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OYBC

Seok Hyun Yoon: Mineral resources alone do not guarantee prosperity



An interview with SeokHyun Yoon, the IMF resident representative on recent economic conditions and future prospects.

The BOM should also step up its efforts to better understand inflation expectations as it could be a crucial input into its monetary policy decisions.

- What policy advice does the IMF give to policymakers at this juncture where cross-country sanctions and geopolitical stability continue to influence the economy and business environment?

- Given the already-high inflation, anemic economic recovery, and large uncertainty, the Russia-Ukraine crisis is underscoring two difficult policy tradeoffs for the government and the Bank of Mongolia (BOM): supporting the vulnerable and rebuilding fiscal and external buffers; and fighting inflation and safeguarding the recovery. The growth outlook is uncertain, while double-digit inflation is likely to continue throughout the year. The anti-

pandemic support pushed up Mongolia's external public debt significantly, and a rise in global interest rates is making debt repayments more costly. At the same time, continued higher mineral export prices may provide some offsetting gains but present complex challenges, given Mongolia's history of boom-bust cycles. Against these challenges, policymakers should have in mind the following:

Fiscal policy will need to tread a difficult path between consolidation and fiscal support. Any additional fiscal support provided to mitigate the impact of economic shocks should be temporary and targeted. Permanent changes in policies—such as large real increases in minimum pensions to boost real incomes or additional permanent increases in universal social transfers—may undermine consolidation efforts and should be avoided. The BOM should remain vigilant to the impact of price pressures on inflation expectations. Policy rates are needed to ensure that forward-looking real rates are positive, and to signal the BOM's commitment to fighting inflation.

The current economic uncertainty should not deter the government from its plans to undertake a decisive implementation of strong structural reforms. Such reforms take time to design and phase in and should stay on track to help Mongolia maximize the growth dividends from the export price boom once the current uncertainty has subsided. These include: strong governance and a reduction in corruption to ensure a conducive business climate; fiscal structural reforms like a pension; public investment management; progressive income taxation; and financial sector reforms.

- June inflation reached 16.5%. What measures should the BOM take to reduce the inflation rate?

- Since August 2021, CPI inflation has been exceeding the BOM's target (8 percent) on account of supply-side factors—due to border closures with China— affecting import prices. The pace of inflation has recently accelerated as global food

► and energy prices have risen quite fast in part due to the impact of the Russia-Ukraine crisis. Inflation is expected to remain in double digits throughout the year, largely due to supply side and global factors. Going forward, it will be critical to ensure that recent inflation increases do not de-anchor expectations and jeopardize its ability to reduce inflation back to the BOM's target range. In particular: We have long argued for phasing out the BOM's quasi-fiscal operations because they constrain the BOM's monetary policy effectiveness. Continued vigilance is needed to ensure that inflation expectations do not become unanchored.

The BOM should carefully monitor the impact of the extension of the anti-pandemic stimulus to end-2022 and the minimum pension increase, and forthcoming minimum wage increases on inflation. In case a wage-price spiral begins to materialize, further tightening will likely be needed. The BOM should also step up its efforts to better understand inflation expectations as it could be a crucial input into its monetary policy decisions.

- Since Jan. 2022, the togrog has depreciated against the USD. In addition, falling international reserves hit businesses hard. Down the road, what measures could be effective in terms of reducing the exchange rate volatility risk and build up international reserves?

- After hitting a peak in April 2021, the BOM's gross international reserves fell to US\$2.9 billion at end-July 2022. This reflects a combination of lower export receipts, a pickup in imports reflecting the domestic economic recovery, the BOM's efforts to stabilize the US\$/MNT exchange rate, and the extremely strong US dollar against global currencies. The BOM's gross international reserves appear to be adequate in terms of import coverage but remain insufficient given the country's large external debt and heavy import dependence.

Against this backdrop, the BOM's recent move to allow the exchange rates to respond to market forces is appropriate. We would urge the BOM to boost international reserves by opportunistically intervening in the domestic FX market, given improvements in coal exports. At the same time, the government should reduce its external liabilities via fiscal consolidation, structural reforms to reduce longer-term fiscal pressures, continue improvements in external debt management and develop the

domestic debt market to reduce reliance on external borrowings. Greater exchange rate flexibility will be a difficult trade-off as it will pass through to inflation.

However, given high uncertainty about the external outlook and a significant amount of external debt repayment due in 2023, it is important that the exchange rate continue to help act as a shock absorber at a time when Mongolia is facing a number of external shocks. FX intervention should therefore be limited to disorderly market conditions. Greater exchange rate flexibility would also help improve the incentives for the private sector to properly manage exchange rate risks stemming from their external liabilities.

- Commodity exports are critical towards overcoming economic difficulties. At this juncture, how should Mongolia develop and launch its mega mining projects?

-Mongolia's mining industry is the country's growth locomotive, and we expect it to remain so in the foreseeable future. Rising export commodity prices contribute to increasing fiscal revenues, which would provide some breathing space to address lingering economic challenges arising from the pandemic. Given this background, we welcome the expeditious renegotiation of the Oyu Tolgoi (OT) investment contract that should help the second phase of the project to begin and help Mongolia reap the economic dividends from rising export prices. However, cross-country experience suggests that mineral resources alone do not guarantee prosperity: many countries blessed with natural resources have been plagued by boom-bust cycles. Mongolia is not an exception—it has experienced similar economic volatility due to procyclical policies. Therefore, it is important for Mongolia to maintain sound macroeconomic policies to better harness the windfall of rising commodity prices, instead of repeating the boom-bust cycles of the past. Continued strong policies can help ensure that Mongolia's substantial mineral wealth yields enduring growth that spreads prosperity to all Mongolians. Given the Parliamentary elections scheduled for mid-2024, 2022, and 2023 provide a critical opportunity for Mongolia to successfully implement bold policy reforms to lay a solid foundation for addressing its longer-term challenges.

-What is the medium and long-term outlook for Mongolian economy from the IMF's ►

The growth outlook is uncertain, while double-digit inflation is likely to continue throughout the year

The most important challenge will be to design and enact good policies to achieve these worthy policy goals.

► **perspective? What should be done to achieve more sustainable and inclusive growth?**

- Although there is considerable uncertainty in the near-term because of the ongoing supply bottlenecks and geopolitical tensions, and a projected slowdown in major trading partners' growth, Mongolia's medium-term growth outlook remains strong. The OT underground mine, a key growth driver, is expected to come online in 2023. Provided developments in China do not excessively limit coal exports, growth can be expected to remain strong around 6-7 percent over the medium term and moderating to 5 percent over the longer term.

More broadly, Mongolia has strong economic opportunities, particularly in mining, agriculture, and tourism. Mongolia's relatively small population, untapped resources, and access to a large and fast-growing market at its border is a combination that many countries would envy. It would be important to improve the business climate in Mongolia to make the most of these endowments. This would require revamping the insolvency framework, addressing corruption, judiciary and governance reforms, improving physical infrastructure, addressing climate change, and implementing policies that ensure macro-financial stability and sustainability. In this context, we welcome the government's long-term development strategy, Vision 2050, which rightly prioritizes macroeconomic stability and green and sustainable development goals.

Similarly, the government's new economic revival policy which aims at cutting red tape through digitalization and e-governance to harness positive structural change is commendable. The most important challenge will be to design and enact good policies to achieve these worthy policy goals.

-During the IMF mission's visit last April, Ms. Banerji, the IMF Mission Chief for Mongolia, said that the IMF stands ready to collaborate on tax policy reform. Which areas require a tax policy reform? What is the benefit/significance of this reform?

-The taxation of personal income in Mongolia is somewhat regressive. The personal income tax (PIT) by itself is slightly progressive because the universal credit is relatively more valuable to low-income taxpayers than high income taxpayers, and otherwise all taxpayers pay the same PIT rate of

10 percent. However, the cap on social insurance contributions dramatically reduces the effective tax rate for higher income individuals. As a result, the current PIT system should improve in line with basic taxing principle, i.e., collecting progressively more from those with higher incomes for equity objectives. Against this backdrop, the Government of Mongolia (GoM) intended to explore reform options to introduce progressive PIT and requested the IMF's technical assistance. The IMF is currently undertaking an analysis of options for increasing progressivity in the current personal income tax. In the short run, the progressive PIT would help reduce income inequality by taxing less for low-income earners and more for high-income taxpayers. In the long run, raising revenues through progressive personal income taxation would be an equitable way to fund vital necessary investments in education, health, and infrastructure to improve medium-term growth prospects.

-Mongolia has a large amount of external debt relative to the size of economy. To improve debt management, what specific areas should we pay attention to? Do you believe that there will be no need for the IMF to propose a program to Mongolia?

-Most of external debt increased during the last decade, due to large investment in mining and rising public external debt. In 2021, Mongolia's external debt improved marginally. The use of government deposit drawdowns to finance the fiscal deficit and the OT mine external debt repayment helped reduce Mongolia's external debt. However, external debt remains much weaker than that of any other resource rich emerging market economies and also is projected to remain very large, although declining. Given this background, the government should reduce its external liabilities via fiscal consolidation, structural reforms to reduce fiscal pressures over the longer-term, continued improvements in external debt management and by developing the domestic debt market. At the same time, the BOM should continue to proactively reduce its foreign liabilities. To improve opportunities for domestic financing, banking sector reform should be pursued. With regard to an IMF-supported program, the authorities have not requested financial support from the IMF. ■

Investment

Hannes Takacs: FDI can definitively be a positive contributor to the socio-economic progress



Mongolian Economy spoke with Hannes Takacs, Resident Representative of the European Bank for Reconstruction and Development in Mongolia.

-Let's start with the European Bank for Reconstruction and Development (EBRD) in Mongolia. How many projects and programs is the EBRD currently implementing in Mongolia? What is the total amount of loans and investments in Mongolia?

-Mongolia became an EBRD country of operations in 2006, so a little bit more than 15 years ago. Since that time, the EBRD has been supporting Mongolia in its transition to a full market economy and is currently the largest private sector investor in the country with the majority of financing provided to companies and small and medium-sized companies in the non-mining sector. Almost all of these projects involve local entrepreneurs or banks. Recently, projects that

we are supporting cover also the development of vital infrastructure, such as transport links, district heating networks, irrigation, and flood protection, waste management as well as electricity related infrastructure just to name a few.

To date, the EBRD has invested more than USD 2.11 billion in Mongolia's economy through 121 projects. Ninety-three percent of the cumulative Bank's financing was extended to private companies.

-In addition to mining, the EBRD has implemented a number of projects to diversify the economy and support the private sector. Can you inform our readers about the results and significance of some major projects and programs?

-After providing its first loan to XacBank in 2006, the EBRD significantly expanded its work with local financial institutions such as Khan Bank, XacBank, including its subsidiary XacLeasing, and Transcapital through its Trade Facilitation Programme, small

To date, the EBRD has invested more than USD 2.11 billion in Mongolia's economy through 121 projects.

Ulaanbaatar became the first municipality in Asia to join the EBRD's Green Cities program and is now addressing environmental and infrastructure challenges.

► and medium-sized enterprise (SME), and energy efficiency lending facilities and risk-sharing schemes. To date, almost 190,000 loans worth more than US\$ 535 million of EBRD funds have been provided to local micro and small businesses.

In early 2021 the EBRD and the Bank of Mongolia set up a long-term dollar-tugrug (MNT) swap facility to increase the availability of local currency financing to Mongolian businesses affected by the coronavirus pandemic. The swap helped the EBRD secure reliable access to MNT liquidity and to provide local currency loans both directly and through local banks to companies in such sectors as agribusiness, building materials, light manufacturing, and services, as well as to SMEs, which employ over 40 percent of the country's population.

A lot has been done to promote sustainable infrastructure and green municipal solutions, both in the country's capital Ulaanbaatar and beyond. The city, with a population of 1.4 million, became the first municipality in Asia to join the EBRD's Green Cities program and is now addressing environmental and infrastructure challenges. For example, as part of the Ulaanbaatar Green City Action Plan, the city is improving its waste management system. This work is supported by the Republic of Korea and the European Union (EU).

A major step towards improved regional integration and international trade between Mongolia, China, and Russia is the extension of the 202-km road between Mongolia's capital and Darkhan, the third-largest city in Mongolia and 100 km south of the border with Russia.

The promotion of renewable energy is another area where the Bank has been active in Mongolia. The EBRD has financially supported the construction of the Sainshand, Salkhit and Tsogtsetsii wind farms. These facilities are today helping to reduce the country's carbon emissions and provide a better energy mix.

The Bank's efforts to support non-extractive industries in Mongolia gave a major boost to local agribusiness producers such as the juice manufacturer VitaFit, beverage producers APU and MCS, the food producer Teso Group and the country's leading dairy company Suu Milk. With the help of the EBRD, Suu Milk is renewing its transport fleet, serving more than 2,500 nomadic herders across Mongolia.

For 15 years the Bank has also been supporting the country's traditional industries such as the production

of cashmere with loans to the local manufacturers such as Gobi Cashmere. The cashmere sector is one of Mongolia's key industries; the country is the largest supplier of cashmere wool in the world, accounting for 30 percent of global production.

The EBRD funds have also helped to develop other modern production facilities for clients such as Mongolia's leading pharmaceutical conglomerate Monos Group and the leading local logistics company Terra Express.

Almost 600 micro, small and medium-sized enterprises in Mongolia, including those in remote rural areas, have participated in various advisory projects supported by the EU and implemented by the EBRD. More than half of them are women-led businesses. These projects have helped create almost 5,000 new jobs, increased their efficiency and productivity, and widened product range.

-As an international financial institution that works closely with the Mongolian private sector, how do you assess the business environment and private sector development in our country?

-For the private sector development in Mongolia, it will be important to create an enabling legal and regulatory business environment for enhanced private sector participation in the economy. It must be the goal of the government to foster the private sector's role as an engine of economic growth, with the government acting as regulator, enabler, and catalyst for economic activities.

Currently, there is a sizeable footprint of state-owned enterprises (SOEs) in the country. Sometimes in areas where the private sector companies may be more efficient. Therefore, it is important to create a level playing field for public and private companies to ensure competitive neutrality as many SOEs still enjoy a range of protection and benefits, such as support measures, guarantees, and subsidies. This leads in many cases to a stronger competitive position of public companies compared to the private ones. Where private companies are better placed to deliver goods and services, clear priority should be given to them.

Generally, we see a lot of engagement by the private sector and quite a number of strong companies with a good business outlook and a promising start-up scene even though on a small scale. Most of such companies are small and medium-sized enterprises, a segment where the EBRD provides a lot of support as well as financing instruments. It has to be recognised that ►

► SMEs, specifically in the non-mining sectors, provide most of the employment, are less capital intensive, and have a good potential for export. Additionally, they also create jobs in urban but more importantly in rural areas. For Mongolia's sustainable growth, it will be important to support SME development and the diversification of the economy away from the mining sector.

Accordingly, this is reflected in the government's long-term development strategy Vision 2050. The state SME Agency, which also receives technical assistance from the EBRD, will play an important role in this process.

Since 2006, when we started our activities in Mongolia, the EBRD has been supporting private sector companies in their development and we see ourselves as their long-term partner as proven in many occasions. The combination of advisory services and financing available from the same source provides a unique opportunity for corporates and SMEs to grow and prosper, thereby creating jobs for the future.

-Mongolia's foreign direct investment (FDI) has declined sharply in recent years due to unfavorable treatment of foreign investors. What do you think we need to focus on in order to send a positive signal to foreign investors and bring them back to Mongolia? Recently, our country has been paying a lot of attention to reforming the investment climate. What legal and governance reforms do you think need to be made? What are the common barriers and challenges you face in observing EBRD projects?

-Generally, it has to be widely understood that a positive investment climate and its perception by all stakeholders, foreign as well as domestic, is one of the key success factors in the development of an emerging economy and society. Creating an enabling investment environment, a proper legal framework, and improving public awareness of how foreign direct investments (FDI) can contribute to job creation, poverty reduction and wealth growth for the people of Mongolia will be essential to succeed. FDI can definitively be a positive contributor to the socio-economic progress.

Reforms initiated, planned, and implemented by the government, the resolution of the Oyu Tolgoi case with Rio Tinto, and a numbers of initiatives aimed the improvement of the investment climate, can create a window of opportunity to attract FDI even during the current globally macro-economic

challenges. There is clearly a need for a long-term stability and predictability of the investment climate as well as a clear understanding that countries are competing for investments. In a globally competitive FDI environment, Mongolia needs to show why it is an attractive destination for investors. The investment climate must be stable and predictable, so that foreign as well as domestic investors can make long-term investment plans. The stability and risk reduction are generally more important for investors than the opportunity for high short-term returns. This is also reflected in various FDI position papers and during policy dialogue consultations conducted, for example, by the international business chambers active in Mongolia, such as the EuroChamber Mongolia.

Another important factor for attracting and maintaining FDI is the existing and planned connectivity, logistics, and the availability of general infrastructure as a basis for sustainable economic growth as well as the availability of a skilled workforce.

Concerning necessary legal and regulatory reforms, the new investment law, currently under preparation, will be a very important milestone and it is good to see that stakeholder consultations already started. The implementation of other legal acts and initiatives, such as, the revision of the bankruptcy law, the out-of-court settlement regime and strengthening of the enforcement agencies, to name just a few, will be required.

Additionally, we recommend the establishment of a fully operational Foreign Investment Council in line with the existing international standards as key platform for the public-private dialogue and the attraction of investment to Mongolia. The EBRD stands ready to support such an initiative and is already discussing it with the relevant authorities.

-What types of financing products is the EBRD interested in offering in the future?

-The EBRD activity in Mongolia is based on the Bank's country strategy approved in 2017. In Mongolia the EBRD is helping to promote the country's resilience by supporting the non-extractive sectors of the economy, providing better access to finance, and improving the energy supply. Furthermore, to ensure sustainable growth, we support the financial sector through small and medium-sized enterprise (SME) loan facilities, and equity and technical assistance. The EBRD is also working on the sustainability of

Generally, it has to be widely understood that a positive investment climate and its perception by all stakeholders, is one of the key success factors in the development of an emerging economy and society.

Highlighting the long-term investment and business opportunities in Mongolia to a wider audience will become even more important than before.

► infrastructure services through greater efficiency, commercialisation, and green technologies.

One of our flagship products is the Women-in-Business Programme, which was successfully rolled out in Mongolia with our partner-banks and selected non-bank financial institutions. The Programme does not only cover improved access to finance it also includes policy dialogue to ensure a proper business environment for women entrepreneurs as well as targeted advisory services for women-owned or managed companies.

Another important financing product is the Green Economy Financing Facility (GEFF), which is offered in Mongolia. The EBRD Green Economy Financing Facilities are innovative lines of finance available through local financial institutions, such as banks and leasing companies, for on-lending to eligible green projects. Already back in 2004, the EBRD started offering energy efficiency credit lines to local banks. In combination with advisory services, the model allowed the EBRD to reach out to a broad network of smaller financing opportunities, helping households and businesses to be more competitive and improve their quality of life.

It is also clear that we will continue supporting the diversification of the economy by providing direct financing to corporates and SMEs in the non-extractive sector, including agribusiness, tourism, and manufacturing, with a particular focus on enhancing exports and strengthening value chains through dedicated financial and advisory products.

In case of export financing, the EBRD is rolling out its Trade Facilitation Programme (TFP) together with our Mongolian partner-banks Khan Bank and XacBank. In general, the TFP strengthens the ability of our partner-banks to provide trade financing, and through these banks gives entrepreneurs in Mongolia the support they need to increase their access to the import and export trade. The programme has played a major role in the EBRD's efforts to help its partners and clients respond to and recover from the impact of the coronavirus pandemic. Furthermore, as importers and exporters grapple with increasingly complex supply routes, there has been a rapid rise in demand for trade finance which is vital to keeping the channels of trade open.

It is worth mentioning that we have a dedicated advisory team for small businesses located in Mongolia. Its activity complements our financing products and supports SMEs in their development and growth efforts.

In December 2021 together with the European Union, we started a new programme “Building Crisis Resilient MSMEs in Mongolia – post Covid -19”. It builds on the experience and lessons learnt from our work with macro, small and medium sized businesses (MSMEs) and is adjusted to respond to the current challenges faced by smaller companies in the country. In particular, it aims to mitigate the impact of Covid-19 by enhancing the capacity of MSMEs to withstand and recover from the economic fallout of the pandemic. The European Union has provided € 11 million to support the Programme through 2027.

Last but not least, we are in the process of defining the EBRD's new five-year country strategy (2022-2027) for Mongolia. It will include, among other things, special programs for youth in business, start-ups, working capital facilities, and supply chain financing. It will also be offering financial products that will support Mongolia's sustainable development, digitalisation efforts, and, most importantly, the country's successful green economic transition.

-FDI is becoming more valuable and important at a time when the economic crisis caused by the Covid-19 epidemic is having a negative impact on businesses and the state budget. Given the specifics of our country's economy, in what areas do you think we should focus on attracting foreign investment in the near future and overcoming this crisis?

-After the Covid-19 pandemic, which has had a major impact on the national economy, Central Asian economies as well as Mongolia are experiencing another negative impact based on the Russian war in Ukraine and its effect on economic linkages and the disruption of supply chains. Supply chain disruptions are already affecting the region but are particularly acute for countries with the highest share of transit trade through Russia such as Mongolia. This leads to macro-economic challenges affecting investments. Hence, highlighting the long-term investment and business opportunities in Mongolia to a wider audience will become even more important than before, requiring an active outreach to potential investors. In addition to mining, sectors which have a good chance to succeed in the long-term are renewable energy, agriculture, manufacturing and processing, IT and communication as well as the hospitality/tourism sector. There are moreover good opportunities for Mongolian companies to step in as regional suppliers of goods and services, specifically in Central Asian countries, based on disrupted international supply chains. ■

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Development

Steel path off to good start



The total length of this railway is 233.6 kilometers, with the capacity to transport 30-50 million tons annually.

Mongolia built a 1,111 kilometers railway connecting the northern and southern borders with the support of the Soviet Union in 1955. Today approximately seven decades later, we have developed the second largest railroad project, using only Mongolian engineers and innovations, with no foreign support. This is significant in the import/export sectors. In August of 2018, the Mongolian Government approved Resolution No.242, which indicates the founding of Tavantolgoi Railway LLC, the joint venture of Mongolian Railway state-owned JSC and Erdenes Tavantolgoi JSC aiming to further develop the Tavantolgoi-Gashuunsukhait Railway. Therefore, the project which was only on paper was started with

the cooperation of general contractor Bodi International LLC and roughly 600 local subcontractor enterprises while employing around 5,000 engineers using 2,000 pieces of machinery and equipment under a total budget of 1.3 billion USD.

The Tavantolgoi-Gashuunsukhait Railway, the first and foremost first-class railway development project in Mongolia, has two stations, six junctions, 16 bridges, a semi-automatic barrier system, and uses Long Welded Rail (RWL) technology. The total length of this railway is 233.6 kilometers, with the capacity to transport 30-50 million tons annually.

The railway starts from Tavantolgoi Station and stretches to Gashuunsukhait-Gantsmod Port, which is located 10 kilometers south of Tsogttsetsii Soum in Umnugovi Province. The day we were covering the railway opening ceremony, the burning sunlight of the Gobi Desert was beating down on us from the sky without a single cloud, allowing us to feel the working conditions experienced by Mongolian engineers and workers: harsh enough heat to cold and stormy to dry. However, they were capable of continuing the construction work.

Our country has politicized, argued, and repeatedly stalled the Tavantolgoi-Gashuunsukhait Railway Project for many years. When choosing between narrow or wide gauges, we remember the widespread dispute among the political and business factions labeling each other as "Russian spies," "Chinese spies," or "traitors," even though all are Mongolians. Due to such disputes and other hurdles, including financing, and investment problems, it took Mongolia 14 years to operate the railway.

The transport and logistics development are the most crucial for a country that generates the state budget revenue primarily via mining and minerals export. That put the railway opportunity cost under the spotlight. Economists and experts have estimated how much revenue Mongolians would have gathered to the state budget if the railway had been put into operation 14 years ago instead of arguing which to choose, narrow or broad gauge. Moreover, there were rumors that Bodi International LLC, the project's general contractor, was selected without a competitor.

Nevertheless, Bodi International successfully ►

► managed to build the historic construction amid a challenging time with the pandemic spread, border restrictions, and the Russia-Ukraine war. The effort was apparent during the opening ceremony.

Declaring the official transportation commencement of the Tavantolgoi Railway, the first train with 50 hopper wagons filled with 4,700 tons of coal departed for Gashuunsukhait Port honking the train horns. But the coal train stops 3.2 km from Gants Mod port, the Chinese border, to unload the coal, and then the coal is exported by trucks. That is because the railway needs a bogie-changing facility.

Mongolia and China agreed on the design of the bogie-changing facility, which would be developed by a Chinese institute. "The construction of the facility will begin next spring," said N. Udaanjargal, the CEO of Tavantolgoi Railway LLC. Previously, Mongolian Prime Minister L.Oyun-Erdene finalized the issues regarding the connection between Gashuunsukhait and Gantsmod Ports during an official visit of Mr. Wang Yi, China's State Councilor and Foreign Minister, to Mongolia in August.

Moreover, our country must agree with China in regulating the railway border process. Thus, the Mutual Agreement on Cross Border Railway with China of 1955 needs amendment. Mongolian Parliament Speaker G. Zandanshatar has requested Mr. Li Zhanshun, the Chairman of the Standing Committee of the National People's Congress of China, to start considering the amendments. The discussion occurred during an official visit of Mr. Li Zhanshun to Mongolia on September 10 to 12, 2022. The Speaker furthermore asked the National People's Congress to approve the "Intergovernmental Agreement Between Mongolia and the People's Republic of China on Developing Cooperation in Railway Transit" with no delay, which was established in 2014.

There are more issues related to the railway. The design development phase of the loading and unloading terminal has started aiming for a faster export process. Each company working on the Tavantolgoi coal deposit, including Erdenes Tavantolgoi, Energy Resources, and locally owned Tavantolgoi LLC, will build and operate coal loading and transfer terminals shortly.

After completing the terminals in 2-3 years, the railway can export a maximum of 53 million tons of coal. As a result, an average of 44 million US dollars in taxes will be collected in the state budget annually. The

cost of transporting coal from the Tavantolgoi Mine to Gants Mod Port will decrease from 47 USD to 12 USD per ton.

During the opening ceremony, the President of Mongolia, U. Khurelsukh, pointed out that the railway will create over 2,000 new permanent jobs, and the production of mines will increase by two to three times by the time the railway is fully operational. "The Tavantolgoi to Gashuunsukhait Railway is the artery of Mongolia's development and investment growth," he said. "It will be a path of life that will accelerate prosperity of both city and rural residents by creating a new life alongside new residential areas, increasing jobs, and more".

The next concern that limits the full use of the railroad, which is worth 1.3 billion USD, is the locomotive. Mongolian engineers and technicians can handle the construction of upper and lower railroad structures, rolling stock maintenance, and energy and signaling systems. However, since Mongolia does not manufacture locomotives domestically, they must be purchased from abroad. Now, there is a delay due to the Russia-Ukraine war. Therefore, another option is necessary, says N. Udaanjargal.

Following the ceremony, a team of ministers, government members, and journalists headed by N. Udaanjargal took the big yellow locomotive and left for the intersection Khairkhan, located over 18 kilometers away from Tavantolgoi station. The trip was brief but enough to learn about the advantages of the RWL technology; there was no chugging sound and halt-like movements. A loaded train can travel 80 km per hour, while an empty train can travel 100 km per hour on the Long Welded Rail. This first-class rail with the latest technologies has decreased the operating costs, says B. Erdenebayar, the project director at Bodi International. The signaling system can monitor and prevent accidents without human intervention. Another advantage is the usage of the wagon locomotive for a long time with less maintenance. The coefficient of technical readiness of locomotives is 95 percent.

Bodi International has built the railway under the barter agreement: it will own 10 percent of the total coal mined by Erdenes Tavantolgoi JSC for five years in exchange for a total investment in the railway.

Mongolians now have a railway built by their own hands, thus making history. Mongolians say, "Prosperity follows the road," which means Mongolia's economic flow will accelerate thanks to this new steel path. ■

This first-class rail with the latest technologies has decreased the operating costs.

Viewpoint



S. BYAMBATSOGT

*Minister of Road
and Transport
Development*

-The railway, which was a dispute for 14 years, was put into operation shortly after I became the Road and Transport Development Minister. The railway is a key to expanding Mongolian export, and a way to increase budget income. The rail can be used as an import path shortly. Mongolians will soon notice how much the railway was needed. The day marks the end of the 14-year-long conflict between politicians.

We are planning to intensify the significant railway construction projects, including the railway connecting the east to the west of Mongolia and the Bogd Khan Railway and Hangi-Mandal Railway.

The most important issue is determining the border junction of the Hangi-Mandal Railway, which is essential in order to receive the fruits of the investment. The 200-kilometer railway will be completed soon.

Moreover, extensive negotiation is required with the Governments of the neighboring countries, Russia and China, regarding the border connection issue of the Zuunbayan-Tavantolgoi Railway. If all the problems are solved, railway freight transportation will become smoother and reduce border jams.



J. GANBAATAR

*Minister of Mining
and Heavy Indus-
try*

-Mongolians can achieve every goal if we unite for a common purpose and act decisively. Both foreigners and locals are observing whether we can do it or not. The achievement of the railway project can be a good instance that proves Mongolians can do it if they work hard. There is a tremendous economic loss if we argued on significant mining projects extensively. We saw a such debate on the Tavantolgoi Railway situation.

The economic impact is the most crucial. Mongolians realized the importance of exporting coal by rail rather than by road as it is five times cheaper per ton. We expected the cost to be 7-8 USD, but it is 12 USD today, possibly due to the current exchange rate, fuel price, and labor market growth.

During the pandemic, it was challenging to import just two containers due to customs restrictions. Then there were lots of financial and customs hardships in constructing the rail. Both are understood well by the public and private. Therefore, I would like to express my sincere gratitude to all the private sector entities for finishing this major project.

Tavantolgoi Mine has enormous reserves to be used for many years. It has 8.3 billion tons of coal, of which 53 percent is high-quality coking coal. Exporting 40 million tons per year produces a huge income. For optimal cooperation of the railway and other infrastructure, a comprehensive plan should be implemented by the Ministry of Road and Transport Development.



CH. KHURELBAATAR

*Minister of Econ-
omy and Develop-
ment*

-Tavantolgoi Railway Project started 14 years ago under the Government of Prime Minister S. Bayar. After some interruption, the construction work restarted under the governance of U.Khurelsukh and has now started operations during L.Oyun-Erdene's Government.

It has a significant influence on Mongolia's coal exports. With the coal export growth, foreign currency reserve will increase, MNT value will

increase and inflation will be limited, which in return will affect positively the lives of the people.

The railway development will probably continue for two more years in order to reach its full capacity. Much construction work is expected on both borders. There is an estimated expectation that around five to six million tons of coal will be transported using Tavantolgoi Railway next year.

**R. SEDDORJ**

*Governor of
Umnugobi
province*

This environmentally friendly railway will eliminate messy truck transportation and logistics passing through our province. The railway passes through Tsogttsetsii, Bayan-Ovoo, and Hanbogd soums in Umnugovi Province. Local herders supported the development of the railway in every possible way, by changing the seasonal migration route and allowing the use of local wells.

Rehabilitation of the coal transportation truck damaged areas is crucial now. We hope that the

companies who have used the soil will successfully complete the rehabilitation phase in accordance with the law and thus don't make harm the railway's reputation.

Many livestock crossings are planned in the railway project draft. However, the crossings are now too far-distanced and low in height that camels cannot go through, according to the herders. I hope this problem will be resolved as requested by the herders.

**N. ENKHBAYAR**

Economist

According to the media, the railway has not yet reached the border port, and it will not be complete until the trans shipment facility is ready. The Chinese and Mongolian Governments, ministries, and agencies are still negotiating where the border point of the Gashuunsukhait-Gantsmod Port should be. Following the negotiation, the transshipment facility is expected to be finished by 2023 or 2024.

Considering these facts, coal transportation through the railway will presumably commence from the end of 2024 or the spring of 2025.

Furthermore, since last spring, an extensive coal loading facility has been built at the Tavantolgoi

Deposit. Thus, we can benefit from this railway after these infrastructure facilities are finished, maybe in 2025.

Today, we are only talking about the maximum possible volume via rail transportation. But in reality, we can only precisely determine the export coal volume in 2025 after taking into consideration of many factors, including the coal loading and unloading capacity, rail transportation and border crossing capacity, and coal demand in China. As of now, one thing is certain: coal transportation costs will significantly decrease after the railway is operational at full length.

**B. LAKSHMI**

Economist

This opens an opportunity for Mongolia to transport its coal faster and in larger volumes. Its significance includes lower coal transportation costs and minimum environmental impact. Though, trans shipment is a must when we take into account the wide gauge of the Chinese railway system. When construction of the transshipment terminal is still underway, we must review and calculate its capacity. Its capacity should be able to handle a large amount of coal. One should make a good lesson of Zamyun-Uud port crane which comes unavailable once in a while, therefore such bad infrastructures should not

be used at the Gashuunsukhait port terminal.

Mongolia is landlocked, so the construction of transportation infrastructure is vital. This railway construction is a strategically important step for Mongolia. Such vital projects must not be politicized, we must remember. Had the railway been built many years ago as planned, much more coal would have been exported. For the last few years, commodity prices, including coal have been on the rise. This means we have a huge amount of opportunity cost. We must not repeat such costly mistakes in the future.

Guest

Feng Dongbin: Mongolian enterprises can control the coal quality, and enhance the brand awareness of Mongolian coal

However, there are still some challenges for Mongolian thermal coal.



Feng Dongbin, deputy general manager of "Fenway Digital Information Technology" Co., Ltd, answered the questions of "Mongolian Economy" magazine about the current situation and prospects of the Mongolian coal industry and the Chinese coal market.

The company operates sxcoal.com, which contains important information about the international coal industry, and also provides a variety of consulting services.

-First of all, thank you for accepting our interview invitation. The demand for and price of coking coal, one of the main ingredients of Mongolian coal export is decreasing significantly in China mainly due to low demand for steel and the property crisis. What is your take on Mongolia's coking coal demand and price prospects in the short and medium term?

-China's steel production began to decline in 2021, which suppressed the demand for coking coal. In the future, China's coking coal demand will further decline under the background of carbon peaking carbon neutralization and reducing crude steel production. At the same time, China's domestic supply has also increased slightly, boosted by the supply guarantee policy. In the future, China will continue to be affected by the decline in domestic demand and the slight increase in supply. It can be said that although the price of coking coal has fallen recently, it is still in a relatively high position. We can expect periodic fluctuations in prices in the future, but most likely the overall trend will remain downward.

- Another aspect we should pay attention to is thermal coal. Due to the current international energy crisis, demand for thermal coal is increasing, experts say. Should Mongolia pay more attention to its thermal coal export to China? What is the current thermal coal sector situation in China?

-Thermal coal is the most important energy variety in China. From the perspective of energy consumption, coal accounted for 56% of China's primary energy consumption in 2021, making it the absolute main energy variety. From 2016 to 2020, China's policy to cut overcapacity led to a decline in total coal capacity, with nearly 70% of the coal mines closed being thermal coal mines, yet in the same phase, the thermal coal demand was surging. This has led to the gradual accumulation of contradictions between the supply and demand of thermal coal in recent years, especially last year and this year. A shortage of thermal coal last year led to widespread power rationing across the country, and a smaller one in August. While the main reasons for this year's power cuts are high temperatures and a lack of hydropower capacity, they have also exposed the instability of non-fossil power generation. ►

► In order to cope with this situation and prevent possible electricity crises and energy risks, China's investment in thermal power has increased substantially. In the next 2-3 years, a large number of thermal power units will be built and put into operation. Although the main purpose of these thermal power units is to regulate the peak, they will undoubtedly be favorable to the demand for thermal coal to a certain extent. In addition to thermal power units, China is also rapidly releasing a large number of new thermal coal capacities to solve the shortage of thermal coal supply. Last year alone, 380 million tons of coal capacity was put into production, and from January to August this year, more than 100 million tons of coal capacity was put into production. The speed of capacity improvement is very fast. In the medium and long-term dimensions, China's thermal coal will still face the impact of carbon peaking and carbon neutrality, and energy policy adjustment. So the problem of thermal coal shortage in China is expected to be solved in the next 1-2 years.

It is true that more Mongolian thermal coal has entered China recently because of high thermal coal prices in China. However, there are still some challenges for Mongolian thermal coal, the main challenges are the long transportation distance, and Mongolian thermal coal needs to pass through China's main thermal coal producing areas to reach the main power consumption places. Therefore, to maintain the competitiveness of Mongolian thermal coal, it is necessary to keep a production cost advantage, while minimizing the cost of transportation and customs clearance.

-I think Mongolia should pay more attention to improving the competitiveness of coking coal than thermal coal.

-During the visit of the chairman of the Standing Committee of the National People's Congress of the PRC Li Zhanshu to Mongolia, it was mutually agreed on the quota for coal exports from Mongolia to China to be 40-70 million tons annually until the end of 2025 within the framework of achieving the goal of mutually beneficial, long-term sustainable development of cooperation in the mining sector.

-Do you think it is possible when taking into account of border crossing bottleneck, logistics problem, and completion of Tavantolgoi-Gashuunsukhait railway?

-In view of the coal market and energy environment in recent years, the increase of Mongolian coal exports to China is in the interests of both countries. Especially after the withdrawal of Australian coal from the Chinese market, Australian coal has given up very large market space for Mongolian coal. However, due to the outbreak of the epidemic, the clearance efficiency of Mongolian coal to China was greatly reduced due to the impact of epidemic prevention. The Ganqimodu Port was closed from time to time, and the Ceke Port was closed for a long time, which had a great impact on the amount of coal from Mongolia to China. However, from 2020 to 2022, China was the most short of coking coal in the two years.

Recently, Mongolia is building new railways. After these railways are completed and opened to traffic, the efficiency of coal customs clearance will be improved, and the cost will also be reduced in a certain extent. However, the current situation is that even though the main China-Mongolia customs clearance ports such as Ganqimaodu, Ceke, and Mandula ports are only road ports, the customs clearance volume does not reach the designed customs clearance capacity of the ports at all. The reasons are worth thinking about for businesses and governments in both countries. It is not just about infrastructure, but also about customs clearance procedures and quarantine requirements. Meanwhile, China's future demand for coking coal has a considerable downward pressure.

Therefore, achieving the annual customs clearance volume of 40-70MT will still face great practical challenges, which require the joint efforts of both Chinese and Mongolian participants.

-Mongolia is a country rich in coal reserves. Should Mongolia have the ambition to become a big player in the Asian coal market by increasing its clients in the region? To do so, what should Mongolia pay more attention to?

-Mongolia is rich in resources and has excellent coal quality. After years of market exploration, Mongolian coal has gained increasing recognition in the Chinese market year by year, and Mongolian coal has become a big player in the Chinese market.

In my opinion, Mongolian enterprises should improve in the following aspects to enhance their competitiveness.

To maintain the competitiveness, it is necessary to keep a production cost advantage, while minimizing the cost of transportation and customs clearance.

In terms of coal types, the demand for coking coal has reached its peak, and the demand for thermal coal will also reach its peak around 2025.

► First, it is suggested to strengthen quality control and enhance the effectiveness of the coal brand. A small number of Mongolian coal enterprises have their own coal washing plants, which has a great impact on the control of coal quality. Mongolian enterprises can control the coal quality from the source production links such as mining and coal washing, and enhance the brand awareness of Mongolian coal. In this respect, they can learn from the experience of maritime coal mining enterprises.

Second, more attention should be paid to the construction of supply chain links, direct to the end users. Currently, most Mongolian coal enterprises still rely on Chinese traders to supply to Chinese terminal consumption enterprises. As a result, Mongolian enterprises have relatively insufficient control over the intermediate link between production and terminal, and the quality of Mongolian coal received by end users is unstable, which has a certain impact on the reputation of Mongolian coal.

Third, speed up the improvement of transport clearance infrastructure, and try to open up the water channel through China and Russia.

Fourth, the downstream coal industries such as coking, coal chemical industry, electric power, and other industries can be moderately developed to increase the added value of coal products.

- China is both a coal exporter and an importer. Could you please introduce us to current trends and developments in the Chinese coal sector?

-China is the world's largest producer, consumer, and importer of coal. In recent years, it seems that the future problems faced by China's coal industry are mostly from the supply side, such as overcapacity reduction, strict safety, and environmental protection constraints, but the direct impact of these supply-side constraints on output has been weakening in recent years. The challenges faced by the coal industry in the future will be more reflected in the demand side, which will face the impact of "carbon peak, carbon neutrality" and energy structure adjustment in the future. In terms of coal types, the demand for coking coal has reached its peak, and the demand for thermal coal will also reach its peak around 2025. After that, the demand will gradually decline, but it will remain at a relatively high position until 2030.

Mongolian coal has to face the future coal consumption atrophy of the Chinese market, but there are still larger structural opportunities, Mongolia through the control of coal quality, coal enterprises by transportation, customs clearance infrastructure construction to reduce the cost of transportation, to strengthen the construction of supply chain to improve coal brand competitiveness, at the same time to focus on domestic coal industry construction, expand the domestic demand of coal market.

Finally, I would like to thank Mongolian Economy for your interview and wish the Mongolian coal industry a better future. ■



Export potential

Chimaeze Onyeiwu: Mongolia can retain more value by developing more primary processing capability



I can say that Mongolian cashmere producers are important trading partners of ours.

Mongolian Economy Magazine spoke with Chimaeze Onyeiwu, Johnstons of Elgin's Procurement and Technical Director about Mongolian cashmere.

Johnstons of Elgin is the UK's largest producer of luxury cashmere and fine woollens and it uses cashmere from China, Mongolia, Australia and other countries.

-How did your company first establish contact with the Mongolian cashmere industry? Can you tell us about the supply chain to buy cashmere from Mongolian herders?

-Well, I can't really speak accurately about this because Johnstons has been working with Mongolian cashmere for decades, long before I joined the company. It would be difficult to establish when we first made contact.

Regarding the supply chain, we have historically

bought directly from local primary processors, based in Ulaanbaatar. We buy the scoured and dehaired cashmere from them and they are responsible for buying the raw cashmere from cashmere cooperatives. However, in recent years, we have become more and more involved in the supply chain. Visiting and meeting with herder cooperatives and individual herders where our fibres come from. This has been very key to us understanding the impact of our operations and purchases on the herder livelihoods and local communities as well as understanding the local challenges they face in the production of the fibre.

-What kind of cooperation does your company have with the Sustainable Fiber Alliance? How does working with this coalition affect your company's operations? ►

Mongolia can retain more value from its cashmere by developing even more primary processing capabilities.

► -We are members of the Sustainable Fiber Alliance (SFA), which is a not-for-profit organization, working in Mongolia and China to provide sustainably grown cashmere. Our interest in seeing the sustainable development of the cashmere industry led us to be one of the founding members of the SFA.

The SFA has a few codes of practices and programs that provide guidance on animal welfare, grassland management and herder livelihoods. We support herders and processors who abide by these practices by purchasing cashmere certified against these codes of practices. We also contribute to the development of the SFA cashmere standard as an industry collaborator. Bringing in a manufacturer and brand perspective to the various sustainability themes that the standard addresses. Engaging with them helps validate our claims regarding the use of certified materials in our product.

-How much cashmere does the company import from Mongolia annually? What do you think what the Mongolian exporters and policymakers need to do to increase this volume in the future?

-While I can't go into specifics about the amount of Mongolian cashmere we use per year, I can say that Mongolian cashmere producers are important trading partners of ours. We source thousands of kilos a year of Mongolian cashmere. We expect to continue to support this sector with growing demands in the future and with a focus on sustainably grown high-quality Mongolian cashmere.

The SFA, having begun in Mongolia has helped Mongolia outpace most other cashmere-producing regions in its offering of certified cashmere. This receptiveness of the Mongolian cashmere growing communities to the sustainable requirements is driving increasing interest in Mongolian cashmere.

There has no doubt been a significant environmental impact due to the production of cashmere in Mongolia. Acknowledging this and allowing the science to drive best practices in rangeland management, animal welfare, biodiversity, and so on is critical to the survival and continued sustenance of the Mongolian cashmere industry.

For example, I understand the SFA initiated some studies into the carrying capacities of the lands in the different regions, in terms of the number of cashmere goats in a particular area. We think this is an important metric to track to be able to identify changes or improvements in grasslands, due to introduced sustainable land management practices.

So, we will increasingly look to source from areas that we think are more sustainable. How this is calculated or determined is extremely difficult, but it would become an undeniably important factor going forward, in terms of where we buy and where most people buy from. Without a doubt, quality is extremely important and has always been. As a result, quality must complement sustainability. The quality of cashmere from Mongolia has to trend upwards.

Price obviously is also extremely important. Perhaps dehairing locally might provide a better per kilo price compared to sending out a scoured material and then the buyers buy it from outside Mongolia.

The simplification of the supply chain would also help. If there were fewer middlemen more finance can go directly to the herders. Also, better value and prices can be given to the buyers. So that's also important and will drive how much more Mongolian cashmere is traded.

-Johnston of Elgin buys raw materials from Australia, Afghanistan, China, Peru, and Mongolia. What are the features, disadvantages, and advantages of Mongolian cashmere that differ from the cashmere of these countries?

-Mongolia produces some of the best cashmere in the world. The length of the staple cashmere fibre from Mongolia has its unique and differentiating properties. The length of Mongolian cashmere is known to be the longest in the market of cashmere-producing nations. Mongolian also produces a variety of natural cashmere hues, some of which are unique to the country. Colors such as browns, dark browns, greys, and whites are very common, and this makes it a very versatile material. Also, in terms of global production of cashmere, Mongolia is the second largest producer of cashmere globally. This is positive and makes the country a core partner for sourcing cashmere and as a result, an important influence on the luxury goods market. I also think it is really good that there is a lot of interest from the government and from stakeholders to maximize the value of Mongolian cashmere.

The decision to export scoured and not greasy Mongolian cashmere is a good thing and an advantage. Scoured cashmere is gotten from washing the grease from the raw cashmere. It is one of the primary processing stages. Mongolia can retain more value from its cashmere by developing even more primary processing capabilities. This would allow the industry to compete more in the clean dehaired cashmere market, where higher returns are possible. ►

► There are opportunities to improve the quality of dehairing (primary processing) that can be done in Mongolia. This would help them cater more to the luxury end of the market which requires the very best quality cashmere, which attracts higher premiums.

-Johnstons of Elgin's purchase of cashmere from Mongolia can be seen as contributing to the sustainable use of pastures, supporting herders' livelihoods, and improving animal husbandry. How do you envision the prospects for bilateral cooperation?

-We always travel to meet the partners with whom we work. And we've traveled to Mongolia multiple times to meet with herders and processors.

I do know that it gives us a better understanding of the challenges that exist within Mongolia. It gives us better insights into the issues involved in the growth of cashmere and its export. It's been good to see how much development has occurred in the last few years with respect to the local capacity on the internal capacity to process the cashmere. It was good to see the interest of the coming generation in continuing the practices that will be passed down from their parent herders. We also gained a better understanding of the area's contributions that could be made to further education within the local communities where cashmere is grown as well as to foster interest in better practices for the future of cashmere development and cashmere production.

-What do we need to pay attention to supply a constant and large amount of raw materials that meet their high requirements?

-As I mentioned already, the first thing is quality. Quality is extremely important. The average fibre diameter, the mean length, the material color, the purity, dehairing quality, the amount of impurities, the discoloured content and so on.

Being able to provide sustainable material that's based on proper land management practices, good animal welfare, good processing practices, and good use of chemicals but also being able to demonstrate impacts. For example, demonstrating the impact that is being had on the social lives of the herders, on the local ecosystem and grasslands, economically, with regards to the value that is going back to the herders, the amount of growth and expansion of the production companies, all of these are all important. The more that comes out of this, you know, in terms of quality and sustainability in terms of social, environmental and economic impacts, these would create more opportunities and interest from luxury brands to continue to use Mongolian cashmere.

-What is Johnston of Elgin's contribution to environmental sustainability and climate change mitigation?

-Johnstons of Elgin contributes in numerous ways to environmental sustainability and climate change mitigation. One such way is through our involvement with the raw materials that we buy. In collaboration with other cashmere industry stakeholders, we are putting in a lot of effort and resources into developing a better understanding of the carbon impact attributable to the sources of our raw materials.

There are a number of different ways and proposals on how to calculate the carbon footprint from cashmere production. We are working on an "LCA" project with the Sustainable Fibre Alliance (SFA) and the Textile Exchange to help develop an industry-standard benchmark for calculating cashmere's climate impact. We are studying carbon footprint and the specific steps that can be taken to lower the carbon footprint from cashmere, be that through feed type, grassland management practices, or consumption patterns. This is just one of the ways that we're contributing toward climate change mitigation. We are also reviewing opportunities to lower our environmental footprint through investigations on the use of recycled materials.

We believe the best products last the longest. This is known to be better for the environment, as it locks the carbon within the product's lifecycle for longer and prevents the carbon generation that would have ensued from the creation of the product's replacement. This is why we strive to make the highest quality products that fully maximize the value of cashmere, providing unique products that can last a lifetime. In addition, we are actively researching and developing products made from reclaimed cashmere and wool waste materials. This is not something that we have on the market yet, but it is something we are working towards.

Furthermore, we have carried out a carbon audit, investigating our scope one, two and three emissions. From this, we have created strategies to address the areas where we have direct control and we are involved in active consultations in areas where we have less direct control.

For example, over the last few years, we have migrated a 100% of our electricity to renewable sources, we have reduced our use of single-use plastics, we have changed our packaging to use recyclable packaging, and have found a reuse or repurposing option for a 100% of our manufacturing textiles waste. ■

There are opportunities to improve the quality of de-hairing (primary processing) that can be done in Mongolia.