

## Mining

# Rio Tinto set to start negotiations over Mongolian mine

Row could derail expansion of giant Oyu Tolgoi copper mine



The Oyu Tolgoi mine, with Mongolian gers, or yurts, for accommodation close by: the project is two years late and \$1.5bn over budget © Bloomberg

**Neil Hume**, Natural Resources Editor YESTERDAY

Rio Tinto is set to start face-to-face negotiations with the government of Mongolia as it seeks to complete the \$6.75bn expansion of a [huge copper project](#) in the Gobi desert.

The Anglo-Australian group is sending a team of senior executives to the capital Ulaanbaatar to try and hammer out a new financing agreement so that the development timeline can be maintained and underground caving operations can start later this year.

The discussions will focus on a number of issues including tax, a new power agreement and benefit sharing, according to people with knowledge of the situation.

Some government officials want Rio to pay more than \$300m of withholding taxes on income it has received from Oyu Tolgoi LLC, the Mongolian holding company that owns the mine.

Rio receives a management service fee for running Oyu Tolgoi's existing open pit and the underground project as well as interest on money it has lent the government to fund its share of the development costs.

However, the officials say it is “very difficult, if not impossible” to engage constructively on the issue because the payments are the subject of arbitration in London.

For its part, Rio believes the issue of withholding taxes is dealt with in the separate investment and shareholder agreements that cover its operations in the country.

The underground expansion of Oyu Tolgoi ranks as Rio’s most important growth project. At peak production it will be one of the world’s biggest copper mines, producing almost 500,000 tonnes a year.

Although Rio runs the existing operations and is in charge of the underground expansion project it does not have a direct stake in the mine.

It’s exposure comes through a 51 per cent stake in Turquoise Hill Resources, a Toronto-listed company. TRQ in turns owns 66 per cent of Oyu Tolgoi LLC, with the rest controlled by the government of Mongolia.

The project has been beset by difficulties and is already two years late and \$1.5bn over budget. The government said earlier this year that if the expansion is not economically beneficial to the country it would be necessary to “review and evaluate” whether it can proceed.

To that end the ruling Mongolian People’s party and its new prime minister Luvsannamsrain Oyun-Erdene are trying to replace the Underground Development Plan with an improved agreement.

Signed in 2015, this sets out the fees that Rio receives for managing the project as well as the interest rates on the cash Mongolia has borrowed to finance its share of construction costs.

However, it was never approved by Mongolia’s parliament and has become a focal point for critics who say the country should receive a greater share of the financial benefits.

Rio, which recently appointed a new chief executive, has told the government it is prepared to “explore” a reduction of its project management fees and loan interest rates as well as discuss tax.

However, analysts are sceptical that the two sides will be able to put a new agreement in place by June when a decision on whether to start caving operations must be taken if Oyu Tolgoi is to meet a new target for [first production in October 2022](#).

Rio is also at loggerheads with TRQ on how to fund the cost overruns at Oyu Tolgoi. Last week, TRQ’s chief executive resigned after Rio said it planned to vote against his re-election at its annual shareholders’ meeting.

In a statement, Rio said it was committed to working with TRQ and the government of Mongolia to enable the successful delivery of the Oyu Tolgoi Project

“Aligning and co-ordinating our joint efforts to resolve the concerns of the Government . . . going forward is of the highest priority,” it said.

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