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Mongolia's Strategic Deposits: A Framework Under Strain in the Critical Minerals Race

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1. While Others Sprint, Mongolia Stands Still

Critical minerals have become the defining resource contest of the 21st century. Against a backdrop of slowing global growth, rising geopolitical tensions, and declining FDI flows to developing economies, competition for mining investment is intensifying. Countries are racing to capture value across the entire supply chain, not just from extraction. For mineral-rich developing countries, the stakes are clear: attract capital proactively, or cede ground to those that do.

How are peer countries navigating this landscape? 🇰🇿 🇺🇿 🇲🇾 🇲🇦

Kazakhstan: During the 2025 C5+1 Summit in Washington, D.C., the U.S. and Kazakhstan signed a "once-in-a-generation" deal to develop the world's largest untapped tungsten resource. The $1.1 billion development is backed by strong U.S. institutional support, with EXIM and the DFC expressing interest in funding up to $900 million and $700 million, respectively.

Uzbekistan: In 2026, Traxys, a leading Luxembourg-based physical commodity trader, announced a $1 billion investment in Uzbekistan's critical minerals sector targeting tungsten and molybdenum.

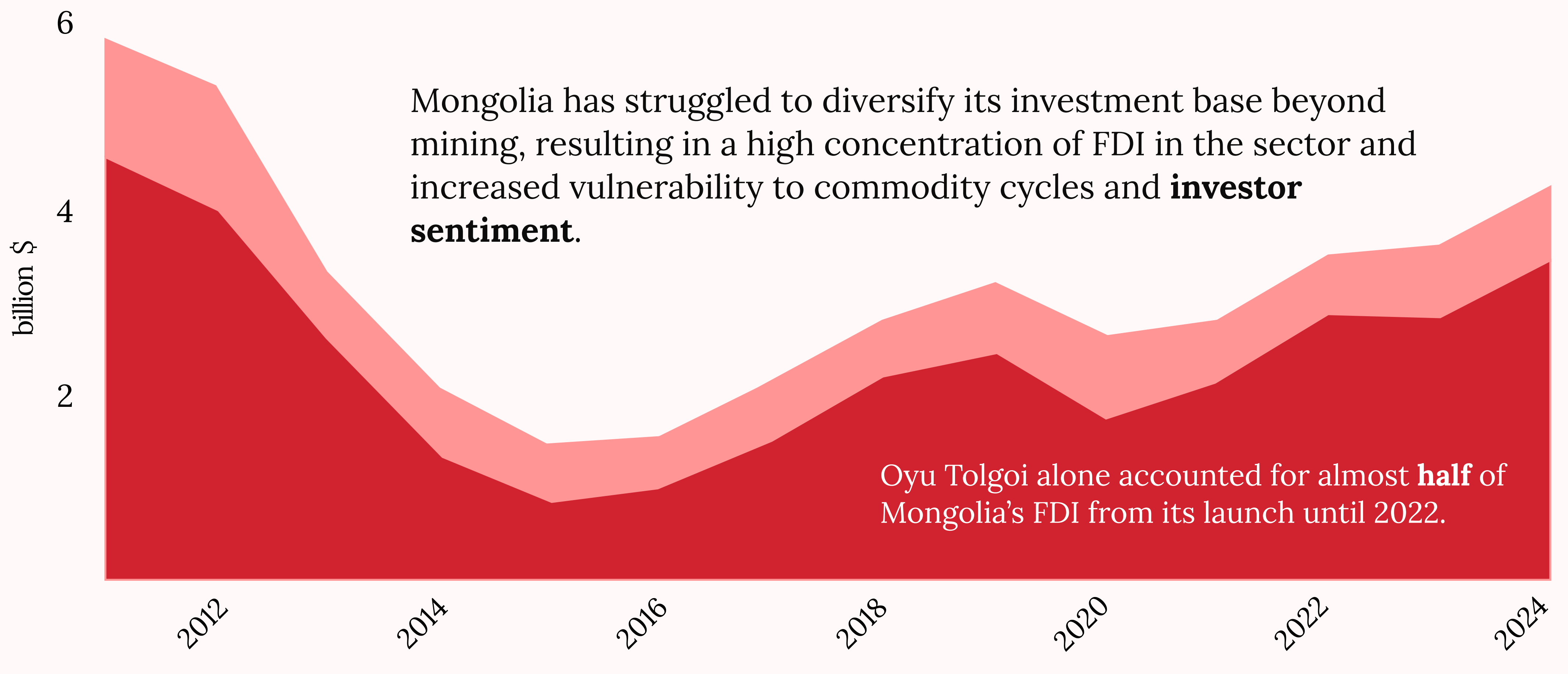
Malaysia: In 2025, Australia's Lynas, the world's largest rare-earth producer outside China, announced a new Heavy Rare Earth separation facility in Malaysia, with the project worth approximately $117 million.

Morocco: In 2024, the Sino-European electric vehicle battery maker Gotion High Tech signed an investment deal with the Moroccan government to set up the first gigafactory in Africa, for a total investment of $6.5 billion.

⚠️ Considering it takes ~16 years from geological exploration to first extraction, Mongolia's window to attract the investment needed to develop its deposits is narrowing, due, in large part, **to its own policy environment**. This makes timely reform essential to preserve investment interest and support economic growth.

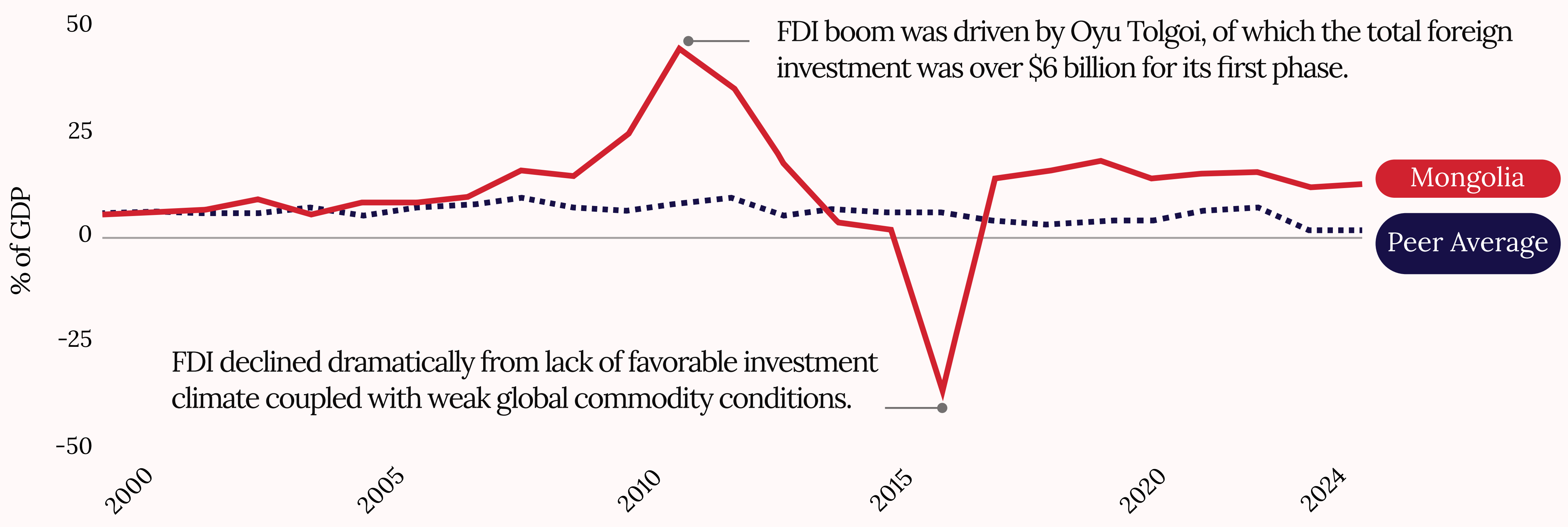
2. Mongolia's Dilemma: Resource-Rich yet Investment-Constrained

Over the past decade, the mining sector has accounted for the majority of FDI inflows



Source: National Statistics Office

Mongolia's FDI volatility, in part, reflects instability in its investment climate



Source: World Bank Group, Foreign direct investment, net inflows

Note: Aspirational peer countries include Chile, Kazakhstan, Malaysia, and Uruguay.

Global competition for copper, uranium, and rare earths has brought Mongolia's resource endowment into the spotlight. Despite possessing strategically valuable resources and relying heavily on mining, Mongolia has made investment in the sector increasingly difficult.

Mongolia's future growth is dependent on FDI

Coal and copper remain the backbone of Mongolia's economy, underscoring the mining sector's central role in growth and fiscal stability.

Yet despite this importance, sector development has remained concentrated in a limited number of large-scale projects

- While Mongolia has attracted major mining investments, notably through Oyu Tolgoi and more recently the Zuuvch Ovoo uranium project, it has struggled to generate comparable new investments across the wider sector, leaving growth heavily concentrated in a few flagship deposits.
- As a result, sectoral growth continues to rely on a small set of projects rather than a **more diversified** and **continuously expanding** mining base. Without new Oyu Tolgoi-scale deposits, Mongolia's economic foundation will erode over time.
- Mongolia has little choice: as mining is highly capital-intensive and requires billions of dollars in upfront investment, the development of such projects remains heavily dependent on FDI.

At the same time, the sector has faced growing difficulties in attracting investment

- Amid increasing competition for critical minerals, Mongolia's mining sector is struggling to adapt. Exploration activity has stagnated, and investors continue to view the country as a challenging environment.

Mongolia's mining sector is effectively in deadlock, driven largely by the regulatory treatment of **strategic deposits**.

3. Major Turning Points in the Mining Sector

2006

2006 Minerals Law

- Introduced the concept of "**strategic deposits**," which allows the state to acquire up to a 34% or 50% stake in projects linked to these deposits, depending on whether the exploration was funded by the State.
- The authority to designate a deposit as strategic rests with the Parliament.

Area available for exploration covered over **40%** of Mongolia's land.

2007

Designation of Strategic Deposits

- Parliament officially listed 15 of the eventual 16 designated strategic deposits.
- Government was tasked with assessing additional **39 deposits**, as well as newly identified deposits, and recommend their strategic designation to Parliament.

The Government committed to compensating firms at fair market value for any share it acquires.

As investment and discoveries in the mining sector expanded, **populist pressures** grew alongside them. While the 2006 Minerals Law was not attractive to investors, it shaped the core framework that still governs the mining sector today.

2009 – 2015

Investment Climate Worsened by Policy Missteps

- 2009 Law with the Long Name and 2012 Strategic Entities Foreign Investment Law (SEFIL) of Mongolia further weakened investor sentiment.
- Mineral licensing stopped in 2010 and resumed in 2015 when the Minerals Law was amended.

Investors saw SEFIL as one of the main causes of over 50% drop in FDI from 2012 until its revocation in 2013.

The dispute between the Government and Rio Tinto negatively affected the investment climate and is **widely seen as a major factor** behind the sharp decline in FDI since 2012.

2019

Constitutional Amendment

- Parliament amended Article 6.2 to enshrine the principle that the "majority of benefits" from strategically important deposits must accrue to the people through a SWF.
- The amendment ultimately paved the way for the 2024 Law on SWF and the amendments to the Minerals Law.

At the time, "benefits" was explained broadly to include taxes, fees, and dividends.

2024

SWF Law & Minerals Law Amendments

- The SWF Law provided the legal basis for the "Chinggis Khaan SWF."
- The Minerals Law amendments imposed ownership restrictions on strategic deposits and extended the state ownership rule to their residual deposits as well.

Area available for exploration dropped by 10 times, covering around **4%** of Mongolia's land.

The Government previously paid to acquire its stakes, and a single investor could own as much as 66%, as opposed to 34%. Investors warned that the policy will further hinder FDI.

Potential Minerals Law Amendment

⛏️ **What counts as a Strategic deposit?:** If a deposit may have a potential impact on national security, national or regional economic and social development, or is producing (has the potential to) more than 5% of the total annual GDP, it can be classified as a mineral deposit of strategic importance.

⚒️ Mongolia's main economic and political challenges are closely tied to sustaining steady growth through global commodity boom-and-bust cycles. Yet despite relying on FDI to build a more diverse and resilient mining sector, recurring shifts in legislation driven by resource nationalism have continued to undermine investor confidence.

4. 16 Strategic Deposits: Caught Between Politics and Policy

No.	Strategic Deposits	Minerals	No.	Strategic Deposits	Minerals
1	Asgat	Silver	9	Tumurtei	Iron Ore
2	Tavan Tolgoi	Fossil Coal	10	Oyu Tolgoi	Copper, Molybdenum
3	Nariin Sukhait	Coal	11	Tsagaan Suvraga	Copper, Molybdenum
4	Baganuur	Coal	12	Erdenet	Copper, Molybdenum
5	Shivee Ovoo	Coal	13	Burenkhaan	Phosphor
6	Mardai	Uranium	14	Boroo	Gold
7	Dornod	Uranium	15	Gatsuurt*	Gold
8	Gurvan Bulag	Uranium	16	Tumurtein Ovoo	Zinc, Lead

Sources: https://legalinfo.mn/mn/detail?lawId=203248&showType=1; https://www.vma-ev.com/sites/default/files/5.pdf.

* Note: Fifteen of the eventual 16 designated deposits were formally listed by Parliament's Resolution No. 27 in 2007. The 16th deposit, Gatsuurt, was added in 2015.

A framework that is simultaneously too narrow and too broad

- The 5% GDP threshold (implying roughly $1 billion) is difficult to meet, yet shifting GDP levels can change qualification without any change in the deposit.
- The "national security and development" criterion is so broad that almost any deposit can qualify.

This framework appears to allow the list of strategic deposits to be expanded at Parliament's will at any time. The result is an environment that is **both unpredictable and highly discretionary**, discouraging long-term investment.

Who controls these strategic deposits?

Mongolia officially recognizes 16 strategic deposits, and despite repeated proposals to expand the list, the total remains unchanged.

- Of these 16 deposits, 3 are fully state-owned: Erdenet, Tumurtei, and Asgat.
- As of early 2025, 4 deposits have partial state ownership:
  - Tavan Tolgoi – 73.5%
  - Baganuur – 75%
  - Shivee Ovoo – 95%
  - Oyu Tolgoi – 34%
- Around 26 private entities hold licenses across 11 strategic deposits.

5. From 16 to Potentially 63: The Expanding Strategic Deposit List

In 2025, 26 private legal entities holding licenses across 11 strategic deposits (including Erdenet's residual deposits) were targeted for negotiations over potential state ownership stakes. In addition, 8 more deposits, including Kharmagtai and Khalzan Buregtei, were under consideration for designation as strategic deposits, beyond the existing list of 39.

№	Strategic Deposits	26 Companies Holding Licenses
1	Tavan Tolgoi (3)	Energy Resources LLC Tavan Tolgoi JSC Khangad Exploration LLC
2	Nariin Sukhait (7)	Mongolyn Alt MAK LLC Khuren Tolgoi Coal Mining LLC Southgobi Sands LLC Usukhzoos LLC EAI Mining LLC Adil tsag LLC Net Gobi Energy LLC
3	Shivee Ovoo	Eikusora LLC
4	Oyu Tolgoi (2)	Oyu Tolgoi LLC Entrée Gold LLC
5	Tsagaan Suvraga (3)	Mongolyn Alt MAK LLC Erdenes Tsagaan Suvarga LLC Gobi Minerals Group LLC
6	Tumurtei (2)	Erdes Group LLC Ikh Bayan Tumurtei LLC
7	Tumurtein Ovoo	Tsairt Mineral LLC
8,9	Dornod; Mardai	Adamas Mining LLC
10	Burenkhaan (3)	Topruonkhentso LLC Sutaikhan Tso LLC Talst Margad LLC
11	Residual Deposits (3)	Achit-Ikht LLC Erdmin LLC Zes Erdeniin Huvi LLC

Sources: https://ikon.mn/n/3dtt; https://itoim.mn/a/2025/02/10/politic/djf.

39 Potential Strategic Deposits

1. Ulaan Ovoo
2. Ovdog Hudag
3. Bayanteeg
4. Nuurst Khotgor
5. Khar Tarvagatai
6. Aduunchuluun
7. Tevshiin Govi
8. Talbulag
9. Chandgan Tal
10. Khuutiin Khonkhor
11. Khuut
12. Nalaikh
13. Alag Togoo
14. Zeegt
15. Mogoin Gol
16. Saikhan-Ovoo
17. Bargilt
18. Tugrug Nuur
19. Naran Tolgoi
20. Tavt
21. Tumurtolgoi
22. Bayandavaa group of deposits
23. Ulaan Uul
24. Janchivlan group of deposits
25. Tsagaan Davaa
26. Mungun Undur
27. Khokh Adar
28. Shavriin Tsaram
29. Shuden Uul
30. Shiree Uul
31. Ovdog Hudag
32. Tsaidam Nuur
33. Tsagaan Tsav
34. Mankhan Uul
35. Ongilog Nuur
36. Lugiin Gol
37. Khongor
38. Ulaan
39. Tsav

Source: Annex II of Parliament Resolution No. 27, 2007

Additional 8

- Bayanhundii+Altan Nar (gold)
- Kharmagtai (gold, copper)
- Khalzan Buregtei (rare earths)
- Khotgor (rare earths)
- Bayangol (iron ore)
- Khushuut (coal)
- Ail Bayan (coal)
- Erdenebulag (coal)

Source: https://news.mn/en/801439/

6. Three Major Criticisms of the Strategic Deposits Framework

Concerns over expanding state equity claims, retroactive ownership negotiations, and limited investor consultation may undermine legal certainty and discourage the long-term investment needed for Mongolia's resource-dependent development, particularly given its heavy reliance on FDI in the mining sector.

Major Criticisms:

1. Constitutional concerns

- According to legal assessments, forcing the transfer of private shares without compensation appears to contradict the Constitution's protection of private property, which requires fair compensation when the state compulsorily acquires assets for public need. Permitting the state to appropriate private property through legislation is inconsistent with the principles of a democratic market economy.
- The current framework effectively forces companies to **surrender equity or pay a special royalty**: terms that were not contemplated when the original investments were made.

2. Unpredictable state ownership claims

- As there appears to be essentially no limitation on Parliament's ability to designate strategic deposits, all mining operations face the risk of uncompensated state expropriation.
- Once a deposit is designated as strategic, the state may seek up to 34%–50% ownership, depending on how exploration was financed. Thus, negotiations over state stakes can occur years after licenses are granted, creating retroactive risk for investors.
- Moreover, limiting Savings Fund income to a few projects, specifically strategic deposits, may deter investors, as their projects could later be designated "strategic" to generate fund revenue.

3. Weak investor consultation and adverse signaling

- Limited consultation with investors and hostile signaling have weakened confidence in the strategic deposit framework.
- Business chambers raised concerns that the SWF Law was passed only three days after initial hearings, and the bill was altered without stakeholder consultation.
- Even the former Prime Minister publicly acknowledged that the 2024 Minerals Law amendments and the SWF Law would restrict private investment in strategic deposits, in the name of broadening public benefits and reducing the concentration of mining wealth.

Key Takeaway

The issue is not necessarily the state taking an ownership stake, but the uncertainty over when, how, and under what terms it is applied. Mongolia does not need to abandon state ownership; it needs to clearly define it, codify it in law, and apply it consistently in consultation with investors.

7. Strategic Deposits Remain the "Elephant in the Room"

On April 29, 2026, the Government agreed to submit the long-awaited amendments to the Minerals Law to Parliament, signaling a growing recognition that the mining sector needs revival.

The amendments include meaningful reforms:

- Critical minerals formally enter Mongolia's legal framework for the first time
- Copper royalties reduced to unblock stalled projects, with projected 50% growth in copper exports
- Local royalty allocations increased from 10% to 15%, extended down to the soum level
- Greater exploration incentivized through state-geology survey contracts

These appear to be positive steps.

But the amendments remain largely silent on strategic deposits:

Mongolia's constitutional enshrinement of strategic deposits and the retroactive state equity claims that follow remains untouched. Cutting royalties and encouraging exploration certainly matters, but it does not answer the question every serious investor asks first: **will the state come back for a share of my project after I've already built it?**

To make meaningful progress, Mongolia must address the strategic deposit issue.

There are tentative signs of movement. The Prime Minister has recently issued a directive to develop standalone legislation that would establish a clear, uniform framework for how the state acquires ownership stakes in strategic deposits and how the 60% economic benefit obligation is calculated, replacing the current practice of deposit-by-deposit negotiations. If enacted, this may become a step toward the predictability investors have long demanded.

**The Minerals Law amendments will be covered in greater detail later.

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