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## **Oyu Tolgoi's role in developing Mongolia**

*Exclusive stars interview with Mrs. Baigalmaa Purevsuren, Principal Advisor, Rio Tinto, Ulaanbaatar, Mongolia. The interview was conducted by Ganzorig Vanchig, Chairman of Bat Solution Partners and stars Mongolia alumnus, on the sidelines of the first stars Mongolia study tour in July 2017.*

Mongolia's Oyu Tolgoi mine - one of the world's largest copper-gold mining projects - is operated by the global mining giant Rio Tinto. The mine represents an opportunity to bring lasting development to Mongolia.

*Ganzorig Vanchig: How do you see the recent turmoil in the global mining industry and the key trends shaping its future?*

Baigalmaa Purevsuren: We believe that productivity and margins, a maturing China, resilience and uncertain growth are the decisive factors that will shape the global mining industry over the next decades.

Let's start with productivity and margins. Mining productivity has been declining significantly over the last decade with companies focusing more on production volume than on productivity. There is significant room for improvement. We see technology and optimising the value chain playing a big part in increasing productivity and margins. Therefore, technology will shape the mining industry in many ways, such as automation, big data and analytics.

The second trend is a maturing China. China will remain a key strategic player for the mining industry for years to come. China's demand for commodities will continue as industrialization and urbanization go on. However, this demand is likely to be stable and moderate. India, the ASEAN countries and Africa will play larger roles in the long run, but until then the pace of SOE reform, the cost structure of the domestic mining industry and China's increasing global influence is a key source of change.

The next trend is resilience. A key challenge today is managing volatility and the pace of change. This includes dealing with economic shocks, geopolitical events, and other social issues. The mining companies that will win in this environment need to be resilient in tough times and able to make the most of opportunities. As complexity and volatility increase, the industry must partner much more effectively with customers, governments, communities and employees.

The fourth trend is uncertain growth. China's rapid development created unprecedented growth across the industry over the past decade. The next stimulus for growth is not as obvious. There are few high quality assets left, and many of the new opportunities will be in tougher jurisdictions and harder to find. Competition for the best assets will be strong. Therefore, the capability to find and develop new assets and commodities will be essential to meet the changing needs of society and to provide attractive returns.

Our strategy at Rio Tinto is clear and consistent – to deliver superior value for our shareholders throughout the cycle. We believe the best way to do this is to focus on the “four Ps”: *Portfolio, Performance, People and Partners*. *Portfolio* is about world-class

assets, *Performance* is about safety and operating excellence, *People* is about commercial and technical capability, and by *Partners* we mean customers, investors, governments and communities. We believe that consistently focusing on these areas will deliver superior and sustainable cash flow over the short, medium and long term. We will use that cash to maintain our balance sheet strength, deliver superior shareholder returns, and to provide compelling growth.

*Ganzorig Vanchig: What do you think about the implications of connectivity around the world in terms of mining products' logistics and trading?*

Baigalmaa Purevsuren: Let me give you some context on Rio Tinto's global footprint in this regard. Taking the example of iron ore, we move a billion tonnes of material a year to deliver products to our customers. Whilst the majority of our assets are in OECD countries, our key markets are located in Asia. We are a company that sells most of what we produce outside of where we produce it. We operate in 35 countries with 51,000 employees.

Speaking purely from an economic point of view, connectivity is definitely important, positive and inevitable. Investment into infrastructure creates more demand for mining and infrastructure in turn enables more mining projects to be economically viable. On the other hand, the increasingly complex geopolitical environment could negatively impact our markets and operating environments.

*Ganzorig Vanchig: What is the importance of One Belt One Road for Mongolia?*

Baigalmaa Purevsuren: We see further growth in Asia on the back of the One Belt One Road project. As I mentioned earlier, this kind of heavy investment into infrastructure is likely to create more demand for commodities.

One Belt One Road will certainly improve Mongolia's access to markets and thereby improve the competitiveness of its mining sector in particular. This is an important opportunity for Mongolia to improve its trade relationships, particularly with China.

*Ganzorig Vanchig: What is Rio Tinto's value proposition in Mongolia?*

Baigalmaa Purevsuren: Our contribution to the Mongolia story is the development, operation and future expansion of Oyu Tolgoi. It is one of the most significant copper-gold developments globally. Oyu Tolgoi is an operating open pit mine which adopts industry-leading standards. It is a low-cost operation successfully exporting copper to the Chinese market. The development of the underground mine will place Oyu Tolgoi at the centre of the global copper market – with Mongolian copper helping to satisfy the world's growing demand for the metal.

World-class assets like Oyu Tolgoi operate for many generations and provide an opportunity to plan for the long term, to build lasting partnerships and to create value for communities, shareholders and the government. We strive to play our role as a trusted partner in Mongolia for smart mining, environment and resource stewardship and acting as a catalyst for economic development.

*Ganzorig Vanchig: How critical is it to get a social licence from the local community in order to operate a global business here in the Gobi desert in Mongolia, just next to the Chinese border?*

Baigalmaa Purevsuren: Partnerships make or break success in our industry and for Rio Tinto. We have to make sure that we have the right relationship and the right level of trust between ourselves, our communities, our governments, our employees and suppliers, wherever we work. This allows us to manage risk in the short term in relation to our existing operations and it gives us the ability to secure new deposits in the medium and the long term.

Our partnership with the local community in South Gobi is an example of that. A cooperation agreement with the mine's partnership communities here aims to ensure that the mine promotes sustainable socioeconomic development. The agreement, which took four years to finalize, encompasses employment and training, environmental management, cultural protection and local business development. It formalizes how the mine will contribute to local communities in the coming years and allocates US\$5 million per year for community development.

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