

A large yellow mining truck is the central focus of the image, positioned in a dusty, outdoor environment. The truck is angled towards the right, with its front end visible. The background shows a hazy, light blue sky and some distant structures, suggesting a mining or construction site. The overall scene is somewhat desaturated, with a focus on the yellow of the truck.

ECONOMIC ANALYSIS OF THE LAW ON PROHIBITION OF MINERAL EXPLORATION AND MINING ACTIVITIES IN AREAS WITH WATER AND FOREST RESOURCES

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Outline

- Objectives of Research
 - Law on prohibition of mineral exploration and mining activities in areas with water and forest resources
 - Implementation status
 - Impact on mining companies, government budget, mining industry and informal mining sector
 - Conclusions
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- A yellow excavator is shown in the background, working on a dirt site. The excavator's arm is extended, and it appears to be in the process of digging or moving earth. The scene is set outdoors under a clear blue sky with some light clouds. The overall image has a slightly faded, semi-transparent appearance, serving as a background for the text.

Objectives

- To analyze economic impacts of the law in question and its effectiveness in relation to proposed goal to protect environment
- **Hypothesis:**
- 1: The government has decided to go with the termination of all licenses in areas of environmental sensitivity such as rivers and key ecological areas. Then the government, by law, has to reimburse all accrued costs to those who hold licenses. The budget will bear the cost of termination.
- 2. The government takes a compromising stance on the issue. Holders of licenses will be permitted to operate but will have to follow regulations set forth by the government in an effort to minimize and restore environmental state before mining operations took place.

Law on Prohibition of Mineral Exploration and Mining Activities in Areas with Water and Forest Resources

- Adopted in July, 2009
- Prohibits mineral exploration and mining activities in areas with water and forest resources
- Government shall determine the boundaries of such areas where mineral exploration and mining activities are prohibited
- Existing Exploration and Mining Licenses will be revoked, subject to compensation
- No new licenses will be issued

Current status of implementation

- Mineral Resources Authority has indicated exploration and mining licenses that are subject to revocation in March, 2009
- Government has issued Resolution on regulation of compensation payable to license holders in November, 2010
 - List of expenditures that can be compensated
 - Procedure for providing compensation
 - Limitation period for application for compensation
- Mineral Resources Authority receives applications for compensation from mining companies

Current status of implementation

- In total 1782 licenses covering 18.3 million hectare (66.3% of total licensed area) are overlapped with areas with forest or water resources of which
 - 391 are mining licenses
 - 1391 are exploration licenses
- Number of licenses that are completely overlapped with the protected areas are in much smaller number of 311 licenses, being 167 mining licenses and 144 exploration licenses
- 246 gold mining licenses are identified as to be revoked

Issues

- Domestic Mining Companies?
- Decline of gold industry?
- Decrease of government revenues?
- Increase of government expenditure?
- How to calculate compensation?
- How to resolve potential disputes arising from the calculation of compensation
- Threat to security of tenure?
- Disincentive to foreign investment?
- Effective protection of environment?

Mining companies

- 890 entities or companies are affected by the law of which 673 are domestic companies and 130 are foreign invested companies.
- 55 mining companies have pledged 150 licenses to domestic banks to secure loans in total amount of 163.2 billion MNT.
- Some issues related to unemployment are regulated in the government resolution.
- Would matters related to compensation to foreign invested companies be subject to Law on Foreign Investment?

Impact on Government Budget

- Amount of compensation is still being calculated and determined.
- Administrative process of calculation of compensation proves to be costly and lengthy.
- According to some estimates, compensation for revocation of 246 placer gold licenses would require 694 billion and 287.7 million MNT.
- Government proposes to compensate companies within 2 years.
- Can state budget bear the burden of compensation?
- Decrease of Government revenues with respect to license fees, corporate income tax, royalty, and other taxes payable by mining companies

Impact on Mining Sector

The background of the slide is a photograph of a mining site. A large yellow excavator is in the center, with its arm raised. To the right, a yellow truck is partially visible. The ground is reddish-brown, and there are some structures in the background. The sky is blue with some clouds.

- Disincentive to exploration, investment
- Threat to security of tenure
- Perceived increase of political risks due to uncertainty with respect to implementation of the law
- Lack of Transparency and Dialogue
- Potential decrease of gold production

Potential impact on informal mining sector

- Release of licensed areas might boost informal mining sector, especially in areas with placer gold deposits
- Informal mining sector poses significant issues such as reclamation of environment, tax collection and lack of effective regulation
- Are local governments prepared to protect released areas from informal miners?

CONCLUSIONS

- Law implementation proves to be costly and lengthy process
- Delay in implementation causes significant risks and costs to affected companies
- Disagreement on calculation of compensation
- Lack of Transparency
- It is still not clear as to whether objective of the law can be fully achieved with reference to potential impact on informal mining sector
- Costs and benefits of the law are much disputed topic, but no consensus