

## Scramble for Mongolia's Uranium

*Did Ulan Bator change law to favour Russians?*

By Mark Godfrey

Accusations of favouritism towards Russia have soured relations between Ulan Bator and the Canadian developers of the country's largest uranium deposit. An ongoing spat between a Canadian mining firm Khan Resources and the new Nuclear Energy Agency (NEA) could be headed to the courts, with Khan claiming Russian pressure is behind the agency invalidating the firm's license for the Dornod mine, Mongolia's largest uranium deposit.

The squabble is also blocking a takeover by the China National Nuclear Corporation (CNNC) of Khan Resources, which had a 69% stake in Dornod through its Central Asian Uranium (CAUC) subsidiary. Russia's Priargunsky Mining & Chemical Enterprise (an ARMZ/Rosatom subsidiary) and the Mongolian state-owned MonAtom each have 21% stakes in CAUC.

In July 2009 the MRAM suspended the CAUC mining license, claiming the firm had violated Mongolian law by not fully declaring its resources. Shortly afterwards the NEA announced that Dornod Uran LLC, a MonAtom-ARMZ venture, would develop the Dornod project to mine 2,000 tonnes a year.

Khan's CEO Martin Quick has directly petitioned Prime Minister Sukhbaatar Batbold to overturn the NEA's decision. Yet suggestions that Mongolia has reverted to Soviet-era laws favouring Russians are rubbish by N. Alгаа, Executive Director of the Mongolian National Mining Association (MNMA). He says the country's new Nuclear Energy Law, passed in July 2009, which grants "similar treatment to companies from every country".

Mongolia's proximity to Russia and the latter's part ownership of Mongolian railways has always made favouritism to Moscow an issue among other foreign investors. There are suggestions among European and North American mining executives, who spoke on the condition of anonymity, that the MonAtom and ARMZ joint venture, signed during a visit to Mongolia by the Russian president, was over-favourable to Moscow. Licensed to explore Dornod and separate resources in East Gobi, the joint venture will not be subject to Mongolian taxes, partly because it'll be operated entirely with Russian labour.

Surakhbayar Galsan, a lawyer advising international investors in Mongolia, believes inexperience on the part of the NEA is more an issue than Russian favoritism. A lot of non-Russian companies have picked up licenses, says Galsan. He says all firms abide by the Nuclear Energy Law, enacted in July 2009, which entitles government to take ownership, without compensation, of 51% (if the resources were developed with State funds) or 34% (if the resources were developed privately) of a firm licensed to mine uranium.

Under the new law Khan and CAUC agreed to the Mongolian State-owned uranium company MonAtom getting a 51% ownership interest in Khan and CAUC, which holds the disputed licenses for exploring Dornod. In his letter to the Prime Minister, Quick suggested Russian pressure ensured a follow-up MOU agreed with the Mongolian Government resolving ownership of Dornod (with the state getting 51% interest in the project) was cancelled. ARMZ, owner of a 21% stake in CAUC, refused to vote in favour of the proposed arrangement, citing an intergovernmental deal between Mongolia and Russia in August 2009 setting up the Dornod Uran joint venture.

Rather than agree to a take-over bid by ARMZ, Khan agreed to a bid from CNNC Overseas Uranium Holding Ltd., a subsidiary of CNNC. Further angering Khan, the NEA claimed publicly that the Nuclear Energy Law requires that NEA approval be obtained for the CNNC offer, Khan countered that the law applies only to transfers of shares of direct Mongolian license-holders and not to the shares of a foreign company.

Russian experts, who calculate Mongolia's uranium reserves at 150,000 tons, have high level support: Russian President Dmitry Medvedev led a delegation to Ulaanbaatar which promised to overhaul Mongolia's railway (in which Russia retains a 49% stake) while also proffering agricultural and food aid – in return for Mongolian-Russian joint exploration of uranium.