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By email: chefredaktion@spiegel.de

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Hamburg, Germany

Subject: Errors and misrepresentations in Spiegel Online/Der Spiegel news story

Dear Editors:

The account in Spiegel Online/Der Spiegel of the development of the Oyu Tolgoi copper-gold mine in Mongolia, written by Bernhard Zand and presented in an English language version under the headline, The Battle for Mongolia’s Resources (August 7, 2013), makes a mockery of the standards of accuracy and balance for professional, mainstream media journalism and the Spiegel organization’s professed commitment to “thorough research and dependable quality”.

The story mischaracterized the development of the Oyu Tolgoi Project as a “tug-of-war” battle involving “a poor, potentially rich nation” whose survival as a “frail democracy” allegedly is under threat because of its dealings with profiteering foreign investors. This is a cheap, journalistic ploy to propagate a controversial story flawed by errors, distortion and the withholding of objective facts.

Readers of Spiegel Online and Der Spiegel deserve to be provided with the facts, with which they may form their own opinions. Unfortunately, in this instance, it can be shown that instead of fair, accurate and balanced information, readers were presented with a story that masqueraded as news but is larded with half-truths, as well as blatant falsehoods, to discredit international resource developers.

Following are some relevant facts that readers deserve to know:

• The writer falsely portrayed Mongolia as having failed to receive its share of profits from the Oyu Tolgoi construction investment boom by mid-2012. This was six months before Oyu Tolgoi even had produced its first copper-gold concentrate – and a full year before Oyu Tolgoi actually was able to begin completing its very first sales of mineral concentrates in July of 2013 (as the story did note). This self-evident contradiction is just one result of a slanted story that misleads readers in part through the selective presentation of information.

• Having just completed its first sales, the Oyu Tolgoi Project has just become fully operational and has begun earning its first revenues – after investing a total of approximately US$6 billion over the past 13 years in its discoveries and the construction of the first-phase open-pit mine, processing plant and infrastructure. This includes a total of US$1.1 billion in taxes and various payments to the Mongolian government from 2000 to mid-2013.

• The story’s claim that the Democratic Party was shocked to discover “yawningly empty government coffers” after winning Mongolia’s 2012 general election is seriously disingenuous – and most misleading to readers. The story stated that Democrats previously had been “only the junior party” in the country’s coalition government. But the story failed to report that Democrat MPs in fact held about one-third of the seats in the governing coalition’s cabinet and participated in key policy making between 2008 and 2012. The story also failed to acknowledge that one of the Democrat MPs even had held the senior portfolio of Minister of Finance throughout the entire life of the coalition government, was the lead negotiator and one of two Democrat cabinet ministers who signed the Oyu Tolgoi Investment Agreement with investors on behalf of the coalition government in 2009, and who remained a staunch supporter of the agreement. The leader of the Democratic Party, who was installed as Prime Minister after the 2012 election, had served as First Deputy
Prime Minister throughout the 2008-2012 coalition government and was formerly Finance Minister in a previous government.

- The story gives unchallenged prominence to a complaint that “the people” of Mongolia “haven’t benefitted from the mine”. The writer chose to ignore the major economic reality that Oyu Tolgoi currently is providing jobs for approximately 10,000 workers and will continue to be one of the country’s largest employers for generations to come. The writer also ignored the fact that the project purchased more than $1 billion worth of goods and services from Mongolian suppliers just between 2010 and 2012. Instead, the writer alleges that “a few people will get rich” from the development, while “most” Mongolians will stay poor. Such suppression of relevant information contributes to the bias that taints the story. A summary of some of the principal economic and social benefits being provided to Mongolians is available at: http://ot.mn/en/node/3853.

- Adding to the irrationality, the writer claimed that completion of the phase-two underground mine would make Oyu Tolgoi the world’s most modern copper mine “and (make) its owners rich.” One of the owners, of course, is the Government of Mongolia, which holds its direct 34% equity stake and also collects taxes and royalties on the foreign investors’ stake. In fact, the Mongolian government’s 5% royalty is one of the highest royalties collected by any government in the world.

- Mongolia more than doubled its economic growth to a world-leading 17.3% in 2011 on the strength of the resource investment boom triggered largely by the development of Oyu Tolgoi. The story failed to acknowledge that a sharp rise of 56% in government spending in 2011 prompted the World Bank to caution in 2012 that such spending was a major cause of an overheated economy.

- The story also failed to acknowledge that independent analysis by the International Monetary Fund has projected that up to 71% of Oyu Tolgoi’s lifetime cash flow will be directed to Mongolia, and to Mongolians, in the form of dividends, taxes, duties, royalties and fees, calculated on a net-present-value basis.

- The writer claimed that the Mongolian government “had to take out a loan” from Rio Tinto to acquire the government’s 34% share in the development of Oyu Tolgoi, clearly suggesting that the government had received money as part of the loan. The claim is a deception. Firstly, the claim that the Mongolian government obtained a loan from Rio Tinto is not true. Secondly, the related suggestion, which forms a major premise for the story, is not true; the government did not receive money in a loan. The story failed to explain that a fundamental provision of Oyu Tolgoi’s landmark 2009 Investment Agreement between the Mongolian government and the investors – the result of more than six years of negotiation – is that the investors would provide the billions of dollars in capital required to build the mine and start production. This means that the investors are bearing 100% of the risk and liabilities. The government, which owns 34% of the project, was not required to raise money or use public funds to provide any of its 34% share of the development and start-up capital for Oyu Tolgoi. The government agreed in the Investment Agreement that its share of such costs eventually would be repaid later from its share of dividends from revenues generated by the operation of the mine. If the project fails to succeed, the government will not have to pay any of the development and start-up costs and the investors will have no recourse to any government money other than any of the government’s dividends from Oyu Tolgoi.

- It is a matter of fact that the Oyu Tolgoi agreements specified that the Mongolian government was free to arrange a loan from anywhere in the world if it had wanted to; the government instead chose to negotiate a risk-free, no up-front cost, carried-interest arrangement with its investor partner in the project, Turquoise Hill Resources (formerly Ivanhoe Mines).
• Despite numerous references in the story to actions by Ivanhoe Mines founder Robert Friedland, neither the writer nor Der Spiegel's vaunted researchers made an attempt to conduct any fact checking with Mr. Friedland before the story’s publication. A result is that instead of consistent, verified facts, readers have been plied with false and misleading information that omits essential context.

• The writer claimed that Ivanhoe Mines founder Robert Friedland had “made a great deal of money” by 2000 from a copper mine in Myanmar. That is a completely false assertion. Mr. Friedland never held a direct stake in the Myanmar mine, which was 50%-owned by Ivanhoe Mines and only began operating in late 1998. Ivanhoe Mines, which publicly endorsed the democracy-building process in Myanmar, sold its stake in 2007 and never recovered its investment in the mine.

• The writer also claimed that Mr. Friedland had profited from a project “mining nickel” in Canada. That’s not correct, either; the Canadian project involved the discovery of a nickel deposit – there was no mine.

• The writer’s claim that drilling by Ivanhoe Mines at Oyu Tolgoi took only a short time to find a giant, “kilometres-long” copper deposit in Mongolia is not true. It is a matter of public record that Oyu Tolgoi represents a series of discoveries funded and made by Ivanhoe Mines over a combined period of 10 years, beginning with a set of initial discoveries over three years.

• The writer’s claim that Mr. Friedland became “the most hated man in Mongolia” after a 2005 speech is a ridiculous, malicious libel. The writer conveniently ignored the fact that Mr. Friedland was honoured as a recipient of the Mongolian government’s Investor of the Year award two years in a row after Ivanhoe Mines reported some of the early Oyu Tolgoi discoveries. The writer ignored the state ceremony in 2005 at which Prime Minister (and current President) Ts. Elbegdorj presented Mr. Friedland with a certificate of honour declaring Ivanhoe Mines a “friend” of the nation for Ivanhoe’s purchase of a repayable treasury bill to help settle Mongolia’s historic, financial debt to Russia. Further, an independently conducted national opinion survey in 2007 found that 79.5% of Mongolians favoured the Mongolian parliament approving an agreement with investors to enable the start of construction of the planned mine at Oyu Tolgoi.

• Perhaps in an attempt to give credibility to his libel, the writer even attributed a false quotation to Mr. Friedland. The writer fabricated a single quotation from two separate comments by Mr. Friedland and falsely reported that Mr. Friedland had made the single statement.

• The writer implied that Mr. Friedland had described Mongolia as a “cash flow engine”. The writer invented this smear; Mr. Friedland has never referred to Mongolia with such a term.

• The writer also claimed that Mr. Friedland described Oyu Tolgoi as a “cash-flow engine”; this also is not true. The only such reference in Mr. Friedland’s 2005 presentation very clearly applied only to the operation of the phase-two underground mine at Oyu Tolgoi, and not to the entire project.

• The story failed to mention that some of the world’s most respected banks and financial institutions have agreed to participate in a project-finance package valued at up to US$4 billion to support the ongoing development of Oyu Tolgoi, subject to required approvals. The support syndicate includes the World Bank Group’s International Finance Corporation, the European Bank for Reconstruction and Development, Export-Import Bank of the U.S., Canada’s Export Development agency, Australia’s Export Finance and Insurance Corporation, Standard Chartered, BNP Paribas and Germany’s KfW IPEX-Bank. Mongolian banks also have been invited to participate. The principal lenders have conducted their own favourable comprehensive Environmental and Social Impact Assessment of the project.

• The writer’s assertion that BHP “obtained the first mining licence for Oyu Tolgoi” in the mid-1990s is not correct; BHP did not find an economic resource and never held a mining licence for Oyu Tolgoi.
• Mr. Friedland did not purchase “a claim” to Oyu Tolgoi, as the writer also asserted. BHP held official exploration licences covering the Oyu Tolgoi area; Ivanhoe Mines took over the funding and direction of exploration in 2000 as part of an earn-in and purchase agreement with BHP. Ivanhoe Mines made the major discoveries that helped put Mongolia on the international resources map and in April 2002 the government transferred the titles on the exploration licences to Ivanhoe Mines.

• The writer falsely claimed that BHP sold its Oyu Tolgoi licence to Ivanhoe Mines for $40 million in 2000. The truth is that Ivanhoe Mines gained ownership of the BHP exploration licences in 2002 after fulfilling exploration commitments totalling $11 million. A year later, in 2003, Ivanhoe Mines acquired BHP’s net-smelter-return royalty for a payment of $37 million.

• Ivanhoe Mines, a company founded by Mr. Friedland, made the economic mineral discoveries, raised the funding, directed the initial development and created considerable value and benefits for Mongolians and investors during its 12 years of leadership of the Oyu Tolgoi Project. The story failed to inform readers that two Mongolian non-governmental organizations rated Ivanhoe Mines Mongolia as the most transparent company in the country’s extractive industries in three successive years, beginning in 2007.

As a respected publisher and source of news and information, the record of Spiegel Online and Der Spiegel on these errors and misrepresentations must be corrected and appropriately addressed for the public and archival records in a sincere effort to minimize the risk that such misinformation may be perpetuated by Der Spiegel or others. I would appreciate confirmation of your receipt of this emailed communication.

Yours sincerely,

Peter Meredith
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