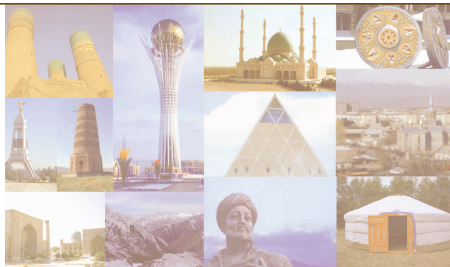


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CASA ASIA



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MONGOLIA

NOVEMBER - DECEMBER 2008

Bimonthly article

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Highlights

The overall situation in Mongolia in November-December 2008 was stable. The main activity of the Mongolian government focused on establishing and approving the structure of government agencies and the budget for 2009.

Internal affairs

In the course of a government meeting in November, there were discussions of a draft parliamentary resolution to approve the structure of state administrative bodies and the overall structural scheme. At the meeting the cabinet members came out in favour of submitting the draft resolution to parliament for approval. The draft resolution gives the government 11 regulatory and 31 implementing agencies. In addition, the government discussed a bill on amending the Law on Parliament and decided to submit it to parliament for further consideration.

Jobs have been cut, to the tune of 330 in terms of agency staff. Steps must be taken to lower expenditure in 2009. Staff at some agencies has reached 280. There are two kinds of agencies, those that finance themselves and those who receive money from the government budget. Hereinafter, all agencies will be financed from the government budget.

Prime Minister S. Bayar has attended the meetings of the MPRP and DP groups in Parliament where they discussed the government platform draft.

Regarding the measures the government will take to distribute MNT 1.5 million to every citizen, as promised during the election campaign, the Prime Minister said that “major strategic deposits will be put into economic circulation” for this purpose. With

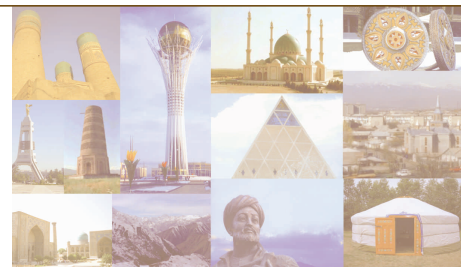
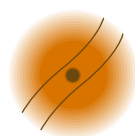
regard to copper prices, the situation is becoming more complicated, as these will not reach USD 8,000. This will have a direct impact on measures planned, particularly in terms of social subsidies. The continued interest of companies to invest in the Oyu Tolgoi copper-gold deposit is another important consideration. If interested, how much will they invest? In September, representatives of these companies said that time is running out. If the Oyu Tolgoi project had been launched last year, USD 2.3 billion would have been required. In September 2008, this sum had climbed to USD 4.2 billion. Many countries and companies remain interested in investing in the Tavan Tolgoi coal deposit. Hence the importance of passing the minerals law. Legal decisions concerning specific deposits should doubtless be adopted to expedite matters since the thorough revision and drafting of the minerals law will be a time-consuming exercise. The transparency and stability of this law are all important to foreign investors.

MNT 1.5 million –this amount of money must be legalized. If this sum is provided in cash, the economy of Mongolia will not stay alive. A version is discussed about which part of sum will be available in cash. For example, ten percent of the sum can be given in cash, the rest could be realized in forms of health insurance, tuition fees, or minerals shares”.

Foreign and International Policy

A Diplomatic Press Club opened in Ulaanbaatar. The formal opening ceremony was attended by foreign minister S. Batbold, the head of the Journalists' Union of Mongolia D. Sarangerel, the state secretary at the foreign ministry D. Tsogtbaatar, the director of the ministry's press department D. Bayasgalan, and the advisor to the minister G. Jargalsaikhan. They exchanged opinions with journalists on how to

*Honorary Consul of Spain in Ulaanbaatar.



ensure that citizens are kept informed of the country's foreign policy and programs in that sphere.

This is even more important now that the scope of the ministry's work has been expanded to include more economic matters than before. Journalists would also be expected to present Mongolia to foreign countries and to monitor any breaches of Mongolian citizens' rights at home or abroad. Club members will have free access to the foreign ministry's archives and documents.

There are some 150,000 Mongolians living and working in more than 30 countries (South Korea: 35,000; Great Britain: 8,000-9,000; Czech Republic: 11,000-12,000).

This year's Behre Dolbear Group report on political risk assessment of countries of import to the mining industry ranks Mongolia last in the "Tax Regime" criterion among the 25 countries surveyed. Mongolia's overall 2008 ranking declined by one to thirteenth, also because of its continued unfavourable mining tax policies.

Twenty-five countries, which are host to major exploration or mineral development efforts and/or mining operations, have been ranked on seven criteria. Each category under consideration is rated 1 to 10 with the highest ranking being 10. Mongolia gained 6 scores on a criterion of economic system, 4 for political system, 5 for social issues, 6 for permitting levels, 3 for corruption, 6 for currency stability and 2 for tax regime.

Behre Dolbear has been compiling political risk assessments of countries of import to the mining industry since 1999.

Foreign and International Policy

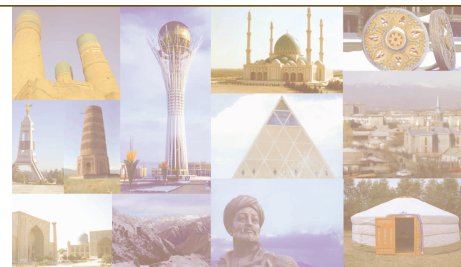
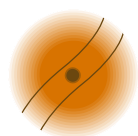
Mongolia is rich in mineral resources: coal, gold, copper molybdenum and other minerals that are

the main source of income for the state budget.

Many foreign companies are still interested in investing in the mining sector for the exploration of the mineral resources. Toronto-based gold miner Centerra Gold is continuing talks with the government of Mongolia to resolve investment agreements for its operations in the country. According to Creamer Media's Mining Weekly, Centerra, which is trying to secure an investment agreement in Mongolia before moving ahead with the development of its Gatsuert prospect, met with both the Prime Minister and the new Minister of Mines and Energy in the wake of the elections and the formation of a new coalition government in the country. The president and CEO Stephen Lang said on a conference call that both officials had indicated that revisions to Mongolia's mining law would be a "priority" for the Parliament. Further, Centerra has also had preliminary talks with the Mines Minister about resuming the negotiations for an investment pact for Gatsuert. Mongolia initially accepted a Gatsuert feasibility study in March, opening the way for the negotiation of an investment agreement for the mine, but discussions have been delayed by political developments in the country.

Last November the Mining Association of Mongolia hosted the "Discover Mongolia" forum in the capital city Ulaanbaatar. This event was attended by about 200 representatives of mining companies from the USA, Canada, Russia, China, Australia, Korea and Japan. World mining professionals were provided with detailed information on the activities of Erdenet Copper Mining Corporation, Oyu Tolgoi and Boroo Gold etc. The forum included a presentation of some 60 mining companies in Mongolia.

Prime Minister S. Bayar held a meeting with his Kazakh counterpart K. K. Masimov at the meeting of Shanghai Cooperation Organization (SCO) Heads of Government council meeting. They shared views on developing relations between the Republic of Kazakhstan and Mongolia, and on trade and economic



cooperation and investment. Importing oil and oil products from Kazakhstan to Mongolia was one of the key topics of discussion. During a visit of the President of Kazakhstan in August 2008, Mongolia's premier had proposed importing up to 1.5 million tons of crude oil. The Kazakhstan side accepted this suggestion.

As a result of S. Bayar's meetings with state and senior Kazakh governmental officials, the two countries reached an agreement relative to importing oil and oil products from Kazakhstan to Mongolia. A related memorandum, valid for five years, was established. The treaty has been inked by O. Sodbileg, general director of the Monoilgaz consortium, and Kabaldin, general director of Kazakhstan's Kazmunaygaz Company.

Mongolia agreed to buy 150,000 tons of oil products as of 2009, and 2 million tons of crude oil in accordance with the memorandum. This will provide Mongolia's government with opportunities to increase the number of resources for importing oil products and processing crude oil, not only in neighbouring countries, but also in terms of extracting and producing oil in Mongolia itself, thus meeting domestic needs.

Mongolia plans to import oil products through Chinese territory from Kazakhstan. S. Bayar also met with Wen Jiabao, the premier of the State Council of the People's Republic of China to discuss this issue. The Chinese side backed Mongolia's request.

Parliament speaker D. Demberel received an IMF working group headed by the advisor of the Asia-Pacific Department Mrs. Merap Karasulu. During the meeting, the two sides exchanged views on a number of matters such as Mongolia's economic perspectives for 2008-2009, measures to be taken in the future, the growth of inflation and actions for curbing this growth, decreased budget expenditure,

current level of macro-economics, mineral resource extraction and their distribution etc.

The IMF group also held meetings with MPs, government officials, representatives of central and commercial banks, and authorities of mining companies. Those attending these meetings shared their views concerning the economic promotion of Mongolia.

The government of Switzerland has arranged to implement various projects for developing the agricultural sector, combating animal infectious diseases and increasing the incomes of pastoral households by granting CHF 1.5 million in development aid.

The first project on animal husbandry sustainable management will be carried out in cooperation with the State and NGOs in the period 2009-2011. This project is designed to enhance the productivity of animals by improving sustainable management, and to initially increase the productivity of livestock, the value added production of agricultural outputs and the incomes of pastoral households.

For example, activities have been planned to create and develop value added products of camel and yak origin, encompass vets in training on selection, veterinary, and pastoral management, support the Government in implementing a brucellosis control program, and to conduct research.

The opinions expressed here are those of the authors and do not necessarily reflect the positions of the Central Asia Observatory (CAO). The institutions that constitute the CAO are not responsible for the use of these contents.