



Extractive Industry Fiscal Regime In Mongolia

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1. Overview

- The first large scale mining operation started in 1978
- The Mining Law was approved in 2006
- Extractive industry strategic policy was approved in 2014

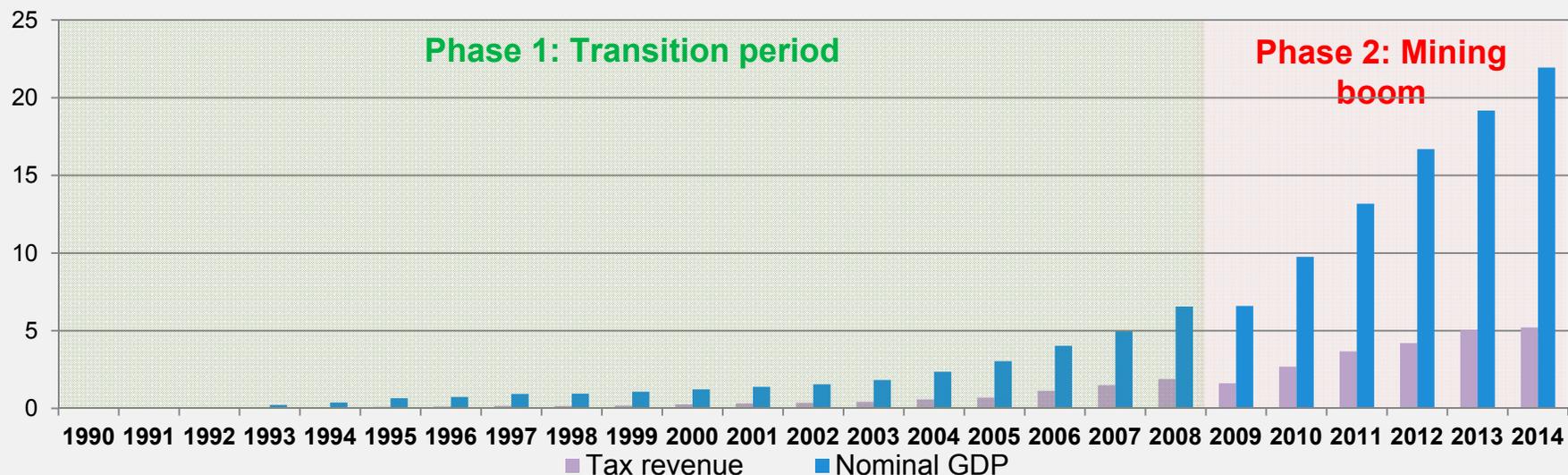
№	Resource	Unit	Size
1	Gold	Ton	2,493.00
2	Zinc	Kt	1,740.00
3	Iron	Mt	1,166.00
4	Oil	Mb	2,438.00
5	Copper	Kt	57,000.00
6	Coal	Bt	175.50
7	Shale oil	Bt	788.00
8	Uranium	Kt	170.00



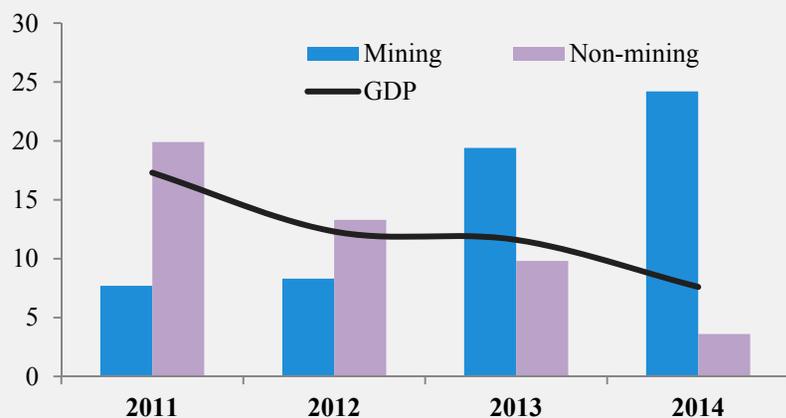
1. Overview

Billion MNT

Tax revenue and Nominal GDP



Real GDP growth (in percent)

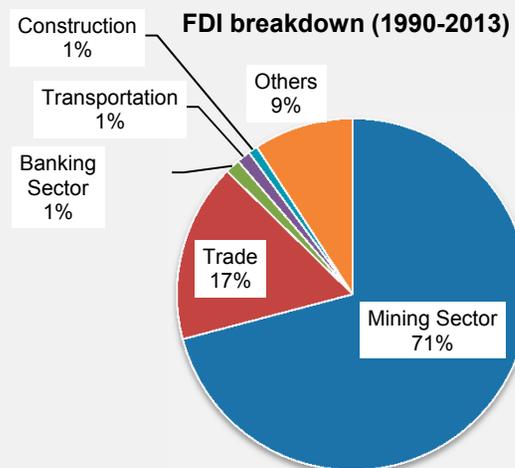
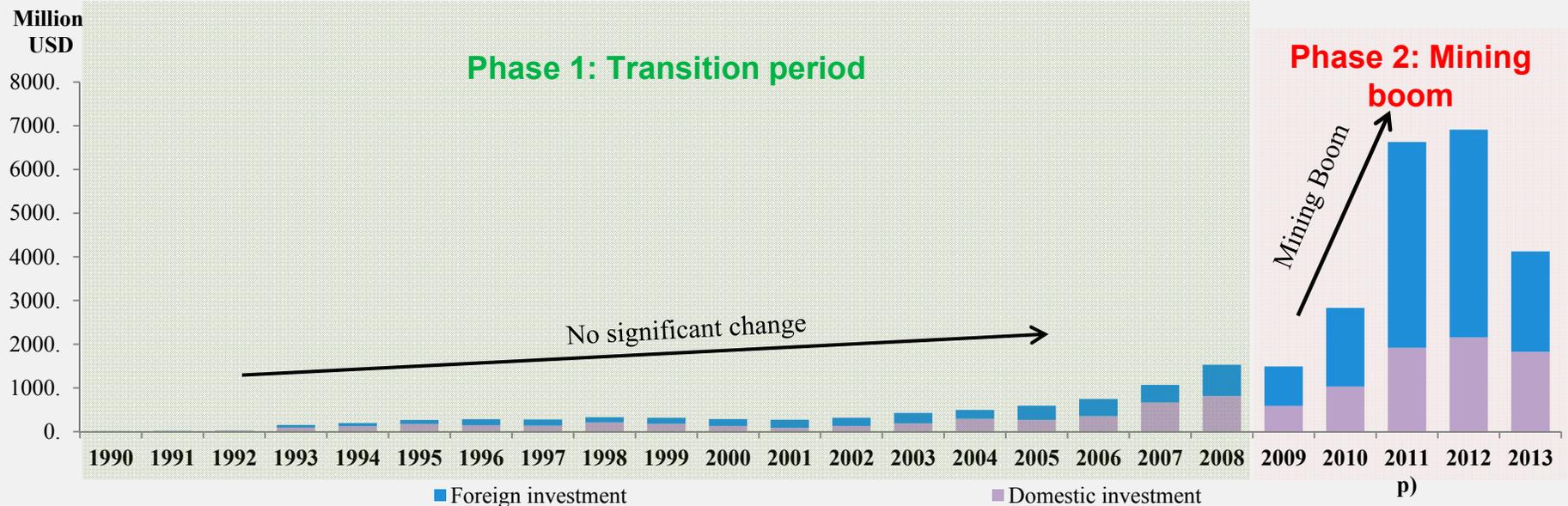


- ❑ Mongolia has transitioned into free market economy in 1990.
- ❑ With the discovery of two major copper and coal deposits (Oyu Tolgoi and Tavan Tolgoi), Mongolia has experienced a very rapid GDP growth during the Mining Boom, the average real GDP growth is 10%. While the highest growth was 17% in 2011.



2. Contribution to the economy

Foreign and domestic investment

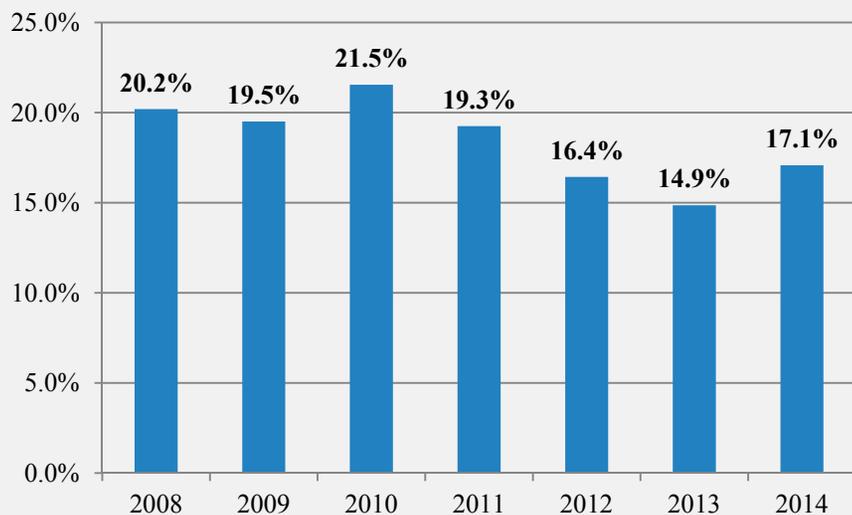


- ❑ Mongolia has experienced a drastic increase in FDI from 2009 to 2012 due to construction phase Oyu Tolgoi project (*One of the biggest Copper project in the world*).
- ❑ The mining sector is the main sector for FDI making about 71% of the total FDI since 1990.

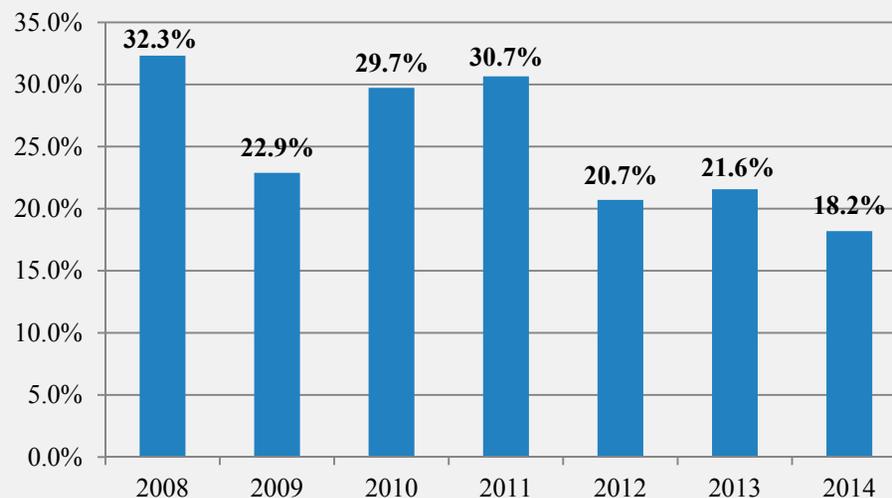


2. Contribution to the economy

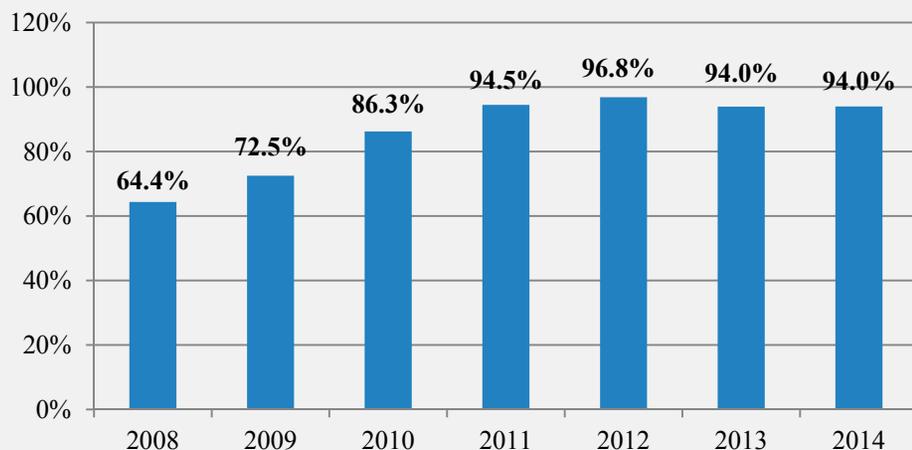
% of GDP



% of budget revenue



% of total export

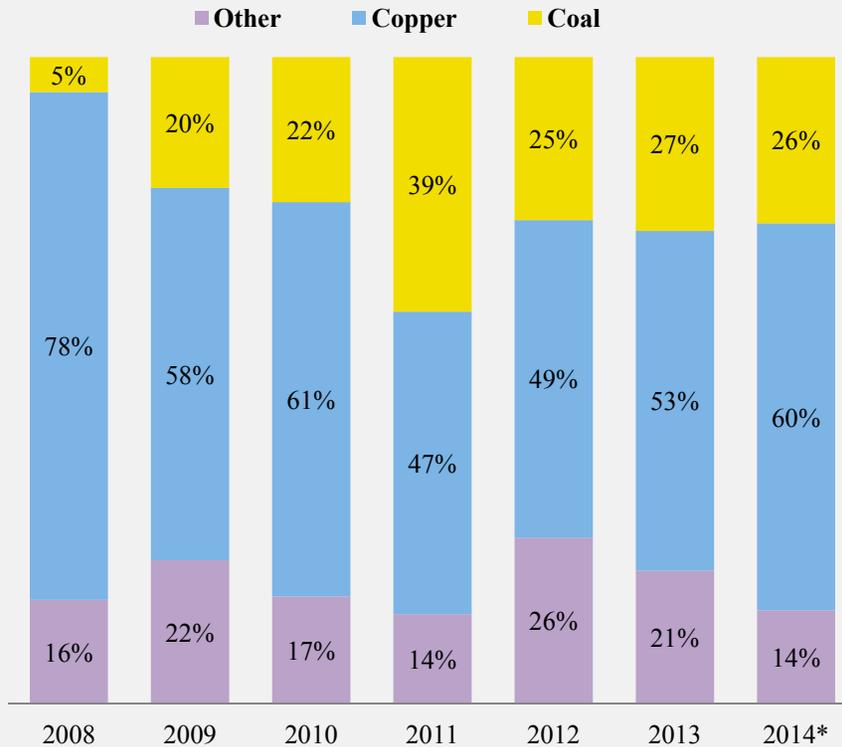


- ❑ Industry contributed the 18.2% of budget revenue, 17.1% of GDP, and 94.0% of total export last year.
- ❑ The decline in commodity prices have been reducing contribution of the industry in recent years
- ❑ The expansion of OT, TT will offset the price decline and further propel the economy
- ❑ The industry will play key role in the economic development of Mongolia in the coming years

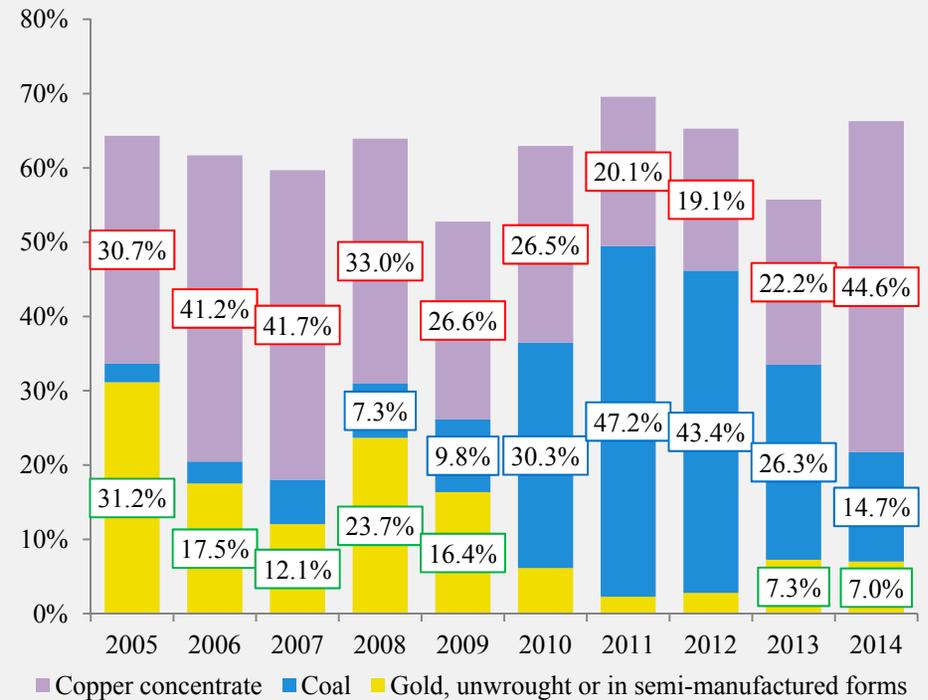


2. Contribution to the economy

Mining revenue share by commodities



Share of main commodity export in total export



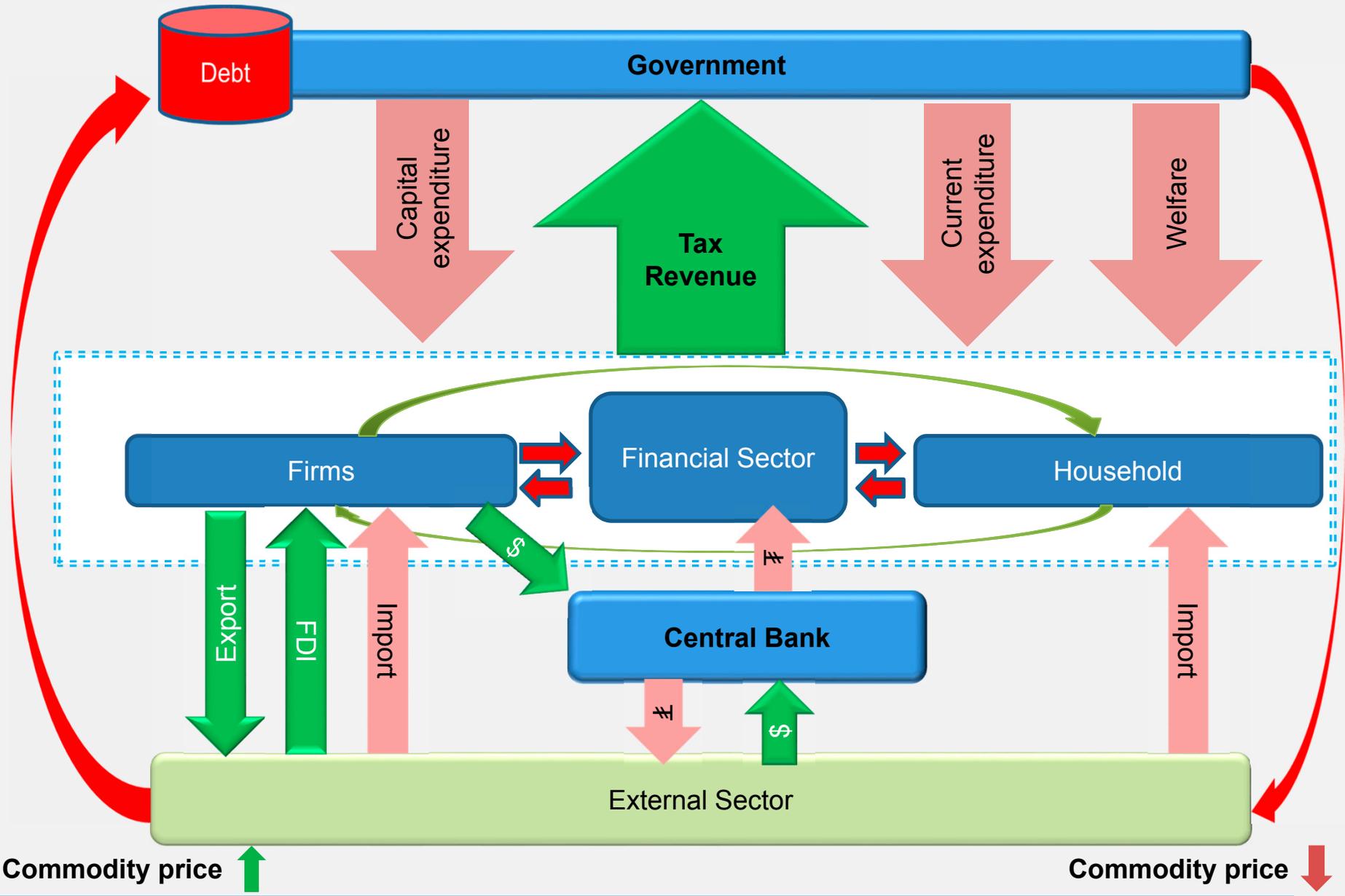
- ❑ Copper accounts for largest share in the industry
- ❑ The decline in coal prices have prompted coal producers to cut back on production
- ❑ The gold production have been decreasing in recent years



1990-2009

2010-2011

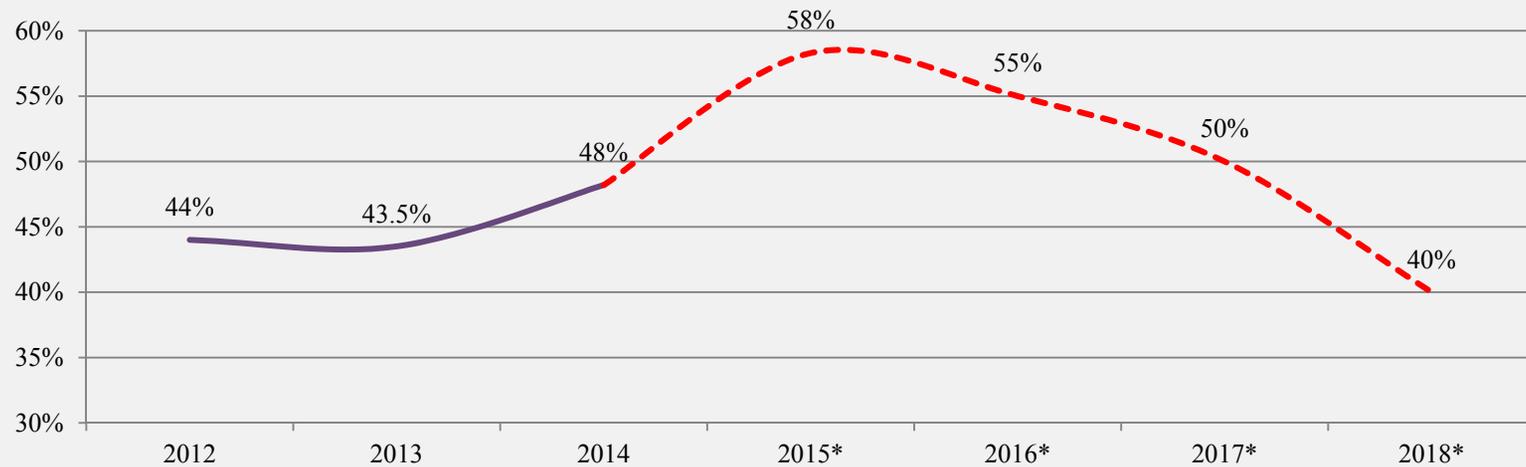
2012-2014





2. Contribution to the economy

Government debt ratio to GDP



- In the medium-term government debt will be stabilized and its ratio to GDP will be reduced.



2. Contribution to the economy

The Mid term fiscal goal is to reduce debt. This will be achieved through:

- Effective Budget Expenditure management
 - Capital expenditure on profit yielding investments
 - Not increasing current expenditure
- Increase revenue
 - Support economic growth
 - Increase tax compliance
 - No tax increase



3. Extractive industry fiscal regime

1. Mongolia has established one of the favorable and internationally competitive fiscal regime.

- Corporate income tax rate 10%, 25%
- Low tariff rate (only 5%)
- Value added tax 10% (value added mineral products and exported oil “0” rated)
- Flat personal income tax 10%
- Mining royalty 5% + progressive royalty (0%-5%)

2. Investment agreement

- To promote the investment flow into Mongolia the Parliament approved the revised Investment Law
- The Law allows fiscal regime stabilization for investors (who invest more than ~\$255 million)
- Stability period can be up to 30 years



3. Extractive industry fiscal regime

3. Various incentives for industry investors

- Loss carry forward up to 8 years (full recovery of investment)
- Mining royalties can be reduced significantly in case of production of value added mineral products
- Mining royalty on gold can be reduced to 2.5%
- Defer tax customs and VAT tax payment up to 2 years if deemed strategically important
- No corporate income tax for investors in oil industries
- Exempt customs and VAT taxes for the first 5 years of exploration period in the oil industry
- Enjoy stable tax environment throughout the PSC period



4. Current challenges of fiscal regime

1. The enforcement of law

- Taxpayers and authorities tend to have differences in carrying out some the provisions of laws relating to taxation
- Arguments in valuation of mineral products (no direct access to seaborne market)
- Mineral products assaying methodologies (up to date labs, and side minerals)
- Up to date regulations in monitoring the fairness of transactions in the industry (transfer pricing rules)

2. The other challenges include

- Relatively high compliance cost
- Lack of capacity, experience and expertise in concluding the comprehensive mining and petroleum contracts



5. Conclusion

1. Vision:

- Long term economic growth through developing the mining sector
- Develop other big industries such as agriculture and trade by investing into other sectors from revenue from Mining sector.

2. Approach:

- Creating suitable business environment for both domestic and international investors
- Making efficient policies to support mining sector and ultimately economic growth



Questions and Answers

THANK YOU FOR
YOUR KIND
ATTENTION