



Breaking Ground, Breaking Trust

A Mongolia Trip Report

B*i*C

BANK INFORMATION CENTER

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Introduction

The Oyu Tolgoi (OT) copper/gold mine in southern Mongolia is one of the largest copper mines in the world, and is jointly owned by the government of Mongolia and Turquoise Hill Resources (Canada) through the subsidiary company Oyu Tolgoi LLC. Rio Tinto (UK) assumed full management of the mining operations in 2010 after obtaining a majority of shares in Turquoise Hill Resources. As the project is anticipated by many to increase the Mongolian GDP by 30% when operations begin in the first half of 2013, several international financial institutions such as the International Finance Corporation (IFC), European Bank on Reconstruction and Development (EBRD), the US Export-Import Bank, and the Export Finance and Insurance Corporation (Australia) have expressed an interest in supporting the project.¹

The following report is based on a field trip undertaken in Khanbogd, Mongolia by a staff member from the Bank Information Center (BIC) in early December 2012 in order to gain an on-the-ground perspective of the impacts of the Oyu Tolgoi project on the local community. OT Watch, a Mongolian NGO based in Ulaanbaatar dedicated to monitoring the project for compliance with international environmental and human rights standards, provided in-country support for this trip. They helped arrange the activities which fed into this report, including conversations with members of Gobi Soil, a civil society organization in Khanbogd founded by local herders in response to OT; a guided tour around the Oyu Tolgoi mine license area and the Gunii Hooloi pipeline infrastructure corridor; and a consultation between a CAO assessment team and roughly 50 impacted herders.² In order to capture the various complaints of the local community, impacts have been organized around six main areas: politics, lack of promised compensation, access to water, herder livelihoods, community health, and access to energy.

The one thing that became abundantly clear during our limited stay in Khanbogd was the deep sense of frustration, anger, and distrust felt by the community towards Oyu Tolgoi LLC. Much of this is related to the great advantage the company has over civil society and the local community based on its relationship to the central government. Some feel that the company is abusing their power by not listening to the needs of the community, and as a result, many of the herders and other residents of Khanbogd are pessimistic of the benefits the mine will supposedly bring when production starts later this year. The purpose of this report is to foster an open dialogue on the most pressing issues facing the herders of Khanbogd today by highlighting these frustrations.

Uneven Political Power

The government of Mongolia, which owns a 34% stake in Oyu Tolgoi through the state-owned company Erdenes MGL, is deeply invested in the success of the project. The central government in particular has a close partnership with OT LLC, as the 2009 Investment Agreement between the two parties was heralded as a model for future extractive projects in Mongolia. The undue political influence that the company may have over

¹ For more information about the proposed investments as well as BIC's work on the project, including the recently completed review of OT's Environmental and Social Impact Assessment (ESIA), please visit <http://www.bicusa.org/feature/oyu-tolgoi-coppersilvergold-mine-project/>.

² The Compliance Advisor and Ombudsman office, or CAO, is the grievance mechanism of the IFC. The CAO ombudsman team was in Mongolia performing an assessment following the receipt of a complaint by Gobi Soil and OT Watch in October 2012. BIC was invited to attend the consultation as an observer.

government policies has recently come into question, especially regarding the new Mongolian mining law. This is in part due to the fact that one of the company's board members is sitting on the working group that is drafting this new law, which in and of itself would not be a major concern if civil society was afforded the same weight and consideration as foreign investors in government decision-making. Unfortunately, this is not the case, and it is made even more difficult by the reluctance of Mongolian Parliamentarians to vote their conscience on important matters. This does not stop them from voicing their personal views to the public, as exhibited by the number of Parliamentarians from across parties that are interested in reviewing the Investment Agreement based on concerns over mining revenues management, but they are unlikely to vote against the party line when the time comes due to pressure from the top.

The effect of this political pressure can be seen at the local level as well, as all local government officials in Mongolia receive their orders from Ulaanbaatar. In Khanbogd, this means that few local officials are likely to argue with the company due to OT's strong ties to the central government. The current governor of Khanbogd soum is more sympathetic to the herders and has been vocal about his resistance to the project based on the threats the mine poses to the community water supply, but this is only because he is an outgoing politician who has no fear of political repercussions. Other Khanbogd officials, such as the environmental inspector and land inspectors, are much more hostile towards the local herder community.

This conflict between political expediency and the needs of the local community are now complicated by the fact that OT has concluded that the local *hural*³ will be the point of contact with the herders. They have determined that this is the "traditional" method of consultation with the local community, which it is not, as the *hural* political system has only been around for a few decades.⁴ However, a few local herders have taken advantage of this and have run for seats on the local *hural* during nationwide elections in November. Deputy Governor Tsogtgerel, who was the head of the herder compensation working group, also ran for one of the empty seats, but he received zero votes in the election. He has tried to use his influence in his political party to win the seat anyway, but it is clear that the community does not recognize his ability to represent them sufficiently. The political landscape of Mongolia has thus put the herders of Khanbogd at a serious disadvantage vis-à-vis OT LLC, both at the national and local level.

Broken Promises

One of the ways in which Oyu Tolgoi LLC makes the project more attractive to international financial institutions such as the IFC is the promise of providing positive developmental impacts to the local community of Khanbogd. These commitments made by OT LLC to the local community include a robust compensation program for those impacted by the project, employment, vocational training, and "open channels of communication, consultation and collaboration with... stakeholders," among others.⁵ However, many in the local community feel that the company has failed to deliver on these promises.

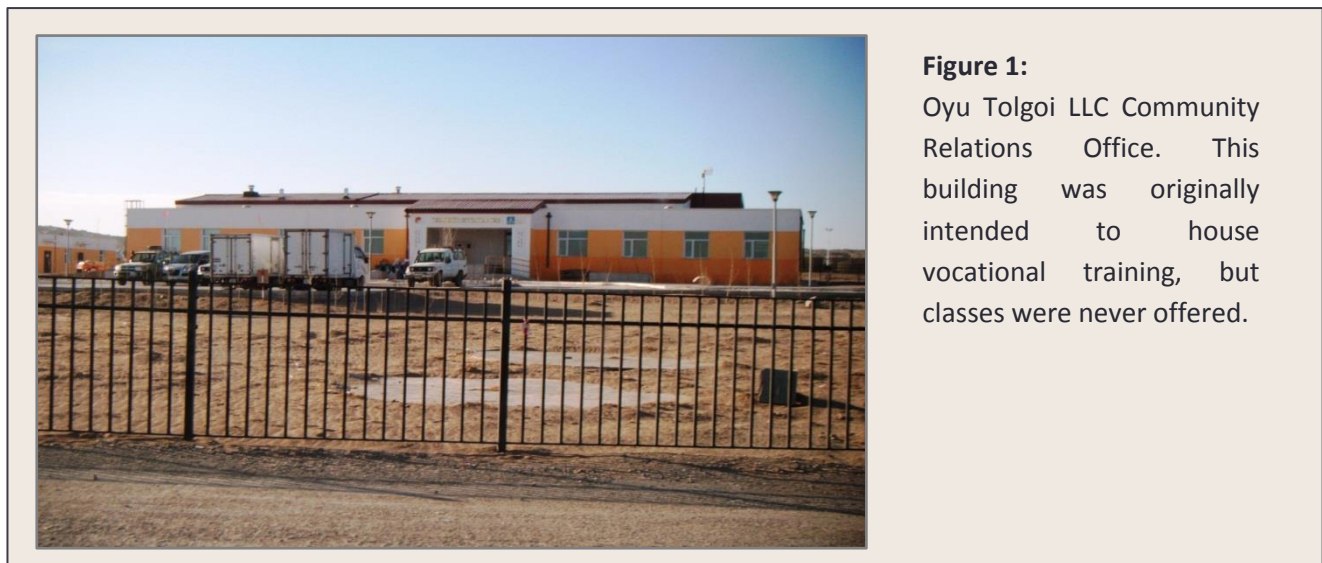
³ A democratically elected legislative body in Mongolia. For instance, the Mongolian Parliament is also referred to as the State Great Hural.

⁴ While the word *hural* itself derives from the name of traditional gatherings of tribal leaders, the modern *hural* system is strictly political and cannot be viewed as a successor of this system. The company has conflated the terms and unilaterally decided on a consultation method without once asking the local community what they would consider to be culturally appropriate.

⁵ <http://ot.mn/en/communities>

The most common complaint among the herder community, especially for those who signed the CAO complaint in October 2012, is that the company has not provided certain benefits as prescribed by the 2004 and 2010 compensation contracts. For instance, one woman signed the 2010 economic displacement contract in April 2012 after months of visitations at her home by OT staff, on the condition that two of her sons would be provided jobs by the company. After she signed the contract, six to seven months went by without any contact or job offer by the company, despite several attempts to contact them over the phone. Another woman described how she signed the 2010 contract after the company promised to provide her husband with disability benefits, but when she complained about never receiving those benefits the company told her that she had misunderstood the terms of the agreement. In yet another case, a herder household whose pasture land was divided by one of the roads that make up the Gunii Hooloi infrastructure corridor was promised a new winter shelter on the other side of the road. Four months after this agreement was made, the company had still not followed through on this commitment.

Vocational training for the local community, one of the project's main selling points, has also failed to materialize. The company did, in fact, construct the building that was supposed to house the classes, but no training was ever offered. Instead, the building is now the offices of the Oyu Tolgoi community relations team (see Figure 1). After receiving complaints about the lack of training, the company began providing English classes on weekends in late 2012, but there has been no indication of any other classes being offered in the near future. As many local herders do not have any formal education, it is imperative that vocational training is made available so that they can find sustainable, long-term jobs either at the mine or in other industries. The fact that the company has failed to provide these critical skills to the community, especially to the herders that have been forced to abandon their traditional livelihood by this very project, is simply unacceptable.



The local herders are also frustrated over the lack of appropriate dialogue with OT LLC. One complaint is that the company often does not consult with the community until work on a subproject has already started. For example, nearly 30 km of the transport road that runs from the mine to the Chinese border at Gashuun Sukhait was constructed before a public hearing for the community was held on the matter. The herders bring their complaints to the local office in Khanbogd in writing and over the phone, but they suspect that the junior

officers stationed in the soum are not passing along their concerns to the decision makers in Ulaanbaatar as nothing changes. Meanwhile, Oyu Tolgoi LLC leadership continues to trumpet their successes in consultation to shareholders, claiming that the community is satisfied with the project. While the disconnect between Ulaanbaatar and Khanbogd may or may not be intentional, the lapses in communication between the company, the local government, and the impacted community make remedying these situations more difficult.

Depleting Water Resources

Mining as an industry is water-intensive, and as the population of Khanbogd grows due the development around the Oyu Tolgoi mine site, the already limited water resources in the region will be stretched thin by the increased demand. Access to water is therefore the number one concern of the local community and Khanbogd government officials around this project. Unfortunately, some local herders have indicated that some of their wells are already drying out along the Gunii Hooloi pipeline, despite the company's claim that the water being pumped from the deep aquifer will not have an impact on the shallow aquifers used by the herders. For instance, one herder told us of a hand well in Gavliut bagh that used to easily water 1000 small animals and 300 large animals. A white car from OT LLC used to come out and monitor the water level in this particular well every morning since 2005, but it stopped coming out to well when it dried up in 2009. The herders first tried to dig a new well 300 m away and 6 m down, but could find no water. They then tried to fix the well in 2011 by digging out the rocks and mud, but still no luck. Other herders have mentioned that the water level in one well dropped 3 cm from June to September in 2012.

Herders have also reported the sound of "cascading water" at some of the boreholes in the Gunii Hooloi aquifer area, which they believe is caused by water draining from the shallow aquifer into the deep aquifer. The company has admitted that five boreholes have shown signs of leaking and have been since sealed off. A research team from Korea that had come at the behest of the local government to examine these claims had apparently verified the findings of the herders, but the Water Authority has not shared the team's findings with the community. The herders have also noted that company trucks have been pumping water from the Khanbogd community well to take to the worker camps, despite the fact that the well is meant for local use only (see Figure 2). The company has argued that it has all the operational water it needs from Gunii Hooloi, but if it is a company truck, then it must belong to a contractor. Subcontractor or not, the water is still bound for company use, and therefore the company should be held responsible for this water extraction. A refusal to acknowledge these complaints is antithetical to the company's claims that they will have no impact whatsoever on the community water supply.

Figure 2:

A truck that has pumped water from the Khanbogd community well. Trucks like these are not used by the residents of Khanbogd, so this vehicle likely belongs either to OT LLC or one of its subcontractors.



Another concern the herders have is around the diversion of the Undai River, the sole source of surface water in Khanbogd. The Undai is an ephemeral stream, meaning that the river flows underground for much of the year. As the open pit section of the mine is being built in the middle of the stream bed, OT LLC must divert the Undai River into a nearby tributary bed to prevent the mine from flooding. There is no guarantee that this diversion plan will work, and the river diversion also means that the Bor Ovoo spring, the most important spring along the Undai River as it is the last spring to freeze in the winter, will dry up. A replacement spring will be installed in a tributary bed nearby, but the local community is concerned that it will freeze earlier than the Bor Ovoo, which would cause them to lose a precious source of water. One of the company's Community Relations officers told a herder that rain runoff from the slag heaps and tailings ponds will keep the streams from drying up completely, which poses an additional problem as the company has not indicated how the runoff from these facilities will be treated before entering the stream beds (see Figure 3). This is a significant risk to the community, as untreated runoff could pose a serious threat to the livestock and wildlife that would drink from these water sources, not to mention the impacts it could have on the region's groundwater supply.



Figure 3:

In the background is one of the Oyu Tolgoi slag heaps. In the foreground is a tributary bed into which part of the Undai River will be diverted. The artificial spring (not in the photo) meant to replace the Bor Owoo will be constructed in the river bed off to the right.

Threatened Livelihoods

The key to understanding the true impacts of the project on the livelihoods of the nomadic herders in Khanbogd soum is to understand how herding works. It is not easy to raise animals in the Gobi Desert. Besides the desert's ephemeral water resources and harsh winters, each animal raised by the nomadic herders eats a different type of vegetation that varies with the season. To cope with these limitations, herders must move every 14 days in order for their animals to grow at a normal pace. In addition, camels, the largest and most precious animals to the herders here, can graze up to 30 km away from the main camp, requiring a large amount of pasture land for each herding family to properly support their animals.⁶ But with the construction of the mine and its related infrastructure, the herding families nearby can no longer move as they are hemmed in by roads, power lines, water pumping stations, and fences. Unanticipated developments such as the expansion of the mine license area and the construction of two airports on the community's summer pasture land has also greatly reduced the amount of good pasture available to the already struggling herders.⁷

⁶ Small animals, such as sheep and goats, graze about 5 km away from camp, while large game, such as cattle and horses, graze 15-20 km from camp. It should be noted that while the amount of land needed to support these animals is not as significant as for camels, it is far from unsubstantial.

⁷ It is important to note here that the pasture land where the temporary airport and Khanbumbat Airport are located is also the community's reserve pasture land, which all the herders in Khanbogd use when the winters are exceptionally bad. Unfortunately, this land is no longer available to them due to the activity at the airports and the nearby quarries. One herder told us that this construction was unexpected, as the airport was initially supposed to be constructed within the mine license area, not to the north of it.

In 2004, 11 households were physically displaced by the mine and forced to abandon their winter camps for new camps built by the company. X, one of the herders who signed the 2004 compensation contract, related to us the difficulties he suffered as a result of his resettlement. His new campsite was completely unsuitable, as there was poor shelter, no animal droppings to prevent the ground from freezing, limited pasture, and competition for water with two other families at the new location. Under normal conditions at the old site, his animals drank every other day, grazing in between. At the new winter camp site, X's animals drank water every day, which he thinks came from eating the poor, dusty vegetation. The animals also kept trying to return to the old camp, requiring him to retrieve them and tiring them out. These underfed and overworked animals could not provide sufficient droppings to keep the shelter floor warm or develop the fat or hair necessary to get them through winter. To protect his animals, he tried to supplement the wooden winter shelter that the company built for him with stones and tires, but it did little to help (see Figure 4). These conditions resulted in a dramatic decrease in his livestock from 600 small animals and 100 large animals to 100 small animals and 20 camels (no cattle or horses). When X talked to the company about it during the signing of the 2010 economic displacement compensation contract, they treated his request as if they were being kind enough to include him in the new contract even though he abandoned his shelter – the one that the company forced him into in 2004.



Figure 4:

Wooden planks lack the thermal mass of solid stone and rubber, which is why it is not traditionally used by herders in their winter shelters. X attempted to supplement the replacement wooden shelter built by the company (right) with stone and tire walls (left), but was still unable to save his animals.

Other families who were physically resettled by the company or have otherwise had to move due to mine-related infrastructure told us similar stories. They argue that all the herders in Khanbogd are impacted by the project, as those herders who have resettled are now encroaching on the pastureland and water resources of other families out of need. These resettled herders are uncomfortable with this behavior as it is considered rude under customary pasture relations, but they have no other choice. One household, for example, abandoned their winter camp after they became surrounded by water pumping stations on the Gunii Hooloi aquifer (see Figure 5). At the new winter camp site they now must share a well with 6 other families, requiring the first family to get up at 4 am in order for all of them to water their animals. However, this particular family did not qualify for compensation under the 2010 compensation contract.

Figure 5:

The family that once lived here had to abandon their winter camp due to the loss of their pasture to Gunii Hooloi-related infrastructure. From this location, you can see at least five water pumping stations.



As a result of this increased competition for land and water resources between herders, some families have had to give up herding altogether and move to the soum center. For most herders, this is the only training they have, and their families have been herding for 5 or 6 generations here. They want to maintain their traditional livelihood, but it is becoming more and more difficult as the work at Oyu Tolgoi progresses. Many households have lost all or most of their herds, yet OT has declared the resettlement plan to be successful based on local government data, which counts herd size rather than herd productivity. Since many herders have had to buy new animals to supplement their weakening flocks, this is a serious flaw in the data that the government and the company should have looked into. However, there is a general sense in the community that the company simply does not want to understand their way of life. As one herder stated, “Is it possible for Oyu Tolgoi and the nomads to coexist? When there is a will, there is a way. But instead of helping us, OT is trying to cheat us.” For example, due to the different needs of the animals in each season, spring and summer camps, as well as winter camps, are integral to maintaining a healthy herd. As such, some herders argue that the company compensation package should have been offered to those families whose summer pastures, not just winter camps, fall into the project’s defined impact zones. To date, however, the complaints of the herders have largely been ignored.

Protecting the Community

The health, safety, and security of the local community are of the utmost importance in a project like Oyu Tolgoi. Mining itself can be a dangerous business, and the construction of related infrastructure can pose a serious risk to the people and wildlife nearby. The Health Impact Assessment undertaken by the company to address these risks indicated that AIDS is the most serious health concern related to the project-induced population influx in Khanbogd. The company has responded to this assessment by funding a massive AIDS awareness campaign in Khanbogd in partnership with the Mongolian Department of Health and other health-related organizations with money from the Asian Development Bank. As we happened to be in Khanbogd during Global AIDS Awareness Day on December 1, there was an abundance of posters related to AIDS scattered throughout the community (see Figure 6).



Figure 6:

At the top, a sign promoting AIDS awareness in the Khanbogd community center sponsored by OT LLC, the Mongolian Ministry of Health, and other organizations. On the left, a poster in our hotel aimed at children illustrating how AIDS is transmitted.



All of the money being spent on AIDS awareness ignores the more pressing and real impacts of dust on the people and animals of Khanbogd, which presents at a much higher rate within the community than HIV/AIDS. The company argues that dust-related illnesses are a baseline condition in the community and that the dust suppression practices at the mine site are successful, yet herders began to notice these issues only after work on the mine had started. Increased traffic on the unpaved roads in the community and the construction of project-related infrastructure has produced a higher than average amount of dust in the atmosphere of the soum. In fact, on a clear day a thick layer of dust can be seen hanging over the mining complex (see Figure 7). Workers who commute on the dusty roads every day and herders who live near the mine have reported an increase in respiratory illnesses such as bronchitis. The herder's livestock have also been impacted, as they have reported slaughtered animals with rocks in their stomachs, infected lungs, sepsis, and black organs. The poor health of the animals means that the herders cannot sell their livestock on the market, reducing their income. Herders also have to eat this meat, and many are beginning to wonder what the consequences of consuming these unhealthy animals will be for themselves. As one herder has quipped when asked about the direct impacts of dust on their lives, "we haven't cut ourselves open."



Figure 7:

A cloud of dust is clearly visible over the Oyu Tolgoi mining complex.

No one would argue that OT LLC is wrong to fund AIDS awareness in the community, but how it uses its money on AIDS awareness is problematic to say the least. For instance, while we were in Khanbogd the company installed a billboard-sized poster in honor of Global AIDS Awareness Day that supposedly cost them thousands of dollars to print. It was torn off the billboard the next day during a mild windstorm, throwing into question the quality of construction (see Figure 8). In addition, some researchers argue that these posters contain toxic materials. It does not make sense that the company would waste so much money on a tool meant to reduce the negative impacts on community health when in the end it will certainly increase those impacts through the generation of toxic waste. Of course, the company has already been accused by the community of dumping trash from worker camps outside of designated waste disposal areas, so many may view the company's advocacy efforts as simply another way to put on a show of good faith without actual substance (see Figure 9). Regardless of whether or not this is true, if the company wants to truly reduce its impact on the community, it should work on making sure that the funds budgeted for health prevention activities can be spent on both dust-related illness prevention and treatment as well as AIDS awareness, rather than wasting its money on shoddily-constructed banners.



Figure 8 (left): An AIDS awareness banner paid for by OT LLC fell down a day after being installed.

Figure 9 (top): Garbage dumped outside Khanbogd in an area not designated for waste disposal. The items in the trash are not found in herder households, indicating that it may come from the company camps.

Unreliable Electrical Power

Power is incredibly unreliable in Khanbogd. As the population in the soum center grows as a result of the construction of Oyu Tolgoi and similar developments in the region, the lack of reliable electricity is becoming an increasingly important concern among the local community. Most of those who live in the soum center depend on the aging community generator sets for their daily power supply, but these are not always functional. As diesel costs are high, the generators are only turned on from 9 am to midnight on weekdays and 10 am to midnight on weekends. The power is sometimes out in the middle of the day as well. This can cause problems for workers who have to get their children ready for school and get themselves ready for work in the hours before 9 am, especially in the fall and winter time when the weather is cold and the nights are long. Only the wealthier businesses in Khanbogd can afford to run their own generators in case of a power outage and are not dependent on the community generators. Unfortunately, connecting to the Mongolian central electric grid is not a viable option to alleviate this problem, as the national energy supply is as unreliable and underpowered as that in Khanbogd soum.

Oyu Tolgoi, on the other hand, always has power available at its facilities and worker camps, and is constructing additional power lines to support the imported electricity from China (see Figure 10). The lights from the mine site are visible even from the soum center, and are a tangible representation of the vast inequality in wealth between the soum and the company. Even though the coal plant that the company is building within four years to support the mine per the Investment Agreement is now expected to produce 750 MW of power, we were told that the company is not interested in sharing any marginal electric production, at least not for free. It does not want to connect electrical output from the plant either directly to Khanbogd (benefitting the local

community) or to the Mongolian central electric grid (benefitting the whole nation), electing instead to sell the power to China. Those we spoke to in the community expressed frustration over this choice, as it was to them simply one more way the company has backed out of its promise to help develop the community.



Figure 10:
New power lines being installed near the Oyu Tolgoi mine license area.

Conclusion

From the perspective of the international financial institutions, the Oyu Tolgoi project promises to be a momentous source of wealth for Mongolia. Even the community of Khanbogd initially welcomed the mine as a chance to participate in the economic development of the entire country. Now they feel that they are losing too much in the process as the company is unwilling or unable to understand and address their concerns. This frustration and lack of communication with the company is precisely why the herders filed a complaint with the CAO in October 2012.

According to the residents of Khanbogd, Oyu Tolgoi LLC refuses to share material benefits with the community, either through allowing the community to access the company's power supply or through adequate compensation for impacted herders who have lost their livelihoods. It has continually failed to address the concerns the herders have surrounding water scarcity in the Gobi as well as health issues related to dust inhalation. The company is also accused of manipulating its power within the central government to benefit itself and circumvent local approval. Even the project's economic benefits to the State have yet to be proven effectively since OT LLC will sell all of its raw mineral exports and electrical power to China, prompting some Parliamentarians to ask for a renegotiation of the 2009 Investment Agreement.

This begs the question of whether the monetary gains outweigh the negative environmental and social impacts of this mining project. For the herders of Khanbogd, and for those of us in the international community who support them, the answer is a resounding no. The unfortunate thing is that if the company had been willing to engage the local herders on their own terms from the start, a good portion of these negative impacts could have been avoided. Though we are now working to minimize these impacts, it is ultimately the responsibility of Oyu Tolgoi LLC to make the necessary changes required to make amends and protect the future of Khanbogd soum.