

PM S.BAYAR'S SPEECH TO THE PARLIAMENT PLENARY SESSION

December 13, 2007

(The speech consisted of 5 parts.)

Part two. Complete development of natural resource exploitation

A mold for countries with natural resources becoming rich and citizens of countries of no natural resources becoming poor is being disregarded. No longer are countries with large population considered big or countries with small population are small. Coinciding with this evolution in determining developmental stages in the world, Mongolia has found itself to be sitting on an unimaginable vast treasure. The price of this unimaginable treasure has appreciated in inconceivable way.

Mongolians have long history and tradition of statehood. But the experience is in herding, not in building skills for generating capital. We know ways to grow our herd but we have little skills to grow our tugrug. The history for the State and the country spans for two thousand years, but our national capitalists have maturity of less than twenty years. However, even without such experience the lucky and blissful spirit shines on our head, the Mongolians, which will not allow us to follow dark blinding roads. The bitter experiences of countries which have been stunted by their wealth are telling us what to do!

Since early 1990s, we have called ourselves as “Beggars sitting on gold” with pity and dote. We did not completely understand at that time that there was no difference between sitting on gold or rock if the person sitting had a mentality of a beggar. At that time we knew we were poor but we didn't know that the small portion underneath us called Oyu Tolgoi contained 71 billion ounces of copper and 31 m ounces of gold. The land we are sitting on, we are walking on and even the rock we put our hats on contain treasure.

Last year a businessman who was part of an entourage following Russian PM M.Fradkov called us as a “dog watching hay”. This is how in the west people call those who do not let others to use the things they have no capacity or ability for. This is the same as a Mongolian proverb “too possessive of something which later will become food for stray dogs”

We know that a foreign company explored Oyu Tolgoi deposit with its own funds. Exploration is a risky business, so the government entered into an agreement with cash full entity under the principle “A baby doesn't cry if he/she fell on his/her own”. At that time there wasn't any homegrown Mongolian company available to spend millions of dollars without crying, so the task was left to foreigners. First, BHP Billiton spent lots of money but didn't find what it was looking for. They left the country fulfilling the promise not to cry. However, Ivanhoe Mines who followed them was the one able to laugh. Henceforth, Mongolia standing up to its responsibility had to conclude a Stability agreement to guarantee investments carried out by the company. But the agreement said

to be concluded in 2003 was just a talk until today. Foreigners are watching us how we retract from our words, how we bark protecting our hay, and how we lose a century. The plain truth is that we don't have capacity to exploit Oyu Tolgoi ourselves and without participation of an experienced foreign company we not only miss a little but a lot.

Another wealth attracting Mongolian State and the public is Tavan Tolgoi's group deposit with resources of 6.5 billion tons of coal. World market prices for coal have been appreciating every hour, one can roughly estimate how much wealth the deposit contains as it has 1.8 billion tons of coking coal. The history of this deposit is different from Oyu Tolgoi. It has been explored since 1960-ees and for over 40 years the Government of Mongolia has invested in some ways. In another words exploration risks were born and the deposit was found by Mongolians. Since socialist times, Mongolia has proposed to many countries to develop the deposit jointly. Transportation costs and market prices have not attracted significantly anyone during those times. After the transition to the market economy BHP Billiton held the license, but it returned the license considering it will not make profit. The main license of the deposit was not only saved by a consortium of few national companies, but the consortium also continued to make investments and develop the feasibility study. The State of Mongolia and Mongolians must be grateful to Energy Resource consortium and national companies forming the consortium for saving our national wealth, forgoing a sell-off to foreigners that would have tarnished the country's interests.

It will be more beneficial for Mongolians, if Mongolian State will bring the wealth under Tavan Tolgoi deposit under world market models of this nature. I want to emphasize the word at this present time. At this present time we are witnessing the highest value for our minerals and natural resources. We complain and get headache for increasing fuel price. But price for our gold, copper, and coal are appreciating multiple times as the fuel. We have a short time span sitting on this treasure mouth to allow others to court us while suspiciously looking at them. The history will show that these kinds of opportunities and luck do not come often.

Competition for Mongolia is already being pronounced. While Tavan Tolgoi holds the title of being "the most", it is no longer the only one. Recently discovered deposit in Mozambique showed that it contains no less coal than Tavan Tolgoi. It could be listed as "the most" after its second evaluation. Or a deposit with double our reserves could be discovered somewhere else. It's just a matter of time.

Social attitude to always view foreigners with suspicion is generally changing. But at the same time the State realizes the need to attend to, research and respect views of differing social and interest groups.

Mongolian State has learned, in comparison with the past, to engage, deal, and get to know foreigners. Democratic Mongolian State has now twenty years of experience engaging with the free world. However broken up in between, the State in the vast steppe has existed for two thousand years. But we do have issues that we have no resources for. It is not connoted weak if one asks for help for things one doesn't know and have no

ability to do; but it is stupid to force to do the things one has no ability to accomplish. We are living in a time when it is considered clever to have those who know to do the things we can't to our benefits.

Not every herder, in general, can do a good horse trading; similarly not every country with mineral resources can run successful mining business. There are professional organizations experienced in making deals and contracts on behalf of a particular country and serve its best interests for which they received duly compensations. Their untarnished reputation, honest services are allowing these organizations to trade Arab oil and American fuel.

We have people amongst ourselves that call for surviving on meager existence and leave the wealth that could increase national productivity to the next generation. There are people such as these in every country. It is human nature to live within its given world and within its provided resources and opportunities. We can't have future now and eat its fruits; similarly we can not have present time transferred to tomorrow and try to feed the next generation as they may not come to the table.

Humans bequeath more progress, more innovation to the next generation. The wealth is created for it to be left behind. In truth, copper-gold under the ground are only resources not social wealth. Human labor, knowledge, and management seep in for it to become social wealth. There is no human generation that blames its ancestors for using or eating the resources, but there is a human generation that regrets and charges its ancestors for not leaving powerful and progressive nation.

The natural resources of Mongolia have reached a value of historical proportion and are receiving a wider attention that we have never experienced before. We have a responsibility to manage and use this opportunity well for our later generation. If we loose this opportunity while continuing to quarrel and bicker on unfounded suspicion, our later generation will judge us from the history's heights. We have a responsibility to bequeath progress, development, riches, and increased intellectual ability to our next generation.

Agreement for Oyu Tolgoi needs to be done by internationally recognized and respected organization that will do an agreement which adheres to international practices and standards and which will bring greater benefits to the country. It may be reliable and secure if negotiations are conducted by internationally respected financial organizations on behalf of Mongolian government. The government will only put forward its conditions and demands. This is today's world practice, and it is better for us to follow this path.

As for Tavan Tolgoi, the State should own and then decide when, how, who to bring to develop this deposit. The State has invested its money, time, and labor to find this deposit, thus it has moral right to do so. Aside from business this deposit includes in itself issues of national security, so the State should own Tavan Tolgoi group deposit and choose and appoint an investing company.

However, the Government is not an expropriator of feudal properties and forceful communal uniting. Mongolian state has no right to repeat the sour past experience where it expropriated its citizen's properties. The constitution explicitly determines that nobody can touch a private property. Therefore, a negotiation will start with the owners of Tavan Tolgoi mining license to come to terms of an agreement that will serve both parties.

This step is taken for common good and nation's interests, hopefully Mongolian people and foreign investors will understand and support. We all see that Oyu Tolgoi and Tavan Tolgoi projects have both stalled. One of the Government's core responsibilities is to resolve this stale position and reach the wealth in short period of time so that rapid development will follow. Oyu Tolgoi and Tavan Tolgoi issues are the second proposition the Government puts forward.