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MONGOLIAN ECONOMY



Chinggis Bond Trend

The Green Energy Launchpad

Mongolia's Economy Finance and Business Magazine

January, 2013. №01 (035)

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MONGOLIAN ECONOMY

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Mongolia Star Performer



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BUSINESS

Haranga Resources announced plans for a USD 6 billion public offering.

The company is currently determining its iron-ore reserves at its Selenge project. The company plans to release 30 million shares at AUD 0.20 (USD 0.21), which will only be available to domestic traders. The profits will be used to develop a technical economic analysis of the Selenge project and its iron ore factory.

INDUSTRY

A Darkhan oil refinery is being planned to reduce Mongolia's dependence on imports for oil. The refinery is scheduled for commissioning in 2015. The government of Mongolia has chosen Japan's Toyo Engineering for construction of the factory, which would be able to produce two million tonnes of oil a year. Investment into the factory could reportedly be recuperated within four years of production.

ENERGY

The government has ordered the development of a southern region energy network company to supply the southern region of the country with reliable energy. The region, overwhelmed by the

mining boom, is supplied with energy from five different power sources. This creates a situation where consumers must pay five different prices for energy. This has prompted the government to establish a professional institution to regulate and monitor the functioning of the power supply network.

CHINA

China announced Sunday that it aims to become a full member of the International Renewable Energy Agency (IRENA) in 2013. IRENA, founded in 2009, strives to increase the share of renewable energy sources such as wind, solar energy, hydro, biomass, and geothermal energies through cooperation and knowledge sharing between member states.

Despite the difficulties brought on by the European debt crisis and

slowdown of the world economy, China and Britain have achieved exceptional growth in bilateral economic and trade relations in 2012. The bilateral trade of goods between the two countries reached USD 63.1 billion dollars in 2012, surging 7.5 percent compared with the previous year. China's exports to Britain rose by 4.9 percent to USD 46.3 billion, and imports from Britain jumped 15.5 percent year-on-year to USD 16.8 billion.

RUSSIA

Russian e-commerce will triple in volume over the next three years from USD 12 billion in 2012 to USD 36 billion by 2015, Morgan Stanley forecasts in a report. Internet purchases will make up 4.5 percent of all retail sales by 2015, according to Morgan Stanley's estimates. In 2012 online retail in Russia made

up USD 12 billion and accounted for 1.9 percent of the total retail trade in the country.

EUROPE

Greece is reportedly close to selling its state-owned natural gas group for 1.5 billion euros (USD 2 billion) to Russian bidders—either state-run Gazprom or privately run Sintez—despite warnings from the European Union and United States against Russian expansion into the Greek market.

Enagas of Israel, Japan's Mitsui, the Dutch company Vopak, and China's ENN were also reportedly interested in the Greek gas assets. None of them have made a final bid yet, highlighting the concerns of many international investors that Greece could leave the eurozone. ■

Tradional Sheep Hide



Cartoon by A. Amarsaikhan

Review

CHINGGIS BOND TREND

BY I.OTGON

According to an official source, by December 5, 2022, Mongolia should have proudly paid back the USD 1.5 billion of debt it sold last year. In order to achieve this, the government will need high accountability for how it spends that money.

The economic life of Mongolia has been quite busy with different occurrences within the first fortnight of the new year. Most of those events were related to the plans for spending the profits earned from the Chinggis Bonds sold last November. According to an official source, by December 5, 2022, Mongolia should have proudly paid back the USD 1.5 billion of debt it sold last year. In order to achieve this, the government will need high accountability for how it spends that money.

At the beginning of the new year, Prime Minister Norov Altankhuyag gave a presentation on the bonds to Mongolia's parliament, the State Great Khural. This was the start of a controversy surrounding the bonds. Following the presentation, it seemed initially that parliament members had acquired extensive understanding of the bonds. Some members were asking those who arranged the bond sale if they had any fear or anxiety about what they had done. This question is essential today

as every Mongolian is cautious against plunging the country into great debt.

"As a result of the issuance and sale of these bonds to raise capital, the new government has become capable of implementing its operational program. From the beginning, the bonds were initiated, properly arranged and thorough studies were conducted on their potential outcomes, and, so, we have no anxiety", responded Economic Development Minister Nyamjav Batbayar.

At the beginning of this month the prime minister led a team of over ten members consisting of governmental ministers and officials to develop and publicly present a draft outline of the projects to be financed. The seventeen programs in the draft include the paving of a road network to connect the six provincial centers with the capital within the year; construction of 1,800 kilometres of railroad; the purchase of aircrafts for MIAT Mongolian Airline's fleet; construction of a new railroad south of the Bogd Khaan mountain to reduce the load carried over the railroad passing through Ulaanbaatar; construction of a new oil refinery; investment into Erdenes Tavan Tolgoi; financing cement production by domestic plants; construction of a ferrous metal processing plant; construction of the Sainshand industrial complex; construction of power stations; construction of hydro-power stations and other renewable energy power stations; construction of a subway in Ulaanbaatar; and the proper regulation of city energy consumption.

It was mentioned that this was not the final decision on the projects, that it was only a draft.

Afterwards, Yaichil Batsuuri, the new executive director of Erdenes Tavan Tol-

goi reported that his company's finances were in critical condition. He said that the company's activities had fallen into stagnation because of the cash taken so politicians could keep their promises for cash handouts. That costly decision took away most of the funds from the upfront offtake payment by Aluminum Corp. of China (Chinalco).

Additionally, the previous director, Baasangombo Enebish, spent MNT 7 billion on unnecessary purchases, including ten heavy vehicles at a cost of



MNT 160 million each and tires for a total of MNT 5 billion, he said.

This also proves how coldly managers treat state properties.

The media has confirmed that M. Enkhsaikhan, who had been appointed just two months ago, was dismissed as executive director of Mongolian Railway last week because of disagreements over bond spending.

Some of the bond's profits are to be spent on the construction of railroads. The Ministry of Road and Transportation has developed a project for the construction of four short spans of wide-gauge track (Russian gauge) railway, including 30 kilometres of rail eastwards from Tavan Tolgoi, 50 kilometres of rail westwards from Chobalsan, and two sets of 50 kilometres of rail both westwards and eastwards from Sainshand.

Enkhsaikhan argued it was better to construct 267 kilometres of narrow-gauge track (Chinese gauge) from Tavan Tolgoi to Gashuun Su-

ukhait rather than several spans of wide-gauge rail. He commented on twitter that he only wished not to waste the money from the bond. But eventually it came out in the press that Enkhsaikhan was let go because of the dispute.

Clearly, Enkhsaikhan's proposal for

the construction of the railway did not coincide with what the Industry and Agriculture and Road and Transportation Ministries had in mind.

There is also the question of what is happening to gas prices. Last year it was announced that fuel prices would increase by MNT 50, but why has another MNT 50 gas hike arrived?

Let this be a reminder of how important an oil refinery is to the country's national security. Fortunately, last week the government announced a plan to eliminate its dependence on oil exports by 2016. They have planned for a state-owned refinery with the capacity to process two million tonnes of oil for commissioning in 2015 at Darkhan-Uul. Japanese firm Toyo Engineering was selected to lead construction, with participation from some contracted Mongolian companies.

Estimates show the refinery would recuperate its initial investment within four years after commissioning while selling the oil it produces at a price 6 to 8 percent lower than today's.

Finally, we cannot forget the recent hikes to the prices of consumer goods. Last week, the National Statistical Office released a report that said if the inflation over the last six months is not taken into account, the health of the economy could be described as "not so bad". Despite the efforts of the government and central bank's Program to Stabilise the Price of Major Food Products, the prices of food products continues to increase. ■

Public debate announced

"Mongolian economy" magazine announces a public debate on efficient spending of the gains from the USD 1.5 billion bonds among related governmental officials, economic and business sector scholars and experts.

To share publicly your opinions and suggestions, please send them to website: www.mongolianeconomy.mn or email address: info@mongolianeconomy.mn



BY B. TSETSEE

The World Bank and International Monetary Fund (IMF) recently projected 16.2 and 16.8 percent, respectively, for growth in Mongolia for 2013 compared with 12 percent by the Asian Development bank.

The government's 2013 budget projects economic expansion of 18.5 percent in real terms with gross domestic product (GDP) reaching MNT 17.6 trillion. This growth is expected to be driven by a significant increase in total exports of 78 percent.

The central bank has targeted inflation of 8.1 percent for the year.

According to the latest prediction from The Economist Cassandra, Mongolia will be a star performer in 2013, with the top spot for economic growth worldwide, followed by Macau. It predicted Mongolia would have 18.1 percent growth.

The main driving factors will be Oyu Tolgoi, one of the world's largest copper and gold mines that is due to begin commercial production this year, in addition to China's growing demand for minerals.



MONGOLIA STAR



STANDARD
& POOR'S

Standard & Poor's Ratings Services (S&P) revised Mongolia's outlook to positive from stable and affirmed the landlocked nation's sovereign ratings, citing its growth prospects as more mines begin operations.

Mongolia's long-term sovereign rating remains BB- and its short-term rating B, S&P said in a statement. The outlook revision reflects expectations for a "significant" increase in real per capital gross domestic product

through at least 2014, with S&P estimating the measure may more than double to USD 6,560 by 2014 from USD 2,973 this year, according to the statement.

S&P said it may raise Mongolia's sovereign ratings if its fiscal and external debt metrics continue to improve. The rating may also be upgraded if improvements in fiscal, monetary, and banking sector policies materially reduce vulnerabilities in these areas.

PERFORMER



Moody's Investors Service has assigned a definitive B1 rating to the USD 500 million note due on January 5, 2018 and the USD 1 billion note due on December 5, 2022 under the government of Mongolia's USD 5 billion global medium-term note program. The rating outlook is stable.

Long-term economic prospects are bright, if the country's infrastructure is developed and if macroeconomic stability is maintained.

Credit-positive events over the rating outlook horizon include the maintenance of price and exchange rate stability and a further replenishment of net international reserves. A track record of adherence to the fiscal rule would be credit positive. Furthermore, a timely and successful infrastructure development program, to which the Global Medium Term Note Program supports, that increases the country's export capacity and boosts government revenues would be credit positive. Diversification and development of the country's industrial base that helps to shield the economy from mineral price volatility would also be credit positive. ■



Fitch Ratings has affirmed Mongolia's long-term foreign- and local-currency issuer default ratings (IDR) at 'B+' with "Stable Outlook". The agency also affirmed the short-term foreign-currency IDR at 'B', and the country ceiling at 'B+'.

Mongolia enjoys bright economic prospects. The country is richly endowed with natural resources, while five-year average annual GDP growth of 8.3 percent has far outpaced the 'B' median

of 5.9 percent. At USD 3,056 in 2011, income per head at market exchange rates was exactly aligned with the 'B' median and should increase further given rapid economic development, while the country's governance standards are a relative strength in the 'B' range. The economy's strong medium-term growth prospects and low general government debt and interest expenses temper these weaknesses.

M3

TREASURE HOLDERS

BY B. UURIINTUYA

It has been a while since these countries, both geographically and economically strongly linked with BRICS (Brazil, Russia, India, China and South Africa), have shown a remarkable development pace and attracted the global attention.

Spoilt by the rich resources of Mother Nature, three countries have brought a whole new understanding in the vocabulary of the world economy. Mongolia, Myanmar and Mozambique, three rich in mineral resources countries have been termed as M3, are said to be the fastest growing economies in the world. For a short period these countries, both geographically and economically strongly linked with BRICS (Brazil, Russia, India, China and South Africa), have shown a remarkable development pace to attract the global attention. Often referred to as the Silk Road of this century, M3 countries will be among the world's top five fastest growing economies in the next decade with Mongolia's GDP growth of projected 15 percent a year and that of Myanmar and Mozambique showing 12 percent and 10 percent respectively.

"We are proud of developing the M3 concept as innovative investment there for frontier markets investors. Mongolia, Myanmar and Mozambique share some striking similarities and we are confident that their economies will be among the best and will offer outstanding opportunities for investors", said Alisher Ali, managing partner of Silk Road Management in an official statement. He added "For that reason, Silk Road M3 Fund, the first ever investment fund to be focused on Mongolia, Myanmar and Mozambique, was established. The Fund will primarily invest in equities of internationally listed companies with assets and operations in these three countries as well as high yield fixed income and local currency instruments".



The Coal Mogul

Mongolia has a high potential to become a natural resources powerhouse thanks to large deposits of coal, copper, gold and rare earth minerals. GDP per capita has sharply risen from just USD 500 a decade ago, when Mongolia ranked among Asia's five poorest nations, to USD 3,000 in 2012. Now, Mongolia has gained so much popularity among international investors.



The Newest Market

As Myanmar is currently undergoing a historical transformation from a long-isolated state into one of the most prosperous business and financial market, its economy is craving investment. Endowed with rich natural resources such as the world's finest rubies and sapphires, the second largest landmass in South East Asia and a population of over 60 million, Myanmar represents one of the world's most attractive investment opportunities as well as outsourcing capacity.



The Industrial Magnate

Having struggled in civil wars and political uncertainties, Mozambique has marked the last decade with great economic success. Mozambique, thanks to its developing industry, has been enjoying an annual economic growth of at least 10 percent for the last few years. Ultimately, the growth contributed the most to its agriculture, communication and tourism sector. ■

CAPITAL MARKET

DON'T BE AFRAID TO EMBRACE INTERNATIONAL PARTNERS AND CHANGE

BY B. TSETSEE

David Lester joined the London Stock Exchange in 2001 and is group director of corporate strategy, leading the development and implementation of core strategic initiatives across the group. He has over 23 years experience in financial information and technology working at Thomson Financial, Accenture and KPMG prior to joining the exchange.

What is the history of the London Stock Exchange-Mongolian Stock Exchange partnership?

The partnership has been going since 2011. It was initially a three-year partnership. We hope the partnership will go on for many years, so we believe this is just the start.

The world-leading technology, the integration of other capital markets, bringing the global brokers to Mongolia directly, then allowing the deepening of the liquidity pool, allowing more companies to list here, building an index, building fixed income, building a commodities products, building a clearing house—this could be a five-to-ten-year process that could line up with the 2021 strategic plan. So there is so much to do to make this a success. We've only really done the technology so far.

If Mongolia wants to raise financial capital, there is no better partner than the London Stock Exchange Group because it has the expertise in mining and minerals, it has all the large clients, it is the number one financial center, and it is number one venue for fixed-income and FX-trading in the world. We have the resources and expertise



Photo by B. Tsetsee

to set up a successful capital market here.

Would you call the recent debt offering of the so-called Chinggis bonds a success? What do you take away from that historic sale?

The capital markets clearly welcome the bond given the interest it got. The bond market for the Chinggis bond, in my view, has been a success.

With the prospect of the investment, the stability, and for future bonds, it is now for Mongolia to take the opportunity of how it's marketed itself

to the international community after this successful bond so it can invest this money, raise more money, and achieve all of its goals from the 2021 strategic plan.

Now it is time for the government to choose the projects it will use of the money raised from the debt offering. Do you think the government made a mistake making the sale before having a detailed plan for how the money will be used?

I thought there were plenty of »



► projects to invest the money in, with the railway and transportation structures. There are also plans for an industrial park.

A, it's a matter for the prime minister's office what the projects are; B, the bond has clearly been a success. The international community clearly believes with that size of bond there is enough projects for the government to invest in. Clearly the international community could see where the money would go, or they wouldn't have raised it otherwise.

I think Mongolia should celebrate the fact that it had its first. Now it's how that money gets invested and we'll see how Mongolia can further develop.

I understand that 66 percent of that money came from London—the world's international finance capital. London has an expertise of allowing where its money will go, and where it will get a good return and be invested well. Here we are with a USD 1.5 billion bond with a low competitive interest rate, maybe earlier than people thought, but still

10 times oversubscribed. That tells you both the investors and sellers of the bond had a story that allowed the money to be raised.

Mongolia has allowed itself to be more involved with world affairs. What inherent economic risks must the country now be wary of and how can it best prepare itself?

It should have a plan and work with international partners they can trust. Clearly everybody can see the possibilities, and the commodities extraction is at the early stages. But if that is dealt with successfully in a well-thought-through plan, there is no reason Mongolia can't deliver its objectives by whenever they are planned for. It's a matter of embracing the international community, bringing the funds, bringing the international companies and working together with them, and moving in a fast yet steady and strategic way.

I think Mongolia has a fantastic set of opportunities. The average age is in the mid-twenties. The demographics

of Mongolia are fantastic and the opportunities for the people of Mongolia are huge.

Don't be afraid to embrace international partners. Don't see the international community in a negative way. Pick the partners well and work together. Exploit the learnings of exchanges like ourselves, which is over 200 years old.

The FTSE mining sector is USD 500 billion of companies listed in London. It has taken London 30, 40 years to build up such a thing. I get the feeling that the people of Mongolia are passionate, they embrace change, they see the opportunity themselves, and they want to drive these things forward very quickly. It can be done fast, but it has to be done in a steady, very well-thought-out way.

How would you grade the current operations of the Mongolian Stock Exchange?

Mongolia has installed the same systems that operate in the world-leading financial capital in London that ►



partnership is to integrate the systems we built within the global financial community. That would allow the banks to trade in Mongolia. I think that would attract some of them to set up offices in Mongolia and make direct investment and be direct participants in the market. That would then allow future companies that IPO to place more of their IPO money in Mongolia, not London or New York.

Then there is a cycle where there is an index. The FTSE creates a fund that people will want to invest in. They don't want to pick the copper or coal company, they just want to invest in the index. When you have an index that is easy to invest in then you have a future, a derivatives market.

There is so much more to be done. And it's like anything that if it is done with the right international partners that have the experience in doing this there will be great success—just like the IT has been a great success. If it's not done with international partners, if it's done locally, then you miss out on all the expertise.

It's like how it is with the mining and railways. Pick the right partners that you can really work and engage with.

How do you imagine the Mongolian Stock Exchange to be twenty years later?

I have in my mind a stock exchange that is underpinning a country that is highly successful. That country has taken its natural resources and assets, built the right infrastructure, is providing its resources to the world extremely competitively, is attracting the financial capital it needs to do that, and is underpinning a top-10 Asian country. It's a well-known emerging market in its own right.

People love to talk about BRICS [Brazil, Russia, India, China, and South Africa], Indonesia, and other markets. I would love them to talk about Mongolia too. And we would be in partnership with the Mongolian Stock Exchange underneath all of that, with the Mongolian people enabled to live prosperous lives.

There's no reason that the volumes on the stock exchange can't double, then double again in a ten-year time frame given the growth rates that you have planned in GDP, investment, and everything else. ■

► is done. Now the systems need to be integrated into the global community.

For example, the central depository needs to be accessible from the central depositories from around the world. The custodian banks needs to be able to access that central depository so that somebody in London, New York or Japan can own a Mongolian security and be confident that they actually own it. The next job is to integrate the central depositories together.

We also want to make sure that we put Mongolia into the FTSE "Frontiers Market" so when Mongolia qualifies it will allow people to buy a FTSE Mongolia product. The next steps of this evolution are to work together, take the technology we now have, and build on it to make sure Mongolia gets integrated within the financial worldwide markets to allow ease of access and ease of buying securities.

There are some who believe the integration of the new system led to a massive fall experienced by the MSE Top 20 index. What would you

say to such accusations?

Markets go up and down. It would have nothing to do with the system whatsoever. It would have to do with whatever the demand or supply is, or the securities of the Mongolian Stock Exchange. There is a new value of the index today, there will be tomorrow, and there will be in the future. The system will have had no affect on the value of the index.

Trade activity is still quite low on the stock exchange. How can this be improved?

This is the next stage of the partnership. Can London help (I think it can) bring the international financial banks and investors to Mongolia to deepen the liquidity of the market. Can we bring Morgan Stanley, UBS, and Goldman Sachs to Mongolia to be participants in the Mongolian Stock Exchange and improve the liquidity?

When the liquidity is improved it can make sure that the volatility isn't as great, so it's a market that doesn't rise or fall so much. The next stage of our

BY B. BAYARTOGTOKH

The underground mine will be commissioned by the end of 2016, and the mine will start to operate at full capacity in 2019. Over 80 percent of the total resources will be extracted from the underground mine.



A NEW ERA FOR MONGOLIA'S MINING SECTOR

The Oyu Tolgoi concentrator was commissioned just at the turn of the new year. Over 50 media personnel travelled over 600 kilometers from the capital for the occasion.

Prior to the opening ceremony, a government delegation was welcomed at Oyu Tolgoi's new airport. The delegation included representatives from the State Great Khural, led by Minister of Mining D. Gankhuyag and the administrative personnel of Oyu Tolgoi LLC. In addition, representatives of the local government and the local

community were also invited to the ceremony.

The copper-ore concentrator is able to produce 96,000 tonnes of ore concentrate daily, or 35 million tonnes a year.

This is the largest high-tech industrial complex in the country. The concentrator's ore storage facility is considerably bigger than the Buyant Ukhua Sport Complex near Chinggis Khaan International Airport, and the conveyor to the crusher is seven times longer than Peace Bridge. While

construction of the Naryn Bridge in Ulaanbaatar took three years, comparatively, the giant Oyu Tolgoi complex was completed in just two and a half. The Oyu Tolgoi staff said the metal support used during construction is equivalent to what would be used to build 100 Statues of Liberties and three Eiffel Towers.

"By now, the Erdenet Mining Corporation has a 35-year history. I am especially glad that this new concentrator can be called the younger brother to our mine while introducing ▶



► the most advanced technology in the world”, said Sh. Baatarkhuu, chairman of the ore concentrator for Erdenet Mining, upon his first impression of the facility.

Oyu Tolgoi's chief executive officer, Cameron McRae, said that over 15,000 people from 44 countries took part in the construction of the concentrator. The concentrator is expected to produce its first copper concentrate by the end of January, and beginning in June will begin to export to China.

The underground mine will be

commissioned by the end of 2016, and the mine will start to operate at full capacity in 2019. Over 80 percent of the total resources will be extracted from the underground mine.

During the ceremony, Gankhuyag, who switched on the the concentrator for the first time, remarked, “The concentrator is projected to increase the volume of copper concentrate produced in the country by 80 percent, with total exports growing by 30 to 40 percent. Furthermore, minerals are to contribute 20 percent more to the economy. This would elevate Mongolia

to the 15th-largest copper-producing nation in the world”.

M.Ganbold, a specialist for the concentrator explained, “The concentrator employs the flotation technology and converts the ores with minor content into the final Oyu Tolgoi product—a concentrates with 30 percent copper content. It consists of the ore storage facility, gravel-crusher, concentrator, concentrate-storage facility, and the tailings thickener”.

The minister concluded his speech with his best wishes saying, “We wish this, the largest creation achieved by ►

our country at the beginning of the new century, to be the best start of a new era for subsequent achievements in the mining and geological sector of Mongolia. We wish it be the most productive project not only for the people of Mongolia, but also for international investors”.

The following are the impressions of the delegates who were present at the opening ceremony.

D.Gankhuyag (Minister of Mining)

I highly appreciate that during the 90th anniversary of the Mongolian mining sector, the Mongolian government and the international investors of the Oyu Tolgoi joint venture have successfully implemented the construction of the Oyu Tolgoi concentrator.

This event will not only contribute to the improvement of the economic structure and the enhancement of the mining sector's level of technology and management in Mongolia, but also will have a specific importance to intensifying and bringing the economy of the country to a new level of development. It will undoubtedly raise the reputation of the country on the international stage. Now, the Oyu Tolgoi concentrator must immediately be handed over to the State Commission.

Cameron McRae (President and Chief Executive Officer, Oyu Tolgoi LLC)

The project has proceeded in accordance with the schedule. Of Oyu Tolgoi's total resources, 80 percent will be extracted from the underground mine. Now, we have just passed the 20 percent mark of the journey.

Simultaneously with the construction of the underground mine, we will start to attend to the issue of a new energy source. From the date of signing the investment agreement till this moment of commissioning the concentrator, we have continuously achieved our targets step-by-step.

While Oyu Tolgoi LLC builds up the most high-tech and largest mine in the history of Mongolia, it also brings invaluable contributions to the socio-economic development of the country. We have developed the Oyu Tolgoi open-pit mine and concentrator in quite a short period of time. So, I believe lots of industrial achievements are waiting for us in the future.

N.Algaa (Executive Director, Mongolian National Mining Association (MNNA))

The Oyu Tolgoi Concentrator clearly shows that the mining sector of Mongolia is reaching the international level. The economy will increase approximately 20 percent as a result of putting the concentrator into operation.

Additionally, in the long run tax revenue is expected to rise by 20 to 70 percent. The concentrator is a new turn not only in the mining sector but also in the whole of the Mongolian economy.

Piper Ann Wind Campbell (U.S. Ambassador to Mongolia)

For me, it was wonderful to see that Mongolia could take another step forward.

Su. Batbold (Member of Parliament)

I hope the Oyu Tolgoi project will provide a novel opportunity and capacity to the socio-economic capacity of Mongolia. We have to be thankful that a company in a developing country could efficiently implement this national project.

G. Batsukh (Chairman of Board of Directors, Oyu Tolgoi LLC)

The first stage of the Oyu Tolgoi project is complete. The concentrator could be called the heart of the mine, and the mine cannot produce if the heart does not pound.

When an industry can begin quickly and begin to produce, in turn, it can immediately benefit the socio-economic conditions of the country. In this way we are adopting the values of the most advanced modern technology and industry within the soil of the motherland.

In addition, we are proud to develop a new young generation of knowledgeable, skilled, experienced and internationally competitive human capital.

The mining sector of Mongolia is starting to write the history of a new era.

P. Tsagaan (Member of Board of Directors, Oyu Tolgoi LLC)

If the Oyu Tolgoi project proceeds along the correct course, it can greatly impact the economy of Mongolia. If the past century was a period of struggle for independence and political freedom for us, I suppose the next century will undoubtedly be a new era of economic development.

M.Damdinsuren (Honorary President of the Mongolian Mineral Processing Association)

I am very happy to be here at the opening ceremony of the world-class Oyu Tolgoi project's concentrator. Indeed, this is truly an international-scale project.

The project reminds us that we, the steppe-born Mongolians, are faced with the necessity to think at the world level. The Erdenet Copper concentrator, at the biggest copper-molybdenum deposit of Mongolia, was first commissioned in 1978. At that time, the first section of the plant began operations with the capacity to process four million tonnes of ore annually. Over 1,000 people attended the opening ceremony. History is repeating itself.

In the 20th century, the mining sector of Mongolia received the giant creation called the Erdenet mine. The next one we greet in the 21st century is Oyu Tolgoi. ■

AMBASSADOR

RAW MATERIALS ARE AN ESSENTIAL BASIS FOR DEVELOPMENT

BY KH. KHULAN

“Our two economies match very well. Even more important is the fact that Mongolia wants to establish a down-stream value chain.”

German Ambassador Dr. h.c Peter Schaller was born in the former GDR. When he was five years old his mother left to the western part of Germany to the Federal Republic where her parents lived. After finishing school he became a soldier and officer in the German armed force for three years. Then Schaller studied social sciences (psychology, sociology and pedagogics) in Bochum and Muenster in North-Rhine-Westphalia.

After his studies he worked as a career counselor for students. Later he joined the diplomatic service.

Schaller has been working now for more than 30 years as a diplomat mostly in North East and Central Asia. He served in China and was head of mission in Turkmenistan, North Korea and Cabo Verde. Schaller also served as consul general in St. Petersburg, Russia. Apart from that, he served in Afghanistan and Cuba and also had shorter appointments to Togo, Brussels and Budapest.

What do you enjoy most about working as a diplomat?

I think what led me to become a diplomat was that I have an interest in foreign countries. I like to see different cultures and different societies, and I'm interested in these things also from a professional point of view—as



Photo by E. Zorigt

someone who studied social sciences. Of course, I like travelling. And one other important point is, when you work as a diplomat you have a lot of communication and cooperation with people. I like this very much.

Explain your interest in different cultures.

Travelling cannot be separated from being a diplomat. Travelling has always been a very important thing for me in my life. It started when I was a student and travelled extensively in the Middle East and Southeast Asia, and also Europe, of course. Working as a diplomat allows you to see a lot of the world.

What was your first experience

with Mongolia?

The first time I came to Mongolia was in 1984, when I travelled with the Trans Siberian Railway from Beijing to Moscow. I came to Mongolia a second time in 1993 when I was stationed in Pyongyang. At that time we knew a colleague who worked at the German Embassy in Ulaanbaatar. She invited my wife and me to come to Mongolia. That we did and stayed here almost two weeks, and travelled to Karakhorum and around Ulaanbaatar. This was my second time I came to Mongolia. This also shows I have an interest in Mongolia since almost thirty years.

What has changed since your

► **appointment as ambassador to Mongolia?**

Well I think the basic change when I came here was we had two very high level visits. We had the visit of the German Chancellor, which was the first visit of a German head of government ever to come to Mongolia. Then about six months later we had the visit of the Mongolian president, Tsakhia Elbegdorj, to Germany, which was the first Mongolian state visit to Germany, and also to Europe.

I accompanied the president throughout his visit. These two visits gave a lot of stimulus to our bilateral relations. This we felt in our work because after these two visits we had a lot of additional things to do, especially when it comes to increasing our economic exchange. All kinds of activities grew as a result of these two high-level visits.

What was the main purpose of that visit?

First of all, this visit was a kind of appreciation of the state of our bilateral relations, which are very good. The chancellor came to Mongolia and showed that we appreciate the development of Mongolia, the development of the last twenty years. And your president came to Germany as a kind of exchange and also to express the good state of our relations. This visit also served to make Mongolia better known to the German public, because the president gave interviews to important newspapers, met with important political figures and the German business community.

There is another point I'd like to mention. During this visit we signed a lot of memorandums of understanding (MOUs) concerning various substantial industrial projects. So this visit had many aspects: economic, political, and also public relations.

How are Mongolia and Germany currently cooperating and what kind of cooperative efforts are planned for the future?

As I already said, we have very good bilateral relations. When it

comes to politics, culture and scientific exchange, we cannot complain. These areas are in a very good state. When we talk about economic exchange, both sides think we don't use our potential. We have a certain level of economic relations, but compared with the potential we have, this should be much more.

We are working to increase the level of economic relations. I mentioned the MOUs which were signed during the president's visit. Now we are talking about establishing a coal-to-liquid plant. We have signed an agreement concerning the construction of a coking coal plant. We are also talking about rare-earth development. We also have German representatives of German companies like Ferrostaal who would like to get into concrete projects.

These are some possible areas for cooperation, and we are also thinking very much about modernising the infrastructure of Mongolia. Some weeks ago we had the visit of the state secretary of economy from Bavaria, one of the leading industrial federal states (Land) of Germany. We are trying to improve our economic relations in many fields.

In an address to the GIZ's Integrated Mineral Resource Initiative Programme (IMRI) you said social responsibility should go beyond corporations, but it should also begin from the individual. What should global citizens pay most attention to today so they can live by this ideal?

Corporate social responsibility is the slogan of the day but one has to be aware that the implementation of these rules and laws starts with the individual. It's not companies that act, but individuals who act in the name of companies or in their own name if they have their own private business.

This applies to all kinds of social rules or laws. People need to be convinced and be sure they have to follow these rules because it is in their own interests and the interests

of society and the company itself. For instance, if you start to be a part of corruption when you want to make a project or business, you lose your independence, your freedom of maneuvering, your freedom of action. It is also in your own personal interest to act in accordance with these rules, to act as an independent and free man, and make your own decisions on objective elements; and not to become part of a system which takes away your independence.

What has changed in the mining sector since the diplomatic visits you mentioned?

I think there is now a better awareness in Germany and also in Mongolia that our two economies match very well. You have the raw materials. Germany needs raw materials. Even more important is the fact that Mongolia wants to establish a down-stream value chain. You want to use your raw materials not only for export but to establish a processing industry here in Mongolia to create more value. That means, for instance, to export not just raw coal, but coking coal, which gives you much better income.

Germany is one of the leading industrialised countries and we have a very well-developed industrial force. We have a lot of companies which are world leaders in their fields. We can make a very valuable contribution to this basic idea to industrialise Mongolia on the basis of its raw materials. As you may know, during the visit of the German chancellor we signed an agreement on corporation in the fields of raw materials, industry and technology. Both governments and German and Mongolian companies now should work together to help develop Mongolia. This is the basic approach, and we can see from business delegations we had over the last months, that as a result of this agreement there is much more awareness in Germany now that Mongolia offers lots of opportunities.

How do you believe Mongolia can ►

develop a processing industry in a sustainable way?

We hope that now after the new government is in place and this comprehensive re-organisation of your government structure is finished, that we can now come to a point when we start talking about concrete projects. We have a lot of possibilities but we now have to implement the ideas and try to make these ideas reality.

I just wanted to add: when we talk about German business, of course we can offer very highly developed technology, but let me point out some more advantages we have. The first advantage is that German business is interested in long-term business and cooperation - not just making money, but establishing a real lifetime partnership. The second point is that our industry is very environmentally conscious. We try to establish procedures and care about environmental friendly production. Our industry also develops energy efficient procedures and technologies; because this is also part of sustainability: saving energy and not using more than is necessary.

An important point is also that our companies apply the latest social standards. When they have a factory in whatever part of the world, this factory is organised according to German standards. When it comes to social welfare and working conditions, this means European standards. Let me point out one more advantage, which is equally important: our companies are ready to share their know-how with their partners. This also means that they are ready to train their foreign employees on the spot or send them to Germany and qualify their personnel.

Germany is a leader in renewable energies. What kind of potential do you see in Mongolia to develop the energy sector?

According to your national development plan, renewable energies will supply about 15 percent of your future energy needs. You have wind and sun. You are one of the sunniest countries in the world and especially in the Gobi

you have lots of wind. I think you have a certain potential to establish a reliable supply of renewable energy. German companies are also world leaders in these sectors, so I see this potential.

I think you also have potential when it comes to biomass. Germany also has a lot of experience. But I would also like say, you should not forget that you have a big potential in saving energy. For instance, we have a lot of experience in insulating buildings. Many buildings in Ulaanbaatar from socialist times are not very energy efficient. You cannot regulate the temperature in apartments and the insulation is not very good. In this field we have a lot of potential for cooperation, and this should not be underestimated.

We have one project which comes to an end of 2012, called Eco City, which we are implementing with the local government of Ulaanbaatar. Houses that have some of the highest energy-saving characteristics worldwide. If the local government will construct future houses according to these standards, you would save a lot of energy.

Tell us more about Eco City. How long has it been developed and what are the details of its implementation?

It has been implemented over four- five years. I have already met the governor of Ulaanbaatar to see how we can continue and secure this project because we are not making the progress we would like to see. We also had a very interesting project together with the American Embassy, which means USAID and GIZ. We insulated a school which is in the direction of the airport in Ulaanbaatar. This school was cold every winter, but we insulated it last summer. Now the pupils can work in a very comfortable atmosphere. They work in 20 degrees Celsius compared with eight degrees before. This is a very concrete project where we showed the city government that insulating buildings offers a very high potential for saving energy and creating better living conditions.

The mining sector is very important to Mongolia now because

it generates the most revenue. But there is a lot of criticism, such as a country cannot focus entirely on this one sector because it could lead to "Dutch disease" or unbalanced development. What is your thought on this concentration on mining?

Obviously your natural resources are the basis. But you have to develop your economy on the basis of these raw materials, which means to diversify your economy. You have a lot of economic sectors which are not yet developed enough. For instance, agriculture has a lot of room for improvement, such as introducing modern methods for animal husbandry and growing crops. Another thing: you have so many animals and I think Mongolian meat is one of the best in the world. It is really bio meat, truly natural. The animals only graze outside in the steppe. I think you could export the meat to Europe and label it organic meat.

When I look at the tourism industry, I think there is also a lot that can be done to improve the situation. I've been travelling worldwide and I think Mongolian tourism companies can learn a lot from the experience and know-how of Europe. A lot of things can be done to improve tourism.

Also, when I look at Ulaanbaatar, the new governor has introduced a lot of measures to improve traffic. But also the whole service sector in the city could be improved. What you need, generally speaking, is a lot of know-how. You can learn a lot from the experience of foreign and developed countries. Not simply copying everything, but to adapt the foreign experiences to your own situation.

As one more example, I would also like to mention the whole transportation system which needs to be modernised and which is essential for future development.

To put it very short: you need a comprehensive approach. You use your raw materials as a basis for the development of as many sectors as possible. ■

GREEN ENERGY

THE GREEN ENERGY LAUNCHPAD

BY E. ZORIGT

With projects such as the Salkhit wind farm on the horizon, Mongolia is in the position to be the starting point for a global green energy revolution.

Worldwide, countries are trying to generate energy and economic growth through environmentally friendly means. This aspiration is called, in short, "Green development". Development in this manner means covering increasing global demand via eco-friendly technology.

According to a survey, providing energy from current global resources will pose a challenge to 10 billion people. Some predictions say that the world population could grow beyond that by 2050. What would people do then?

One possible response is using environmentally friendly resources, mainly renewable energy. Since 2008, many countries have started to apply clean energy methods, with around 20 percent of total energy coming from renewable energy sources. This number is increasing every year.

For instance, according to the International Renewable Energy Agency, 50 percent of global energy will be renewable energies by 2050. After the nuclear accident in Fukushima, Japan in 2011, the country became more keen on other forms of

energy. Germany, too, discontinued its use of nuclear energy. There is a chance for Mongolia to play the main role for green development using its inexhaustible renewable resources on the steppe.

A Country as Rich as the Ocean is Deep

The country that was once known for Chinggis Khaan is now perhaps better known for its coal reserves. Coal reserves are estimated at 163.2 billion tonnes, with estimates steadily rising. This ranks Mongolia among the world's 10 most coal-rich countries.

Coal is not just a source of energy but an asset that has helped generate Mongolia's tremendous economic growth. But the time for burning coal is nearly past. Now the coal is on the decline while renewable energy resources advance.

Mongolia has tremendous potential for wind and solar energy. Mongolia has more than 280 sunny days a year and over 300 days with wind of more than 3.5 metres per second (see Table 1).

According to economist D. Jargalsaikhan, attracting foreign investment to develop a renewable energies sector means capturing an enormous amount of capital, making foreign investment essential.

Creating the legal framework for the industry will be up to the state, however. »

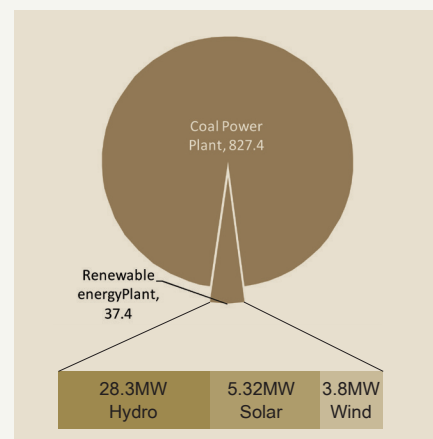
Table 1. Renewable energy reserves

Wind	2.55 trillion kilowatt hours
Sun	4.8 trillion kilowatt hours
Total	2.6 million megawatt production capacity

Table 2. Work to perform within the scope of the National Renewable Energy Programme /2005-2020/

Water	Current stand	28 megawatt
	Most capacity	300 megawatt
Wind	Salkhit	50 megawatt
	Choir	50 megawatt
Sun	Herders and others	7 megawatt
	Connection to network	8 megawatt
	Total	442 megawatt

Chart 1. Implementation of the National Renewable Energy Programme



Source: NREC of Mongolia.



Photo by E. Zorigt

► “It can be said that the Law on Renewable Energy, which was approved in 2007, brought reformation to this sector”, said former Minister of Mineral Resource and Energy D. Zorigt. “With the law’s approval, Newcom began development of its 50 megawatt wind farm”.

“Mongolia has the big goal of providing 20 percent of total energy with renewable energy by 2020.”

This renewable energies law has opened the gates for development (see Table XX), though experts recommend some improvements be made. They have suggested several amendments to reduce investor risk and provide greater accountability for investors:

-The time needed for the implementation of renewable energy projects is relatively long, and energy tariffs should be flexible with some relation to production expenses.

-The conditions for payment should be expressed more clearly for contract agreements.

-There should be approval for

tariffs for heat production using renewable energy.

-Electricity prices should follow the market rather than be set by the government.

Asian Super Grid

Europe provides environmentally friendly energy using the Sahara Desert. According to scientists’ estimates, just a third of the solar energy from there could provide the whole of Europe’s energy needs. Mongolia’s Gobi Desert has reserves of solar and wind power second to the Sahara.

The American National Laboratory for Renewable Energy calculated that Mongolia has the potential to generate a total of 2.6 million megawatts of power. That is seven times as much power produced by all the world’s nuclear energy plants, according to Bloomberg.

This huge potential resource has already attracted much of


Asia and has materialised into a proposed “Asian super grid”. Japan’s SoftBank, Korea’s Kepco and Newcom Group of Mongolia have partnered to realise this plan. They intend to study Mongolia’s renewable energy reserves and apply them to the domestic economy to test the possibility of exporting that energy to other parts of Asia.

“Mongolia does have the realistic potential of turning this great project into reality. This possibility should be made into development”, said Newcom Chief Executive Officer B. Byambasaikhan.

There is also the potential to produce 682 billion kilowatts from wind in the Gobi annually, he added. Technical and economic studies are set for this year for the construction of a 300-megawatt power plant in Tsogtsetsii Soum in Umnugobi Aimag.

The creation of the Asian network could grow into a huge global network that defines how clean energy can be a development solution. ■

TOURISM



QUALITY VS. QUANTITY

BY B. TSETSEE

Mongolia is not a destination for high-volume tourism. It's not just a lack of infrastructure, but it's also this nomadic way of life. It can be high-value tourism.

The following is a interview with the chief executive officer of Nomadic Expeditions, Jalsa Urubshurow. He was born America after his parents fled political persecution in Russia. His father had only six Deutsche marks in his pocket, which was very little in Germany after World War II, and was valueless in the United States.

About 20 years ago, he first visited Mongolia upon invitation from the first democratic prime minister of Mongolia. Although he was born in the United States, Urubshurow speaks excellent Oirat dialect, an ear-pleasing beautiful variety of Mongolian language.

There are only two nations who dared to embark on a long journey to start their own nations. One of them was the Kalmyk people who suffered political prosecution from Russia for

400 years (the other was the Jewish nation). Kalmyk Mongolians living in the Kalmyk Republic of Russia, formerly of the Soviet Union, first moved to the Volga river and the next to the Caspian sea in the 17th century.

After the World War II, a group of 580 Kalmyks arrived in the United States in 1952 under the sponsorship of the Tolstoy Foundation.

Though you were born and raised in the United States, you originate from Kalmyks. Your first impression was likely much different from that of most foreigners. How did you feel ?

So, when I first came to Mongolia, I just fell in love with everything. Mongol faces are everywhere. We would drive around the city and I would just keep saying "stop" because there

were so many Mongol faces around me.

There are Kalmyks in our town in the US, but a very few, so I was just so thrilled to see so many of them. One of the first things I did when I came to Mongolia was go to the flea market (khar zakh). It was great to just stand among the crowd. It was just ineffable it to be all Mongols and nobody would care who I am. Even though I was born a continent away, I consider this country as the homeland. I feel home here because it is my ancestors cradle.

I am happy to go to the zakh (market) rather than go to Times Square in New York. I have been here many times, but to be honest, every visit is like the first time and not enough. »



► **You speak Mongolian very well. But you sound like an old man who lived in the middle of nowhere in Mongolia your whole life. Urban people call that the countryside dialect. How did you learn to speak this way?**

My parents were not wealthy in monetary terms, but they gave us tremendous wealth in terms of knowledge, identity, and our culture. We always had conversations in Mongolian at home.

The Kalmyks are lucky to speak Mongolian after 400 years in Russia and 50 to 60 years in the US, including, myself, who was born in the US. We have a little different dialect than Khalkh Mongolian. I feel the Khalkh language has gone through modernization and some abbreviation.

Kalmyks also had a challenge of preserving their Mongolian language spending centuries in foreign lands.

Once I went to Uvs province of Mongolia. I visited a Durvud family and enjoyed a great conversation with an old woman who spoke the exact same Western dialect as me. It was a very special occasion to me since I am from western Mongolian as well, and we spoke in our native dialect.

Is tourism the only thing that brought you back to Mongolia?

Well in the 1990s, my construction company in America was growing. But I loved coming to Mongolia. When I was young I used to fish and camp. I loved the woods. I wanted to be a forest ranger when I was younger, but I was busy being a carpenter.

I was invited by a delegation to

come to Mongolia in September of 1990. By that time [Dashnyam] Byambasuren had become prime minister. They introduced me to Juulchin [Tours] and he asked me to start promoting tourism.

Byambasuren asked me to bring more travelers from the West. There were less than 100 American tourists a year in 1990. I wanted to come back myself so I came back home and built quite a good organization. My construction company became one of the largest carpentry contractors in America. We won the national housing quality award in 2003 for being the top trade contractor for America. It was given to us by the National Association of Homebuilders. I had a very good organization but I said, "I have to go home to Mongolia on business."

We started the eco-festival in 1998, and conceived in '99. The reason is the prime minister asked me, and I felt one of my first plans when I came to Mongolia was to build an eco-lodge. I proposed to the government of Mongolia that they fund the eco-tourism and build up tourism and cellular phone network in 1990.

Again, I was always committed to helping to grow tourism in Mongolia. We had the first website online focused on Mongolia. We've been promoting Mongolia at trade fairs and shows. Just like I spent money to build a lodge, I invested that to create an office in the US. Initially it started as a joint venture between Juulchin, but philosophically I just couldn't. Juulchin was a big state-owned organization.

In a central economy, competitiveness, incentive, and quality were not even an issue. The demand was bartered tourism. Here was Eastern Europeans coming to Mongolia with Mongolians going to Czechoslovakia, East Germany, and so on. It wasn't the same and the standards weren't the same. ►►



► '92 was our first expedition using Juulchin until 1996 when we opened our own offices. Budral [vice president of Nomadic expeditions] used to work for Juulchin, but he was a new generation. He has one foot in both generations. He grew up in Russian schools. He saw this whole transition as a young man. He understood; he got what I was trying to do. Mongolia is not a destination for high-volume tourism. It's not just a lack of infrastructure, but it's also this nomadic way of life. It can be high-value tourism.

I do this because we can set a higher benchmark for travel to Mongolia. In Africa, quite often you see expats. Here there are many companies with expats here to make their living.

How do you feel about the direction of the performance of tourism in Mongolia is going?

It's going dramatically I think. There are a number of tourists visiting from Western countries. I think the level of service has improved dramatically. In '95, for example, I remember the very first pizza in Ulaanbaatar at

the Star Hotel.

You have got to remember when I came here in 1990 there were only 450 private vehicles in the capital. The entirety of Nartantuul was deserted. You could come at any time of the day walk across the street to the Ikh Deguur [State Department Store] and kids were playing soccer in the street. Now there's 490,000 cars. In 22 years that is tremendous growth, good and bad.

I think there's not nearly enough commitment to eco-tourism. Mongolia is not Disney World. It's not the coast of Mexico, the south of France, or an African safari. But it has its own natural beauty. Mongolia's tourism, I think, is centered on its nomadic culture, its national history and beauty. People know about Africa and the Serengeti grass lands, but they don't know the Eastern steppe of Mongolia's grasslands. It's the largest unspoiled, unfenced grasslands on the planet.

They talk about herds of animals in Africa. They talk of the "big five" animals the lions, elephants, rhinoceros, and so on but there's maybe a million and half to two million gazelle on the eastern steppe of Mongolia. That makes them the largest herd of hoofed animals in Central Asia and outside of Africa.

The Gobi is home to very endangered species: the wild Bactrian camel and the Gobi bear.

The nomadic culture still survives, though it's changing. I don't like the assumption that the nomadic culture has to disappear. They are living the absolute greenest form of existence. The nomads certainly want better ways of life. But they adapt and adjust. People were all riding motorcycles, but as soon as gas prices went up the motorcycles were covered with tarp and people were riding horses again. Forty percent of the population of Mongolia makes its living from meat and livestock.

It doesn't have to disappear. This pasture way of life has been in existence for centuries.

In the countryside it's changing because there are so many people intruding. There are even Mongols ►

► not being so good to each other. But tradition was you leave your doors unlocked. If you were tending to your herds, you left your door unlocked.

Can you imagine leaving your door unlocked and leaving some food in case a guest came? This is unheard of in the Western world.

What do you think are the challenges facing tourism?

I think embracing eco-tourism and the basic tenants of tourism are protecting the environment. For every two operators, they have to have an invested interest in protecting the environment. The reality is it's their inventory. To allow it to be destroyed is to allow someone to destroy your inventory. It's the same as allowing someone to destroy your factory.

This isn't Mongolia alone, it's global. The World Travel and Tourism Council is studying this. Companies that have embraced sustainability do better than the companies that don't. The ones that are more profitable and going to grow are the ones that embrace sustainability whole-heartily.

At Three Camel Lodge, every drop of water is heated by the sun. Initial investments are hard. That makes it harder for small tourist camps. That's where government can play a role.

Do you agree with the notion that the lack of structure is the biggest hurdle to the development of tourism or that over-development would ruin the appeal of Mongolia as a tourist destination?

I think there's a balance. There are areas that are environmentally sensitive. There is something to defend about nomads living off the land that are opposed to highways. That becomes a major issue for the government. I'm opposed to a major highway bisecting highly sensitive areas. I've been a proponent of low-volume tourism, but higher-end. The Three Camel Lodge, though it's a permanent structure, was also built with some cultural commitment. If someone finds this lodge after 400 years, they won't know if it's a lodge or a temple. It doesn't look like a nor-

mal lodge because it was built as ancient Mongol temples were.

At the Three Camel Lodge there was a well that hadn't worked for 15 years. We rebuilt it and gave it back to the community. And it's great for our guests to see the herders collect water from the well.

There are ways to build, but you have to do it in harmony. There are ways to build that's beneficial to them.

Look at the development at Huvsgul, The western shore is an absolute mistake. There are 34 lodges built with no standards. The waste from the toilets at many of them is seeping into the very lake they bring clients to see. This is lake water you can drink out of, and there aren't many of those. What should be built there are the highest, most technologically advanced sewage systems and controls. It's not just an option, but our responsibility

What do you think of the new ministry structure grouping tourism with sports and culture?

I've seen tourism evolve from being under the ministry of infrastructure. Originally there was no tourism ministry at all. The fact that there is a ministry of tourism is a good thing. It wasn't necessarily so effective historically, from what I see. There have been no tangible results in promoting tourism where they address the real issues that affect tour operators and hotels. Even this license plate rule, we have two buses that we cannot use on certain day, but we have tourists coming the whole time.

When it was part of the environment, I thought it made sense. But now the environment is a big enough issue that I think it should have its own ministry. Culture is certainly a part of it, and sports, too. Eco-tourism in Mongolia should embrace the culture, which also embraces the sports. The nomadic culture that I'm referring to, and the modern culture that it's involving into is all a part of it.

You can title it anything. You could call it the Ministry of Fun, as long as it protects the environment

and takes the issue to heart.

How did tourism perform this year compared to past years?

Each year since the recession, we've had an initial drop off. We've been working our way back from pre-recession levels. It was really 2009, when tourism was really hit. Both 2009 and 2010 were tough years, but I think in 2010 we saw a little tick. Now since 2011 and in 2012 we're working our way back. We saw some pretty substantial growth in those years.

Do you have any plans to enter any other industry?

There are things related to tourism and Mongolian crafts and arts. It's the same issue as with hotels. Sometimes you see these gleaming steel hotels and older hotels that have no commitment to modernisation.

I'd love for us to someday to be in the hotel business in the capital because so many of our clients have to come here. And we have the same dilemma as with lodges. The lodges don't get it, and the hotels don't get it. You can build a sustainable hotel in the city too. There are platinum-certified casinos with huge complexes that are sustainable. I think that can be done better in Mongolia as well.

Construction, home building, and building affordable housing, these are some of the things I'm interested in.

What do you plan to do next for your tourism business?

Our hope [at Three Camel Lodge] is to go completely solar within the next few years.

I think the next big step for us is improving what we go here. These look like little steps, but we've got some big steps too. I think the big step is to try to build the best eco-lodge in the world in Mongolia. Maybe the Three Camel can be that one, or maybe we can build another that can do that.

I think there's no single next big step. There's not get-rich-quick plan or mining license at work that we can extract dollars quickly. If hotels and camps compete in how many stars they get, our lodge has five thousand stars in the blue sky above us in the Gobi Dessert. ■



NEWSWIRE HIGHLIGHTS

NewsWire is a weekly news aggregate sponsored by the Business Council of Mongolia. Each week NewsWire delivers breaking and significant news from local and international news sources for a Mongolian and foreign audience alike. The following are news highlights from the month of January:

BUSINESS

OYU TOLGOI BOARD CHAIRMAN ASSURES OF MONGOLIAN INTERESTS

Oyu Tolgoi LLC's chairman of the board defended the investment agreement for the enormous copper mine, saying that the country earns more than investors in the form of taxes, royalties and other fees. "We will now see definitively if the Oyu Tolgoi project is profitable", he said. "It is not wise to talk about how much shares we want from the project when the project has not even produced any minerals yet. We all know that the public has a lot of expectations for Oyu Tolgoi".

The chairman also described the government's influence on the board, explaining that three of the nine members represent state-owned Erdenes Oyu Tolgoi LLC.

"I would say that the

three members—N. Baga-bandi, B. Ganbold, and P. Tsagaan—are doing a great job at fulfilling their duties to protect and ensure the interests and benefits of Mongolia".

Batsukh also commented on the recently held board meeting, of which some members had been postponed because of disagreements over the budget. He said there was not any boycott or protest made by board members and the board would assemble again for a meeting to resolve those issues.

Source: UB Post

Erdenes-TT requests USD 200 million loan from Development Bank

Erdenes Tavan Tolgoi JSC has requested a USD 200 million loan from the Development Bank of Mongolia.

This will be the second loan after a request by Erdenes-TT for a loan from the Development Bank for USD 100 million. Last year the government took funds from Erdenes-TT for its Human Development Fund, leaving it with only USD 170 million. That was enough to run its small-scale operations only up to August of last year before it had to borrow from the bank.

[The USD 200 million] will see ETT... stand on

its feet", said officials. "We would then be able to start paying dividends to our citizens, probably beginning in 2016".

Source: Mongolian International Capital Corp.

NOMIN TAKES HOME TOP HONOR AT MNCCI ENTREPRENEURIAL AWARDS

Nomin Holding LLC won the "Grand Prix" Award at the Mongolian National Chamber of Commerce and Industry's (MNCCI's) Entrepreneur-2012 awards.

Other honors include Khan Bank LLC's "Best Corporate Social Responsibility Implementor," NBF LLC's award for "Best Pure Manufacturer," for the Greenpreneur-2012 awards, and Juulchin Tours LLC for the "Gold Cup" award from the Confederation of Asia Pacific Chambers of Commerce and Industry.

Source: Mongolian National Chamber of Commerce and Industry

ECONOMICS

JAPAN, MONGOLIA SIGN EMISSIONS-REDUCTION PACT

Japan is making progress in its plan to bypass protracted U.N.-sponsored efforts to limit carbon emissions, signing its first bilateral carbon offset mechanism Tuesday.

According to the agreement Japan signed with Mongolia in Ulaanbaatar, the mechanism is intended to complement the U.N. Framework Convention on Climate Change, which last convened in Doha, Qatar, in December.

Yuya Okuyama, the global warming policy director at Japan's environment ministry, said the country is also close to signing similar agreements with Bangladesh, Indonesia, and Vietnam. Japan has said over the past three years it was pursuing a strategy of signing bilateral pacts, as they can be more easily reached than multilateral agreements through 2020, but this commits a limited number of industrialised countries to cutting greenhouse gas emissions.

The Japanese government has financed 134 feasibility studies proposed by Japanese companies in preparation for the introduction of bilateral schemes. A few of those have been conducted in Mongolia, including a geothermal project by Shimizu Corp.

Source: Wall Street Journal

MUTTON PRICES SURGE ON HIGHER GAS PRICES

The price of Mongolian mutton, the nation's staple food, rose 5.9 percent this month because of in-

creased gasoline costs.

Mutton prices have risen to MNT 6,614-6,800 a kilogram. The price of a liter of gasoline has reached MNT 1,670, an increase of MNT 50 since the end of last year, according to the report.

Mongolia's central bank at the end of last year gave the country's fuel importers MNT 83 billion in loans after the companies said they may have to increase gasoline prices to as much as MNT 2,010, News.mn reported, citing O. Magnai, head of the Ulaanbaatar-based Authority for Fair Competition and Consumer Protection (AFCCP).

Beef prices have risen as much as 3.1 percent, goat meat has increased 3.7 percent and horse meat has gained 0.2 percent, according to News.mn.

The price increase for

gasoline was "reasonable," the report cited Magnai as saying. He was also cited as saying the cost for diesel and other fuels could see further increases.

Source: BusinessWeek

PREMIER GIVES NATIONAL ADDRESS

Prime Minister N. Altankhuyag gave a report on current conditions within the nation.

Altankhuyag said the country had an average of 60 centimetres of snow in 15 provinces, with as much as 130 centimetres in some areas. He reported that 27,189 families were suffering the worst of the winter conditions. Meanwhile, energy consumption reached its peak points beginning in October, he said, adding that energy delivery was

functioning normally

The premier also addressed rumors that the USD 1.5 billion bond issuance made last year had put the government under great debt, saying the rumors were untrue and that the central bank was responsible for reducing negative effects from the debt sale. Also, a policy council has been established to ensure that the funds from the sale are spent effectively and achieve the original aims of the fund raising. This includes the construction of 1,800 kilometres of rail and paved roads to connect six provinces with Ulaanbaatar. Altankhuyag said every project would undergo thorough deliberation by the policy council.

Source: Montsame

BCM WARNS CRITICISES MINERALS LAW TO PRESIDENT

The Business Council of Mongolia (BCM) sent a letter to President Ts. Elbegdorj's office criticising a proposed mining law that it says would "greatly discourage" investment.

The letter, sent on 7 January, also said the proposed legislation would "halt current mineral exploration and development" and "make the minerals industry economically non-viable".

The proposed mining legislation would need to be passed by parliament to become law. Ch. Saikhanbileg, cabinet secretary, said the proposed law was drafted by the president's office and declined further comment.

Source: Bloomberg

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