Oyu Tolgoi Mine, Mongolia

A Raw Deal ICT metal mining case study
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**Oyu Tolgoi Watch (OT Watch)** is a civil society organisation based in Mongolia. It supports nomadic herders through capacity building and training in understanding and applying international environmental and human rights norms and standards to their community cases. OT Watch works with communities affected by projects financed by the EBRD, IFC and World Bank in Mongolia in the extractive, energy and infrastructure sectors.

**CEE Bankwatch Network** is the largest network of grassroots, environmental and human rights groups in central and eastern Europe. It monitors public finance institutions that are responsible for hundreds of billions of investments across the globe. Together with local communities and other NGOs Bankwatch works to expose their influence and provide a counterbalance to their unchecked power.

**About ICT and the mining-related work of CEE Bankwatch Network**

CEE Bankwatch Network has been monitoring mining projects in Europe and abroad for years. Bankwatch cooperates with the Make ICT Fair consortium, which seeks to reform the information and communication technology (ICT) manufacture and minerals supply chains and to improve the lives of workers and those impacted along different stages of the ICT supply chain. Our long-term cooperation with groups monitoring the impact of mining on people and environment as well as with communities directly affected by mines or smelters strengthens our conviction that the many negative impacts of mining must finally come under the proper scrutiny.
The Oyu Tolgoi mine is one of the world’s largest gold and copper deposits, based in South Gobi, Mongolia. Founded in 2001 and launched in December 2010, the mine has also been estimated to be the largest investment project in Mongolia, at about USD 12 billion.1 Oyu Tolgoi LLC was created in 2009 to operate the project, and is jointly owned by the Mongolian state-owned Erdenes Oyu Tolgoi LLC (OT) (34%) and Rio Tinto subsidiary Turquoise Hill Resources (TRQ) (66%). Open pit mining at the mine commenced in late 2010 with an initial investment of USD 6 billion. Production was first exported in 2013. Phase 2 of the project, which involves underground construction, officially started in 2016 and is currently ongoing. Sustainable production from the underground mining is scheduled to commence between October 2022 and June 2023.2

In December 2015, the project secured USD 4.4 billion in investments from international commercial and development banks. The primary lenders are the World Bank-affiliated International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD): both have approved loans amounting to over USD 1.4 billion, including syndicated debt.3, 4 Both banks have been engaged in overseeing the environmental, social, health and safety aspects of the mine.5

As Mongolia’s flagship mine project, Oyu Tolgoi is often advertised as a world-class, sustainable, safe and energy-efficient mining project. In particular, investors such as the IFC note the economic benefits the project would bring in terms of a boost in Mongolian GDP via tax revenue paid to the Government of Mongolia, jobs created, investments in university education and vocational trainings and local spending associated with the project.1, 6 Furthermore, Rio Tinto has been recognised for its efforts in water conservation, as the mine has been allowed to use less than 20% of the Guni Hooloi aquifer. Right now, Turquoise Hill Resources claims to have consistently recycled more than 84% of the water used per year since 2014.7 However, the credibility of these claims appears to be a matter of controversy, for while Mongolia’s GDP observed a sharp increase of 17.3% in 2011, it fell to 1.1% in 2016,8 and the country had to accept a bailout package from the International Monetary Fund in 2017.9 Furthermore, the project operators’ integrity is suspect, as OT has consistently been reluctant to provide detailed reports and data to civil society organisations regarding its water usage and recycling rates, thus making it challenging for independent observers to confirm its claims.10 In addition, the Mongolian government’s decision to launch the Orkhon-Gobi pipeline project to supply water to the Umnigovi Aimag region, which includes Oyu Tolgoi, from the Orkhon River 740 kilometres away casts further doubt on the sustainability of the mine’s water use.11

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5 Rio Tinto, Oyu Tolgoi, accessed 5 February 2021.
6 International Finance Corporation, IFC Support for Oyu Tolgoi.
9 Terrence Edwards, Mongolia agrees $5.5 billion economic bailout plan with IMF, others, Reuters, 19 February 2017.
10 Insight provided by Caitlin Daniel from Accountability Counsel.
The October 2009 Investment Agreement between the Government of Mongolia (GoM) and Rio Tinto, which led to the creation of OT, has been subject to controversy on multiple occasions due to corruption scandals, tax disputes, financial difficulties and production delays.

1. Production from underground mining activities was expected to start in 2021. However, in July 2020, Rio Tinto published a feasibility study that announced an expected delay of 21 to 29 months, as well as an expected increase in project costs by USD 1.3 billion to USD 1.8 billion on top of the initial USD 5.3 billion. The company further stated that additional delays and capital increases might be observed due to the COVID-19 crisis. On 4 November 2020, TRQ announced it was starting arbitration proceedings to clarify its role with regards to finding additional funding for the Oyu Tolgoi project. It is also noteworthy that as of 15 October 2020, Rio Tinto and TRQ are defendants in a shareholder lawsuit, in which they are accused of failing to disclose stability and construction issues with the mine that led to its increase in cost and delays.

2. The project has been subject to renegotiations multiple times. Most recently, following the release of information that the project had accumulated more debt than expected and that there were newly expected delays in production, a state-appointed working group evaluated the most recent version of the parties’ investment agreement, the 2015 Oyu Tolgoi Underground Mine Development and Financing Plan (UDP). In May 2019, the group recommended that the Investment Agreement for the project be amended and the UDP ‘terminated’. The agreement was allegedly neither ‘mutually beneficial’ nor legally binding, which meant that cost overruns and delays could continue to accumulate. In addition, the working group demanded more transparency with regard to information as to when the state was to start receiving dividends from the project. Perhaps in relation to this, in November 2019, the non-governmental organisation Darkhan Mongol Nogoon Negdel filed a lawsuit with the Administrative Cases Court, accusing the GoM of not following due process with regards to the UDP agreement with Rio Tinto. The lawsuit was reportedly upheld; however, in December 2019, the SGH released a resolution, stating that Rio Tinto is set to once again renegotiate its Investment Agreement with the Mongolian government in the near future.

3. Rio Tinto has been embroiled in several tax disputes related to OT with the Mongolian state, including in 2014 and 2017. In February 2020, OT reportedly launched an international arbitration process with the Commission on International Trade Law related to USD 155 million in taxes paid by OT between 2013 and 2015. OT argues that these taxes are already paid. This dispute appears to be ongoing. While Rio Tinto itself has not been probed, at least two Mongolian politicians involved in the mining project have been suspected of bribery. Reportedly, shortly before signing the 2009 agreement with Rio Tinto, Sangajav Bayartsogt, then Minister of Finance, received EUR 8.2 million in his Swiss bank account from Borkhuu Delgersaikhan, a businessman in the mining sector. Delgersaikhan, on the other hand, had reportedly received the funds from a ‘mysterious Chinese investor’. In relation to this investigation, Bayartsogt was arrested twice, in 2018 and 2019, but he was eventually released without charges in both cases.
While the Mongolian Independent Authority Against Corruption launched an investigation into the issue, it is unclear whether it has implicated Bayartsogt and Delgersaikhan in a conspiracy. The Swiss Office of the Attorney General (OAG) also started a probe against the two in 2016 and froze USD 1.85 million in their accounts. In April 2020, Delgersaikhan was issued a ‘sentence order’ for fabricating documents, which he announced that he would appeal. Reportedly, both ran for Parliament in the 2020 elections, and Delgersaikhan was elected. Bayartsogt was accused of abuse of power while in public office and charged with 10 years of imprisonment in July 2020 by the first instance Criminal Court of Chingeltei District. In December 2020 the Appellate Criminal Court of the Capital City reduced the imprisonment time to 4.8 years.

Developments with regards to environmental and social concerns

As the project is funded by the IFC and EBRD, it is subject to IFC Performance Standards and the EBRD’s Environmental Policy. Some of the main issues that have been acknowledged as ‘risks’ by the EBRD and which are currently actively monitored include possible adverse impacts on water and biological resources, as well as decreased material conditions for locals in the area.

The last update about the project’s environmental and social impact from the Bank is from May 2019. Overall, the evaluation is positive, stating that there has been no impact on water resources and biodiversity in the area, and that the economic conditions of 88% of the economically displaced herder families had improved compared to 2011. The update, however, points out the importance of supporting the declining nomadic culture, and singles out overgrazing and access to water as key concerns that the EBRD will continue to closely monitor.

In the light of this sustainability framework, the project is still facing ongoing social and environmental challenges, mainly concerning impacts to the livelihoods of affected herders, the danger of depleted water resources, the fragmentation of pastureland and the planned use of coal power.
Herder complaints

The project has affected nomadic herders in Khanbogd Soum, South Gobi, who were forced to relocate from more than 50,000 acres of pasture, which is stated to have ‘disrupted traditional movement patterns’ and to have threatened ‘nomadic lifestyle through the use of land and water, and traditional culture and livelihoods’. In total, 11 herder families were recognised as physically displaced in 2004, while 89 were recognised as ‘economically displaced’ and qualified for receiving compensation packages.

In addition, the mine’s water demand has also been a subject of scrutiny, as it is expected to exceed availability in an area that is already scarce in water resources. Reportedly, in 2012 and 2013, affected herders filed two complaints to the IFC Compliance Advisor/Ombudsman (CAO), with the help of Oyu Tolgoi Watch and Gobi Soil NGO, supported by the Bank Information Center and later the Accountability Counsel. The first complaint concerned the allegedly inadequate 2004 resettlement plan and subsequent compensation in 2011, while the second one demanded improved access to water and the organisation of pasture resources.

In 2015, after OT acknowledged the ‘inadequacy of the resettlement process’ in 2004, the herders, the Khanbogd Soum local government and the mining company formed a Tripartite Council (TPC), with equal representation from each party, in order to resolve the complaints. As part of the resolution of these complaints, in 2016 a Multi-Disciplinary Team (MDT) and an Independent Experts’ Panel (IEP) carried out studies to assess these impacts, which they published in January 2017. In addition to violations of IFC Performance Standards, these studies also identified several significant concerns with regard to impacts of OT mining activity on water resources and pasture fragmentation (addressed in more detail below).

By May 2017, the TPC parties had signed a Resolution Agreement with respect to the complaints. In March 2019, CAO officially closed the case with support from the TPC; however, the Accountability Counsel argues that progress is dubious, as by that time only 29% of the resolution commitments had been completed.

Resettlement and compensation issues: latest developments

In their 2012 complaint, herder representatives demanded to receive more support in finding stable employment, such as the provision of vocational training, additional scholarships and school supplies, as well as general support for herders affected by the relocation, and more transparency with regard to how compensation packages were distributed. Furthermore, the complaint insisted on OT recognising the adverse health impacts of mining, such as noise and dust, and that these should also be included in the methodology used for calculating compensations. The 2017 MDT report recognised that both the 2004 and 2011 compensation processes had not been compliant with the IFC’s Performance Standard 5, as they had not provided adequate support to affected herders to ensure their sustainable livelihoods.

As a result, the 2017 Complaint Resolution Agreement includes both individual and collective compensation packages, thus attempting to address both the immediate, direct impacts of resettlement and the imminent future social and environmental impacts for the local community. The individual compensation commitment is almost completed: by June 2020, 148 out of 157 approved claims had been distributed, with OT having given an additional USD 1.2 million in compensation benefits to herders since 2017. While most commitments, including an improved monitoring program and a 10-part Sustainable Livelihood Programme, have been at least put in motion, ones that are of significant interest to herders and part of the collective compensation programme have not progressed beyond the planning stage. Those include the establishment of a herder’s market and a livestock slaughter line, the importance of which lies in their capability to

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29 OT Watch to Megan Taylor, Vice-President, Compliance Advisor Ombudsman, 12 October 2021, Compliance Advisor Ombudsman.
30 Accountability Counsel, Mongolia: South Gobi mining - overview, accessed 5 February 2021.
33 OT Watch to Megan Taylor, Vice-President, Compliance Advisor Ombudsman.
34 JSL Consulting Ltd., Multi-Disciplinary Team and Independent Expert Panel joint fact finding, Summary of the experts’ reports, 16.
35 Accountability Counsel, Commitment: Pasture, From paper to progress: Tracking agreements between nomadic herders and Mongolia’s largest copper mine, accessed 5 February 2021.
mitigate the impacts of intensive mining activity in the region on herding practices, and to improve the livelihoods of herders. The delays in these commitments have occurred due to disputes over how these projects should be managed.

In addition, the Accountability Counsel has observed delays in the implementation of the 2017 agreement and has noted that issues such as transparency and participation practices with regards to the mining project, and human resource constraints, which cause delays in commitments, remain challenges. In particular, the Elected Herder Team (EHT) in the TPC reportedly find it difficult to make time for executing their duties as representatives while also actively herding, which has led to concerns among herders that the EHT is consists of inactive herders who are not sufficiently familiar with the needs of active ones. The Accountability Counsel assesses that it remains far from clear whether the commitments will be carried out fully to address impacts raised in the herders’ complaints.

**Complaint about impacts on water resources: latest developments**

In February 2013, seven herders with the support of Gobi Soil and OT Watch filed a second complaint with the CAO, expressing concerns that the diversion of the Undai River, as part of the mining project, might lead to depletion of water resources in the region, as well as to pastureland yield deterioration. The claimants urged that diversion works were terminated and appropriate compensation was distributed to affected herders. In support of this, in its independent study on water resources, IEP noted the irreversible impacts of some processes, such as the diversions of the Undai and Khaliv-Dugat Rivers, on traditional livestock husbandry, which lent to the importance of conducting a careful assessment. The MDT report stated that the lack of systematic monitoring or modelling of alluvial aquifers and systematic evaluation of whether actions by OT could affect herders makes it impossible to establish how much damage there has been to water resources as a result of OT’s activities in the region.

In addition to the lack of proper baseline assessments, the report found that OT’s negligence in the construction of multiple wells may have possibly contributed to leakages and the depletion of water resources. Reportedly, 37 wells were found to have been constructed using only gravel (instead of concrete), resulting in the lack of separation between the Guni Hooloi and the shallow aquifer, and the draining of the shallow aquifer. Six wells were sealed with concrete and two left with the ponds they created at the request of the herders. The remaining 29 wells were not assessed, so the possible scale of the damage on the soil water aquifer has not been assessed. Finally, the river diversions have also led to the irreversible loss of pasture resources and subsequent land fragmentation, which has and will likely continue to have significant impacts on traditional herding practices in the region.

In the May 2017 Complaint Resolution Agreement, various measures for the mitigation of the effects of the Undai River diversion were agreed on, such as the development of pasture management plans. The mining company committed to undertake a hydrological study about local water resources, build 12 new herder wells based on this study, and maintain existing wells. However, while the promised solar-powered wells were indeed built by June 2020, they were constructed without OT conducting a hydrological study.

Furthermore, the number of wells that OT has committed to build is significantly less than the 75 wells that MDT had initially recommended in order to encourage migration to underutilised pastures. In its 2019 progress report on OT, the Accountability Counsel also notes that in June 2018 the region was experiencing serious drought conditions, which made it noticeably difficult for herder families to sustain their livestock animals and forced some to sell them due to lack of water and pasture. The Accountability Counsel has recommended that TPC takes such vulnerable households into account when allocating support, but it is unclear whether the TPC has undertaken any action.
Outstanding impacts not addressed in the complaint resolution

There have also been concerns outlined in the IEP and MDT reports which have not been addressed in the complaint resolution.

One such concern widely brought up by herders for its adverse health effects on locals and livestock was excessive dust due to unpaved roads and sand quarries in the region. However, as the MDT determined that dust generation had peaked in 2010, and could not single out OT as the one solely responsible for that period of ‘excessive dust,’ this issue was not pursued further, nor was an appropriate compensation for its possible impacts sought. The measures OT has taken to address this concern are to pave a 35-kilometre road between OT and Khanbogd (completed in 2019) and to install monitoring devices for measuring air pollution.

The project’s 2012 ESIA has also been criticised on multiple occasions for not addressing the expected expansion and cumulative impacts of the project’s Phase 2. In particular, MDT recommended the release of supplemental ESIAs to IFC standards for the underground mine project, the power agreement, changed plans for workforce accommodation… [or for] any significant changes to the project since the 2012 ESIA was published. One such ESIA would be for the expansion of the mine lease area due to additional tailing storage facilities on the Khaliv-Dugat River that will reportedly need to be built to handle waste from the underground mine.

In general, clarity on the overall impacts of Phase 2 are lacking.

Coal-fired power plant project

Thus far, OT has mostly imported power for the mine from China, although on 3 September 2020, it also signed a contract with the Southern Region Electricity Network for partial power supply to the site. While there have been discussions about the possibility for the project to use renewable energy in its second phase, in June 2019, the OT shareholders reached an agreement for the GoM to fund and construct a 300-megawatt coal-fired power plant at Tavan Tolgoi. Reportedly, the power plant is expected to be commissioned by 2025 and to cost USD 924 million. By March 2021, the parties involved are also expected to have finalised a power purchase agreement, after which construction is set to start by July 2021. As per the May 2020 Independent Environmental and Social Consultant (IESC) report on OT, in December 2019, OT submitted an ESIA for the coal-fired power plant project, which was subsequently reviewed by IESC on behalf of senior lenders. The findings of this audit and the original ESIA documentation do not seem to be publicly available, however.