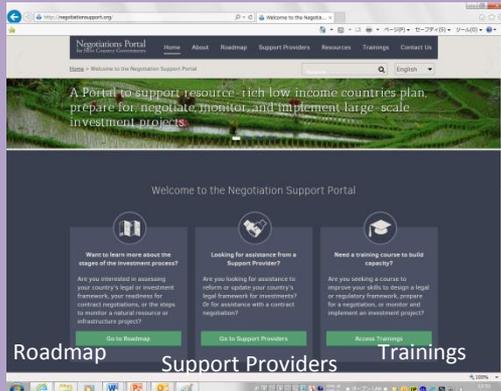
- the 2030 Agenda
- the Addis Ababa Action Plan

2. Three Pillars of the CONNEX Initiative and the previous work

Pillar 1

Information integration and accessibility on existing resources

- Established an **open web portal** @CCSI in 2014 www.negotiationsupport.org



Pillar 2

Enhancing existing negotiation support

- Endorsed the **CONNEX Code of Conduct** at the Elmau Summit
- Held a **Negotiation Support Forum** in Dec 2015 @OECD



Pillar 3

Linking to long-term capacity building and increasing transparency

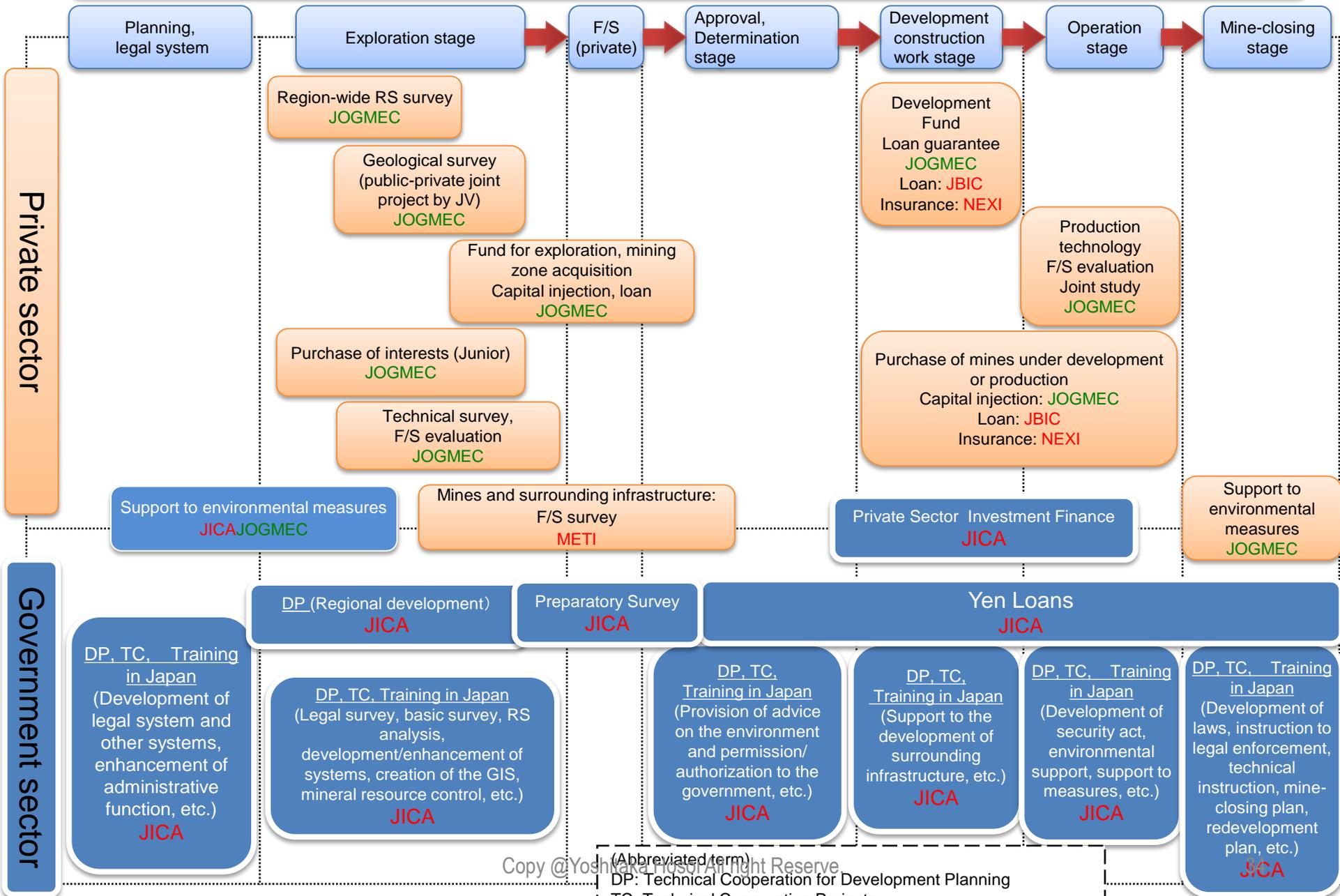


Need to be addressed!!

- Generating synergy with global efforts
- Facilitating the mobilization and effective utilization of domestic public resources

JICA's Assistance and Human Resource Development in Mining Sector

Roles of JICA and other bodies



JICA's Four Pillars for Mining Sector Development

Strategic Target:

- (1) Investment Climate and Infrastructure Development
- (2) Human Resource Development



➤ Infrastructure and Regional Development

- Developing infrastructure; electricity, water and transportation
- Developing communities around mines
- Regional promotion, and measures for closing/ed mines, etc.

➤ Policy Support and Legal System Development

- Formulating mining sector master plan
- Organizing the laws and regulations related to mining exploration development, etc.
- **Human resource development**

Include many activities

➤ Mineral Resource Management

- Better estimation by advanced technology
- Establishing appropriate management systems, etc.
- **Human resource development**

➤ Mine Safety and Environmental Measures for Mines

- Improving technology for mine pollution prevention and environmental restoration
- Organizing the law related to mine safety
- **Human resource development**

Technical Cooperation Scheme

- Target:
Governmental/Public Organizations

- Concept:
Enhancing problem-solving capacities of the partner countries

- Input from Japanese Side:
 - **Training Program in Japan**
 - Short-Term Training (1-3 months)
 - Long-Term Training (2-5 years) at graduate school in Japan

 - **Dispatch of Japanese experts** to support and advise (OJT);
 - to strengthen the Capacity
 - to strengthen the Governmental / Institutional system

 - **Provision of Equipment**
 - to improve facilities for capacity development

Capacity Building on the Natural Resource and Mining Sector in **Mongolia**

1. Project Objective

To develop capacity and skills for efficient and environment-friendly mining for development and promotion of the mineral resource sector in Mongolia

2. Outline of the Project

Duration: 2013-2018

C/P Agency: Ministry of Mining, Economic Research Institute of Mongolia National University

- (1) To recognize the importance of mineral resources
- (2) To obtain the knowledge and technologies for efficient mineral resource development
- (3) To understand the technologies and laws for environment protection, recycling and mine safety
- (4) To enhance capacity of planning and skills for development and utilization of mineral resources
- (5) To disseminate the output of training in Japan and to promote appropriate mining development through implement workshops in Mongolia

Short term:

10 persons × 3 years

Long term:

7 persons

3. Activity

Long-term and Short-term training in Japan (collaboration with KIZUNA program)

Consultant team with Japanese expert has research work with Mongolia Researchers

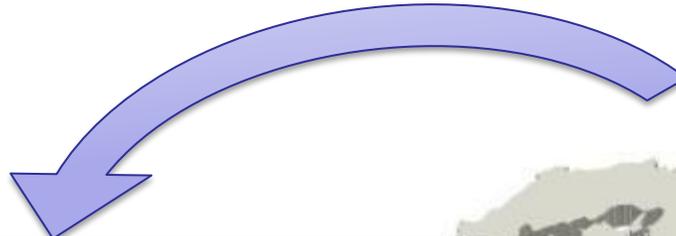
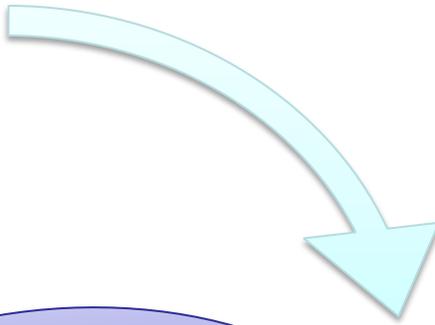
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Shigen no Kizuna Program (HRD) Concept

Mining administrators

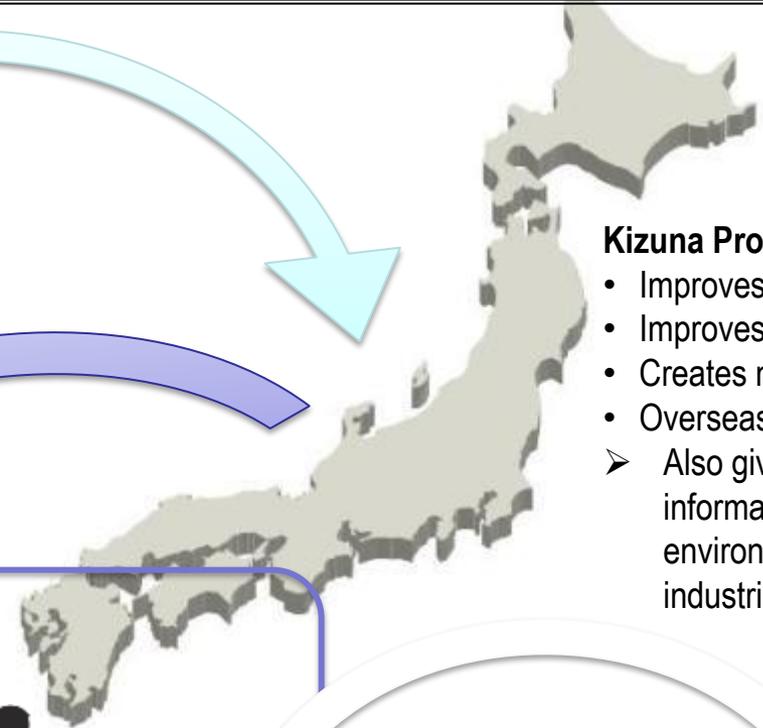
University faculty and researchers

Kizuna Program targets



Kizuna Program for HRD

- Improves academic skills
- Improves practical skills
- Creates networks and contacts
- Overseas field surveys
- Also gives participants information on Japan's environmental technologies and industrial diversification



Mining administrators

Fair and highly transparent mining administration activities

University faculty and researchers

Develop talent in line with the demands of private companies and the mining industry



Serve as key contacts for related Japan agencies

After returning

- Develop sustainable mining industry that makes use of Japan's superior environmental technologies
- Develop the mining sector as a means of developing the partner country
- Ensure a stable supply of mineral resources (diversify supply sources) **Ultimate goals**

Acceptance number of **KIZUNA** Program Participants

	Hokkaido University	Akita University	Tohoku University	Waseda University	Kyoto University	Kyushu University	Others	合計
Mongol		3	2	1			1	7
Myanmar	1			2		9	1	13
Cambodia	2			2		1		5
Philippines						1		1
Papua New Guinea		2						2
Malawi	3	3				1		7
Mozambique	4	6			1			11
Tanzania		2			1	3(2)		6
Rwanda						3		3
Kenya		1				4		5
Ethiopia						4		4
Madagascar		1						1
Zambia	4	1						5
Botswana		1	1			1		3
El Salvador			1			1		2
South Africa		1						1
Zimbabwe	1	1						2
Djibouti						2		2
Laos		1					1	2
Indonesia						2(1)		2
Peru		1						1
Total	15	24	4	5	2	32(17)	3	85

Southeast Asia:
23 participants

Central Asia:
7 participants

Oceania:
2 participants

Africa:
50 participants

Mid-South America:
3 participants

2019/1/30
Red color number :
Geothermal

Mongolia: Capacity building on the natural resource and mining sector

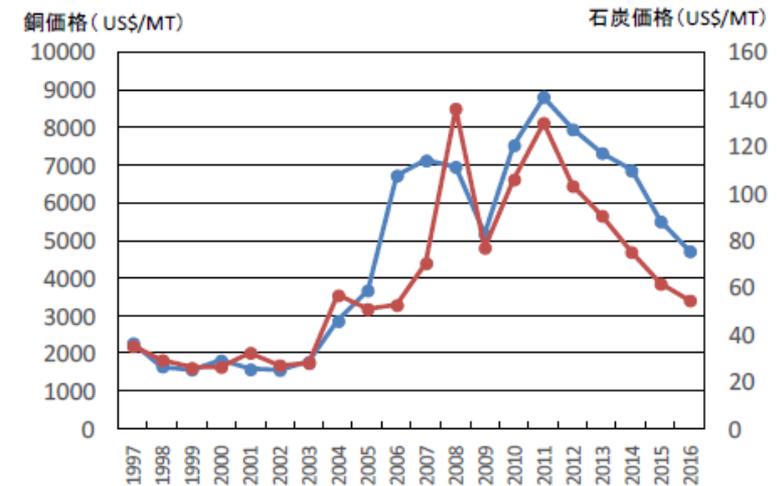
1. Background

- ❑ Mining sector is one of the most important sector in Mongolia, but it's income does not utilized effectively for national government finance.
- ❑ Option of transportation of mineral is limited since it located inland, and have a high impact by fluctuation of mineral price.
- ❑ Frequent changes of government and its policy.

2. Outline of the Project

Research by Economic Research Institute, National University of Mongolia for below topics supported by Japanese consultant team.

- Demand and supply analysis
- Short term prices and Mid and Long term projections
- Mining development strategy
- Taxation and financial reporting
- Contracting
- FDI inflow
- Marketing and trading
- Sustainable mining development
- Revenue management



Price trend of copper, coal

3. Remarks

- ❑ Improve capacity of research institution to support government to make strategy in long-term view.

Research topics

1. Analysis and prediction of the world's trend of mineral resource market
 - (i) Development and analysis in commodity markets: Demand analysis
 - (ii) Development and analysis in commodity markets: Supply analysis
 - (iii) Short term price outlook and update on Medium to Long term price predictions
(Selected commodities: Copper, Coal, Gold, Iron)
 - (iv) Mining development strategy

Research topics (Continue)

2. Analysis of the world's trend in mineral resources taxation system

(i) Taxation and financial reporting

(ii) Contracting

(iii) Mongolia FDI flow

(iv) Marketing and trading

3. Management and reinvestment of resource revenue towards sustainable mining development

(i) Sustainable mining development

(ii) Revenue Management

Research Schedule

	Research Title	Total Period (months)	FY2016					FY2017					FY2018					FY2019												
			Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
I-1	Demand analysis	3	█	█	█																									
I-2	Supply analysis	3	█	█	█																									
I-3	Short term prices and Medium to Long term projections	3	█	█	█																									
I-4	Mining development strategy	3																												
II-1	Taxation and financial reporting	4																												
II-2	Contracting	4																												
II-3	Mongolia FDI flow	8																												
II-4	Marketing and trading	5																												
III-1	Sustainable mining development	2																												
III-2	Revenue Management	6																												

 Preparation
  Study
  Revision
  Minor revision

Review of Today's Presentation

- Mining feature
- Sustainable development in Mining sector
- Contract stage and Knowledge (Issues)
- Role of G7 (CONNEX Initiative)
- Role of Japan (Human Resource Development)
- Project of Research by yourself to support establishing long-term Strategy/Policy

Thank you for your kind attention.

JICA's Support
for Mining Sector

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JICA