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A nuclear deal to tip the scale?

With the Franco-Mongolian uranium deal due to be decided, there is a growing unease over the elephant in the room – Russia

As the coup in Niger sparked concerns over European uranium supplies, French and Mongolian officials were quietly negotiating a billion-euro investment agreement to be signed during Mongolian President Khurelsukh's visit to France in October. The deal concerning the Zuuvch-Ovoo uranium deposit discovered by the nuclear group Orano already received heavy political impetus during Macron's visit to Ulaanbaatar in May, followed by French Foreign Minister Colonna's visit in June. Despite relative quiet over the largest uranium discovery of the last two decades, there is a growing unease over the elephant in the room – Russia.

The foundations of uranium mining in Mongolia were laid in the 1970s with the discovery of deposits in the Dornod province, but the actual mining took place only between 1988 and 1995 by the Priargunsky enterprise, with the produce being delivered to Russia via rail. After a long hiatus, Russia started paying attention to Mongolian uranium again in the late 2000s, but nothing foretold a positive outcome.

Uranium is widely perceived as Russia's exclusive sphere.

In mid-2009, Mongolian authorities claimed that there were violations of Mongolian law for failing to register resources prior to publishing information on the Toronto Stock Exchange and cancelled the licenses of the Dornod deposits primarily owned by the Canadian company Khan Resources. The same summer, minority shareholders of the Dornod deposits, Mongolian state-owned MonAtom and Russian Priargunsky announced a new joint venture to develop the very same deposits. In 2011, Khan Resources sued the Mongolian Government, and after a lengthy litigation, Mongolia agreed to pay $70 million in damages to the Canadian investors. As of 2023, the Dornod project has

not been going forward, but the aftertaste of the Khan Resources fiasco on Mongolia's uranium sector remains bitter.

In a similar vein, neither the Chinese- nor the Czech-owned uranium projects in Mongolia have materialised, and to this day, uranium is widely perceived as Russia's exclusive sphere, with local anti-nuclear protests being treated as fronts for Kremlin and pro-Russian politicians. In this context, the fact that the Zuuvch-Ovoo deposit (discovered in 2010 by Orano's predecessor Areva and co-developed with Japan's Mitsubishi Corporation) before its exit in 2021, has reached an investment agreement negotiation stage, is by itself an anomaly and by extension also part of the global competition between Russia and France for the uranium market.

Whither Mongolian uranium?

There are a number of significant benefits the Zuuvch-Ovoo project can bring to Mongolia. Apart from uranium sale revenues, taxes and jobs, the project will be the largest FDI a Western state-owned company has made in Mongolia, to date. For a country that always strived to balance Chinese and Russian interests with those of a 'third neighbour', the French state's direct interest in Mongolia is a consolation for many past disappointments; such as the American oil explorer SOCO International, which ended up selling the Tamsag oilfields to a Chinese state-owned enterprise, or the strenuous relationship with the multinational Rio Tinto, which operates the giant Oyu-Tolgoi copper mine. Ensuring a long-term presence of the French Orano will mean a categorically different interest to that of the Anglo-Australian Rio Tinto, which has a Chinese state enterprise as its largest shareholder and by extension the interests of the EU and Japan.

Foreseeing its increasing electricity demand, Paris is actively lobbying for nuclear energy revival at the EU level and eyeing a piece of the EU's green subsidies for the construction of new reactors. For France, Mongolian uranium is not only a diversification of supplies but also the crucial new source that could help meet future domestic and EU-wide demand. Thus, from the French side, additional sweeteners also seem to be at play in the form of modular nuclear power plant technology and further assistance in decarbonisation, which could serve as an alternative energy source to the risky Power of Siberia-2 gas pipeline.

The Mongolian political class, by large, seems to understand these benefits. Within the current foreign policy contours of the country, where the President plays a special role, the upgrading of ties with France

falls in line with a wider outreach to the West, including other high-profile visits such as by Polish President Duda and Pope Francis. Likewise, Prime Minister Oyun-Erdene's appointment of his right-hand man – Minister of Justice Nyambaatar – to lead the negotiations with Orano indicates the importance given to the project and an attempt to side-line pro-Russian politicians such as the Minister of Energy Choijilsuren.

Moscow's men on the steppe

Still, Russia retains a crucial leverage in several key sectors of the Mongolian economy – namely by supplying 10-13 per cent of its electricity consumption, petroleum products, as well as controlling the trans-Mongolian railways through RZD (Russian Railway)'s subsidiary Ulaanbaatar Railways. Two of Mongolia's five electricity grid systems are heavily dependent on Russia, where the majority of the Western Grid's consumption is imported, and the Central Grid relies on Russian balancing capacity to overcome variable demand. As Mongolia's own grid is unable to balance variable demand, the coming harsh winter months together with Ulaanbaatar's chronic air pollution problem leave Mongolian decision-makers vulnerable to Russian pressure. Similarly, nearly all of Mongolia's gasoline, diesel and aviation fuel imports are dependent on Rosneft (Russian oil company)'s Angarsk refinery and will remain so for a considerable future, with influential Mongolian politicians acting as resale middlemen.

Despite the relative lull in anti-uranium voices, there are plenty of politicians who are ready to take up the pro-Russian mantle in Ulaanbaatar. In the summer of 2022, an unusual scandal hit Mongolian media when an environmental activist was accused of undermining a China-funded hydropower project in Western Mongolia in the interest of Russia. What later turned out to be fake news, started by a Kremlin-affiliated German-language outlet, almost certainly was an operation of Mongolian bureaucrats, resorting to the Kremlin's helping hand in suppressing human rights and environmental activists.

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Within a month after the scandal, the Mongolian Parliament passed a sudden constitutional amendment making a U-turn on the 2019 amendment and allowing the Prime Minister to appoint more than four Members of the Parliament to the Cabinet. The subsequent cabinet reshuffle saw several political heavyweights from Russian-electricity-dependent Western provinces take ministerial

materialise.

positions, including the current Minister of Energy Choijilsuren. The move, which was probably done in order to prevent the fall of the government, had assuredly a pro-Russian rebalancing and power dilution impact on the China-friendly Prime Minister's cabinet. Markedly, in a first foreign visit after the constitutional amendment, Prime Minister Oyun-Erdene was accompanied by Choijilsuren to the Eastern Economic Forum in Vladivostok, which was traditionally attended by the Mongolian President.

Choijilsuren, who has decades-long ties to Russia, has recently been warning of the looming crisis in the electricity system and has submitted draft laws giving tax breaks to power generation equipment imports, which, given Mongolia's Soviet-design power plants, means nothing other than Russian equipment. Coincidentally, it was also Choijilsuren who broke the news of nuclear power plant technology discussions with France in the run-up to Macron's visit, which for certain reasons were not confirmed in the official press releases of the visit and discussions of which evidently stayed out of the public view.

As the 'deadline' for the Zuuvch-Ovoo deal approaches, behind-the-scene wrangling is yet to come to the fore, and various tools under Russia's disposal are yet to materialise. Thus, there are 'known unknowns' on what Russia's current redlines are, especially given the lingering questions over its role in the Sahel coups. Simultaneously, the ability of the Mongolian political class to push through a French uranium project, even during such politically conducive times, remains uncertain and will likely subside if the current window of opportunity is lost.



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