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# MONGOLIAN ECONOMY



Can Mongolia become the  
heart of the world?

A New Era for Mongolia's Herders

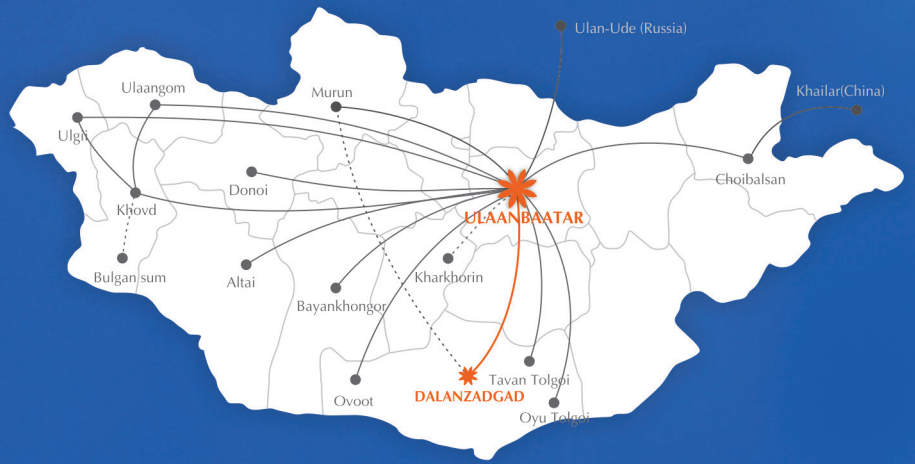
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## “ENERGY EFFICIENCY IN THE GRID CONNECTED ENERGY SUPPLY” Project

### Project duration:

ENEV - Phase I :  
2007 – 2010

ENEV - Phase II:  
2010 – 2013

### Name of the donor:

Government of Federal  
Republic of Germany  
Phase I: 1,8 mill Euro  
Phase II: 1,9 mill Euro

### Project implementing agency:

German International  
Cooperation (GIZ)

**“Energy efficiency in the grid connected energy supply - II” project goal to promote investments in energy efficiency can be translated into the following five elements:**

(1) Improve framework conditions through Energy Conservation Acts, directives, rules and regulations;

(2) Capacity development of officers of entities mandated to design and implement national Energy Efficiency strategies;

(3) Force energy efficiency services provider market through Government intervention; Hereto: arrange and organize training of personnel and specialists in the techniques for implementation of above activities; Framework of the ESCO, DSM companies; specify, by regulations, qualifications for the accredited energy auditors and managers;

(4) Intensive and continuous public relations, education activities and lobbying at all levels of an society including parliament, institutes of higher learning, private sector players, and media;

(5) Assess the potential to increase the energy efficiency among end users and to promote efficient use of energy and its conservation in energy generation, transmission and distribution;

## GIZ MONGOLIA

### Working efficiently, effectively and in spirit of the partnership

The federally owned Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH works worldwide in the field of international cooperation for sustainable development. GIZ supports the German federal government in the realization of its development policy objectives. GIZ first set up a country office in Mongolia in 1998.

GIZ Mongolia works in priority areas of Sustainable Economic Development and Environmental Policy, including Energy

Efficiency. GIZ Mongolia works primarily for the German Federal Ministry for Economic Cooperation and Development (BMZ). It also works on behalf of other German ministries, private enterprises and international clients.

GIZ operates in more than 130 countries worldwide and employs approximately 17,000 employees worldwide. Last year GIZ's turnover was of EUR 1.9 billion.

GIZ Mongolia employs 130 staff members and its turnover was approximately 10 Million EUR last year.

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## LETTER FROM THE EDITOR



Much has changed since last year's conference for investment into Mongolia's energy sector.

This includes changes made to the Law on Energy, which focuses on pushing the energy sector's development into market relations while regulating its legal environment. The 15 companies that originally bid for the tender to build Power Plant No. 5 has been narrowed down to four. Only one will be selected for its construction.

The financial details surrounding Newcom's wind farm have been finalised and construction is underway. Also, the Buman Narnii Gerel project, which began in 2000, is in its final stage of development. Of course, the project has experienced setbacks along the way. But it has brought herders who have sat in darkness by candlelight into the world of electricity. Can we say that its results were beneficial? The answer to that lies with the improvements brought to the lives of those herders.

Stable development is the main aim of the Mongolian power conference. Experts and specialists will deliver speeches and discuss methods for creating stable development, in addition to the policies needed.

Mongolians have started to talk about becoming a leading country for renewable energy in Asia and exporting its renewable natural resources like sun, wind and hydro energy, in addition to its coal and metals. This means taking one step closer towards development.

The developed countries of Asia have shown interest in Mongolia's Gobi region, and started propping up private companies to participate in ventures. However, they prefer opportunities regarding wind and sun to coal.

The Sahara Forest Project is said to be able to generate enough energy to supply the whole of Europe with electricity with just one-third of the solar energy available in the Sahara Desert.

Japan, South Korea and Mongolia have joined together to initiate a project that would create a super energy network in Asia. This prospect means supplying an environmentally friendly energy source throughout a large portion of the world. Is Mongolia ready for this? Is the country capable of turning this opportunity into development?

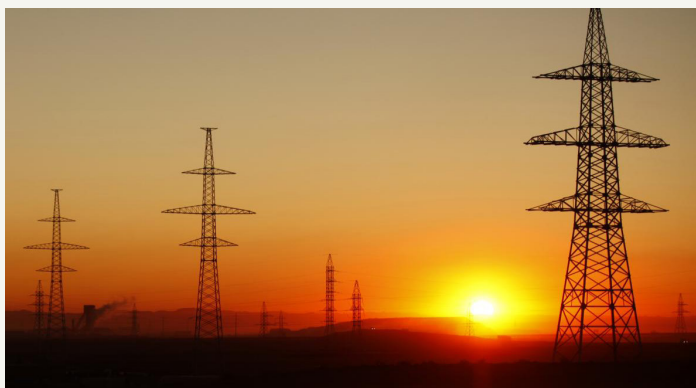
These are the highlights of this edition of *Mongolian Economy*. For the second time, our staff and management will serve as a partner in spread of information from this international conference on energy development. We have high hopes for further cooperation between the Ministry of Mineral Resources and Energy, which has been defining the development of the nation's most important sector.

Additionally, *Mongolian Economy* strives to continue its mission to deliver news on the economic issues facing our country's development as well as trends in policies. We would like to express our warm gratitude to the Ministry of Mineral Resources and Energy.

EDITOR D. BEKHBAYAR

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## INFRASTRUCTURE

The government has granted concession rights to build a railway during a session on May 9. The State Property Committee discussed and approved of concession agreement projects on the construction, utilisation, and commissioning of basic railway infrastructure. These projects include a railway line stretching 225 kilometres from Sainshand to Tavan Tolgoi, and 225 kilometres from Ukhaa-Khudag to Sainshand. The government ordered the State Property Committee to include state-owned coal miner Erdenes Tavan Tolgoi in the project to ensure its involvement and oversee of operations.

## STOCK MARKET

The government has been debating what actions to take in regards to the distribution



of shares of Erdenes Tavan Tolgoi and people's ability to sell those shares to private national businesses. The government has decided to receive applications from citizens who would like to sell their shares at a nominal price until May 20. Those who fail to apply before the deadline, will automatically opt to keep their shares.

Additional changes to the Law on Securities.

A revised draft of that law will be discussed by the Standing Committee on Budget in Parliament. T. Jambaajamts, a senior officer at the Financial Regulatory Committee, said there would be major adjustments to the law, which would bring great change to the financial sector and stock market. The revised law includes a set of higher standards and requirements for brokers, dealers and investment companies, as well clearer explanations of their exact roles in the market. It would also allow a more comprehensive legal environment for international trade and cooperation.

## SOCIAL WELFARE

Social welfare has increased by 23 percent. For example, a bus driver who went on pension between 1987 and 1991 would have received MNT 282,000



compared to what used to be MNT 140,300. On average pensions that were registered on standard salaries before 1995 have risen by MNT 63 thousand. For that reason, the government assumes that pension variances between those of the same profession have been eliminated

## CORPORATE GOVERNANCE

The Mongolian Company Governance V forum organised by the Company Governance Development Centre in conjunction with the International Finance Corporation held discussions about governance over private companies and family business governance. Family business has a classic structure, but is regarded as the most common business. According to a study from the International Finance Corporation, family businesses makes up about 70 percent of

all businesses around the world and creates many jobs that have great importance to their economic development. For example, 70 percent of the private sector consists of family-owned business, comprising around 65 percent of gross domestic product. In Latin America, family business accounts for around 60 percent of the economy. The chief executive officer of Tenger Financial Group, M. Bold, said that Mongolia's business sector is also dominated by family-owned business, making it important to develop a system. Such a system would provide greater transparency and create a proper framework for administrative management.

## NEW CONSTRUCTIONS



The very first trolleybus factory, financed by city government, has been commissioned for production. The new firm Electrical Transportation is considered the first to enter into this newest industry. The factory utilises a linear conveyor, tripling the capacity of

production. The factory has been supplied with technical equipment that would manufacture up to 100 trollies and buses. The first JEA-2008 trolley buses were manufactured in 2006. Since then, the company has built 41 trollies, and have exported two JEA-2008F duo buses.

## TECHNOLOGY

Developers announced plans to launch Mongolsat, the first Mongolian satellite, in January 2013. The satellite project was initiated by B. Tuguldur, Ts. Nandinbaatar and E. Batbayar; the general advisor is astronaut J. Gurragchaa; and academic B. Chadraa is serving as general technical advisor. The satellite will be attached to an American rocket. During its maximum seven years of operation in the space, the satellite would conduct two scientific research programs as well as an study for information technology.

## RENEWABLE ENERGY

France's Eole Water has invented the WMS-1000 wind turbine, which produces clean water from water vapour. The wind turbine has the capacity to produce an estimated 1,000 litres of water a day,

and will be sold on the market by the end of this year. Depending on environmental influences and locations for production, total expense for the installation is estimated at up to USD 790,000. This equipment would introduce huge



innovation potential to the renewable=energy sector

## RUSSIA

Russia's parliament

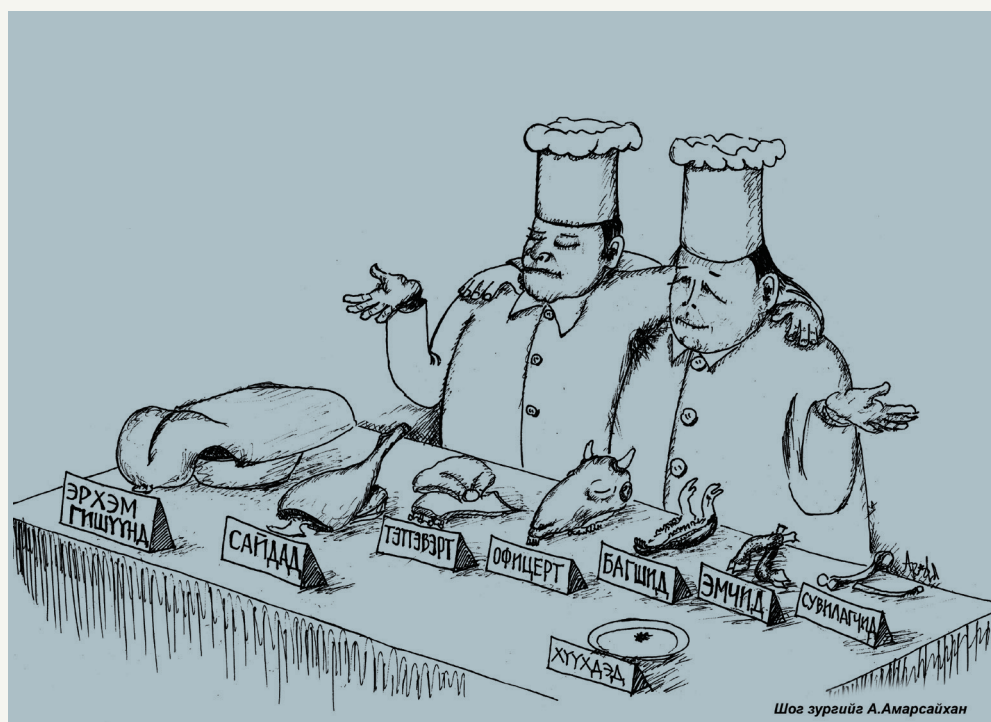
confirmed former president Dmitry Medvedev as prime minister on Tuesday, completing a job swap between the country's top two leaders a day after Vladimir Putin was sworn in as president. Lawmakers in the State Duma, the lower house of parliament in which the Kremlin-allied United Russia party holds a majority of seats, approved Medvedev in a 299-144 vote after Putin asked them to support his nominee.

## CHINA

The latest data from China has indicated that the country's economy is continuing to slow, raising the prospect of monetary policy easing. China's export and import growth



slowed in April raising fears about a sharp slowdown in its economy and triggering calls for monetary policy easing. Exports rose by 4.9% in April from a year earlier, down from the 8.9% annual growth seen in the previous month, a sign that global demand may be slowing. Meanwhile, imports rose just 0.3% on the year, down from 5.3% in March, indicating a fall in domestic demand.





## MONGOLIAN POWER 2012

The United Nations has declared 2012 as the “International Year of Sustainable Energy for All”. The recent conferences on economic development, green economies and green development demonstrate how important these topics have become to the world.

Mongolia too has joined the effort with its second Mongolian Energy 2012: Stable Investment into Energy Technology conference. The conference will introduce goals for development and energy policies to national and international investors as well as attract investment. Its organisers hope to encourage the use of new technologies, instill greater cooperation for development, and spark debate on the opportunities available to government and private enterprises in the energy sector.

Included in the agenda to the energy-focused

conference are sub-sessions to discuss trends and changes in energy policy, issues that need attention from public-private partnerships, stable energy development issues, and the private sector’s role in the energy sector.

Minister of Mineral Resources and Energy D. Zorigt said that Mongolia’s energy sector has reached the proper level for investment. Cooperation between domestic and foreign investors is very important for bringing improvement in the energy sector with new standards. As a pillar to the country’s development, it is crucial that this sector heads in the right direction.

Attendants from last year’s conference said that it gave clear information on the energy sector’s legal environment and investment opportunities. Therefore this conference will be held annually for years to come. ■

LAW

## INNOVATING THE ENERGY SECTOR

The 72 Resolution to the Law on Energy passed in 2010 is a guideline to how the energy and fuel sector should operation entitled “Actions to Be Enforced in the Fuel and Energy Sectors”. With its enforcement, the sector would heal and manage itself in the economy market legally and economically, said Member of Parliament A. Tleikhan.

BY B. BAYARTOGTOKH

The energy sector has been haunted by deep pressure for many years. However, today it can finally breathe again. After years of sustaining through long-term credit, it has been slowly pulled out by the nation’s budget. Member of Parliament A. Tleikhan said positive steps towards innovation have been taken. He noted that a whole new era has begun within the energy sector.

Experts advise citizens to take a look at the country’s energy laws, regulations and ordinances at least once a year. According to them, doing so would be beneficial to citizens and their daily lives. There are plans to introduce a drastic change to the economics behind energy production.

The 72 Resolution to the Law on Energy passed in 2010 is a guideline to how the energy and fuel sector should operation entitled “Actions to Be Enforced in the Fuel and Energy Sectors”. With its enforcement, the sector would heal and manage itself in the economy market legally and economically, said Member of Parliament A. Tleikhan.

### Changes to the 72nd Resolution:

1. Outstanding debt collected by the energy sector will be repaid.
2. The government will be responsible for changes in exchange

rates related to long-term foreign loans.

3. Depending on the ability of consumers to pay, some compensation will be made using funds from the state budget

4. Price controls over energy will be removed beginning 2014.

This amendment aims to direct the transition of the energy sector to real market prices which would eventually improve its management, production and delivery, as well as create cost savings.

Also, actions have been made taken activities settle the balance of debts and phase out subsidy payments to energy companies

In recent years, the sector has operated at a great number of losses. However, experts are seeing significant change. This amendment makes a clear directive for a change to the status quo. Tleikhan explained that the following two issues has been enforced successfully with a third currently under discussion.

### Success

1. The economic and financial situation of the energy sector has been put straight.
2. Additional changes to the energy law have furthered the transition

to real market prices.

### A Step

A new law developed through cooperation between the Asian Development bank, the German development agency (GIZ), and the Ministry of Mineral Resources and Energy on energy savings will soon be introduced. Reduced coal usage means less smoke and fewer breakdowns to machinery. Savings would be made to electricity transmission, circulation and consumption. It would also improve the sector’s economic capacity, releasing it from debt.

This amendment will also enable the sector to better align with the market, creating a greater balance between consumption and production. For example, outstanding debt was reduced to MNT 32 billion from some MNT 50 billion. Debt between power plants and mineral producers would be resolved by the end of the year.

“It would be wrong to say that the energy sector hasn’t aligned with the market. The energy law passed in 2001 switched over to market trade graining state-owned factories and companies independence. This sector has made a transition from a vertical to horizontal organisation”, said T. Tserenpurev, the head of Energy Regulatory Committee.

But Tleikhan said that some more changes will be added to the energy »



► law. The law included issues that would speed up the transition to market conditions and establish the energy department as a committee comprised of five coordinating entities.

However, more changes are necessary. The Energy Regulatory Department has now switched over to a committee consisting of three government and two independent entities.

The 72nd Resolution of the Law on Energy and additional changes in the energy law have resulted in:

(1) The energy department's transition to the Energy Regulatory Committee allows the organisation to compile its own budget rather than receive an allotment from Parliament to impart it with greater independence.

(2) The sector will operate on indexed energy prices that would allow a more flexible pricing policy.

(3) Prices will be calculated based on profits earned from investments. Total expenses used to be based on average estimates.

(4) The energy sector will fully finance itself by 2014. This means phasing out subsidies from the government and imparting greater independence.

(5) A legal and economic environment has been created for foreign investment. For example, a new China-Mongolia joint firm called New Asia Mining will be construct a 60 megawatt power plant utilising coal

produced from the Mogoin Gol mine. The company will be left to its own devices to finance the USD 110 million for construction of the plant. The plant would be handed over to Mongolian government after 20 years.

(6) Energy consumers will be able to buy 150 kilowatts an hour of electricity at current prices for the next three years. The government will grant subsidies to protect consumers from having to pay real prices.

However, if a family's electricity consumption exceeds 150 kilowatts an hour, then payments will reflect real prices.

(7) The number of activities regarding energy production among Mongolia's central provinces is increasing. Profits from producers in the central region grew to some MNT 213 billion compared with year-ago profits of about MNT 150 billion, meaning greater financial stability for those companies.

(8) Mongolia's energy sector has seen a reduced total loss this year. Among 12 companies operating in the central provinces experienced a total loss of MNT 27 billion loss, compared to MNT 45 billion a year ago. This 40 percent reduction in losses is a huge step forward to those companies. The Energy Regulatory Committee said greater efficiency will continue to grow as well.

#### **The Need for Change**

"It won't be necessary to have the

Authority for Fair Competition and Consumers protection review prices because they are set by government regulations and mutual agreements. This will be added to the energy law", said Tleikhan.

This addition was made as one of the five coordinators will be a representative of the Consumer Protection Agency.

Issues on trading agreements related to foreign investments will be also added.

As the population of Ulaanbaatar increases, the price of energy as well as consumption increase as well. Can limited supply meet the country's seemingly limitless demand? Great construction is beginning began to emerge as the Homes for 100,000 Households project builds up steam.

The energy sector strives to create a legal environment that follows world trends. The Energy Regulatory Committee has said it would create a legal environment that is based on system of savings and promotion, which would supply future demands with energy saved today.

"The sector has a very long history of debt. However, it is recovering", said policy maker Tleikhay. "So there won't be any obstacles when payments are made. It will now begin financing itself. Thus, the organisation is able to pay its debt according to the deadline agreed upon".

"Beginning from 2014, the energy sector will operate according to market principles". ■

INTERVIEW

## THE BIG GREEN DREAM

Looking at the summary of the study, we lose over 30 percent of the energy in inefficiencies. The most simple examples are the use of energy saving lamps, and certain energy savings by the producers.



BY D. BEKHEE

**This year will be the second attempt by Mongolia to attract foreign investment into its energy sector at a conference. Is the legal framework for foreign investment within the energy sector strong and stable?**

There are many new recommendations and initiatives proposed for amendments to the Law on Energy. For instance, a lot of input is being considered for greater independence given to the Energy Regulation Committee. The law has been applied since 2001, and its amendments reflect the changes necessary to correct the errors and failures that have occurred since then. It can be said that more concentration has been paid to attracting the interests of the private sector to the energy sector.

Moreover, the capacity and status of the energy sector has been improved, thus the framework for foreign and private investment has been created. Some members of Parliament have submitted project proposals for the new Law on Energy.

The government and its relevant institutions have contributed their ideas and initiatives into this legal project. If this project is discussed during the spring session of Parliament with positive results, then it means investment opportunities for the private sector.

Also, the Law on Energy Saving will be handed to Parliament. The specific character of this law revolves around the inclusion of guidelines for the efficiency of the energy sector. Looking at the summary of the study, we lose over 30 percent of the energy in inefficiencies. The most simple examples are the use of energy saving lamps, and certain energy savings by the producers. Therefore, if the Law on Savings is approved, then a bonus »

► system for the families and enterprises that save energy, will be created.

**The energy sector is the only sector in Mongolia unaffected by the market economy. Which policies are aimed at a transition of the energy sector into the market economy?**

It would be wrong to say that the energy sector hasn't entered into market economy relations because the entire basic framework for transition of the energy sector into the market economy is being created by the amendments to the Law on Energy from 2000, which has been enforced since 2001.

The Independent Agency for Energy Regulation was established with the right to define the energy price without outside influence. That is a big advantage. Also the state-owned energy enterprises have now become privatised. The process to allow the boards of directors within the sector to act independently is now underway. The companies that distribute and transmit energy have now been separated.

Yet, one thing is missing. The government didn't allow companies the authority to raise the price of energy, as directed by the Energy Regulation Agency in 2002. It means we have approved the law with one hand, and violated it with the other. Thus we focus more on the independence of the Energy Regulation Agency. Over the last three or four years we have worked excellently. Parliament has issued a resolution that plans for a transition of energy fees into prices led by the market by 2014. The door to development is opening for this sector.

It is no secret that the law mandates independence from politics, but the political influences are apparent in decisions made.

The idea of independence from politics is also reflected in a new legal project. However it would be biased to say that politics should completely separate. If price pressures reach folks, then it would be appropriate for Parliament to make a decision to reduce the energy fees.

But the losses facing the energy sector should be compensated by the state. Today we are operating on this principle. The state budget has

provided subsidies of around MNT 15 billion for energy companies within the last two years. We do accept the fact that the current energy price is lower than market prices. Thus, subsidies are given too.

This year MNT 7.5 billion was provided in subsidies. The government-controlled fees grows, and so the volume of subsidies for compensation shrinks. By doing so, the subsidy would be eliminated by 2014.

**What is your position on the privatisation of the energy sector?**

It would be best to finance the new big projects led by private investment prior to the privatisation of currently operating factories, and enterprises. The first example is the 18-megawatt power plant at Ukhuaa Khudag. Also private investment into the construction of thermal-coal-fired Power Plant No. 5 has been approved.

It means a sound environment for the energy market will be created. When such a framework is created, then the activities of public institutions under government's control, will also be enhanced. At that time we have to decide whether public assets should be privatised or not. There should be assets to compare to one another, so we can say this is the state of affairs in the public sector, and this is the how private sector is operating.

There is some progress and reform needed along with privatisation. For instance, Parliament has issued a decision to privatise the network energy distributors. Also, private sector investment was approved for Power Plant No. 5. However, the issue of privatising Power Plant No. 3, and the power plants at Darkhan and Erdenet have not been issued. The reason is it's too early.

The privatisation of the main companies operating within this sector could lead to negative consequences. It is important to calculate risk. Therefore, first these enterprises must be compared with others and then we must see which are more profitable. Afterwards the next steps could be taken.

**A public-private partnership has already been implemented within the energy sector. Yet some members**



**of Parliament said that speaking of only public and private partnership is biased because the state earns profits from the mining sector, thus the power station should receive investment from the state, as well as support from international financing. What is your opinion on that?**

I have a different view. In cases when the economic framework is growing sound and the possibility for participation from the private sector is created, then private investment may enter. There are many private clinics operating in the health sector. What would happen if the state said, "We now have capital. Close your clinics and we will build new ones".

Instead, the policy is to construct big private clinics that would improve competitiveness while improving the sector's landscape. The private sector should enter areas where a profitable operation could return invested capital. That would benefit the economy.

The state has many other projects to do. For instance energy lines should ►►



**country's, but there are plans for much of Asia to do so as well. As the sector's minister, how realistic is this dream?**

This is our next big dream, and there is work to do. Today we talk about Tavan Tolgoi, and Oyu Tolgoi. From now on we have to talk about renewable energy, and start that work too. For instance, Mongolia has the capacity to create 12 times as much solar and wind energy as Japan. Surpassing the world's third largest energy producer 12 times would mean the creation of a big market. Thus, in order to introduce this market into the economy, foreign techniques and technology, experiences and methods should be launched too. If we can do this, then our big dream is not that far away.

European countries implement projects on energy production in the Sahara Desert and transport it to Europe. The Sahara has the most solar energy resources. There is a resource capacity of over 64,000 gigawatts. Next is our Gobi, and third are the deserts in Australia.

It means we have a lot of resources. We have to study the techniques and technology if we want to turn these resources into energy for export to our southern neighbour and Japan.

Some private companies have already started to work in this field. For instance, Newcom has founded a company that will produce wind energy with a Japanese institution. In the future, in 20 to 30 years, if we can create an economy based not on mining—but on renewable energy instead—then our country would be rich in resources.

**The Japanese talk about developing green energy and making drastic changes in their energy policy by refusing nuclear energy. In big countries like Germany, nuclear energy is losing popularity too. In our country, however, we talk about developing the nuclear energy. What is your attitude towards this prospect?**

Nuclear energy is not dismissed worldwide. For instance, 80 percent of energy consumed in France is nuclear energy. But it is true that the whole world has learned from the nuclear energy ▶▶

▶ be built. The state should be involved in the development of regional power stations. We are working on building power stations in Khushuut and Baruun Tsankhi with investment from the private sector. These initiatives have not yet succeeded because no one wants to invest in unprofitable opportunities. Also there are issues for producing warm water and heat in the provinces.

These are not so profitable businesses. Thus the state should pay attention here. In general, the work should be divided. The Law on Budget Sustainability touches on this. If technical economic calculations show a business to be unprofitable, but there is high social demand then the state should take charge. But if it is a profitable business, then investment from the private is required, says one article of that law.

**How many Soums without electricity are in Mongolia?**

Since I began working in this position, energy line construction has completed and been commissioned

in over 77 communities. The most complicated places to do this were in Gobi-Altai and Zavkhan Aimags. In those provinces 33 communities have no electricity. Of the 337 designated towns in Mongolia 316 are connected to the energy grid. Twelve of those utilise renewable energy. Another two receive energy from diesel-fired power plants.

The state budget has allotted funding that would connect an additional 10 communities to the energy network. Three-hundred fourteen communities will receive energy from domestic supplies, 11 from neighboring countries, and six from renewable energy sources.

In the future, villages located at the border will receive energy from communities utilising renewable energy.

**The new trend in the energy sector of Mongolia is undoubtedly renewable energy, or so-called "green" energy. The big goal of becoming a leading country in renewable energy is not only own**

► issues that arose after the Tsunami in Japan.

Yet, it is difficult to refuse nuclear energy entirely. Such types of energy sources will be safer and more developed in the future. The huge uranium resources in Mongolia also should be used in part.

Our future objectives mention the use of nuclear energy. There aren't many goals for today and tomorrow for the use of nuclear energy, but we have to focus on preparing the workforce for this sector from now on. Nuclear energy is a tremendous scientific area. We cannot leave this sector behind. It is a driving force of science. But no plans related to the construction of a big nuclear energy stations exists.

**Another big dream of the energy sector is to build hydropower stations, and could be soon realised. Yet, politics have prevented it from materialising. When will this dream come true?**

Hydropower stations are a big example of what can fail because of politics. This project is essential. Was its financing issues resolved? Yes. Several times it has been considered by Parliament and government. The project began as early as the 1980s and 1990s. It is no secret that it turned into a political sensation.

All policy documents from the energy sector included plans for the construction of hydropower stations

with large capacities. A location for construction is being researched. A study at the Egiin River was done. However it might cause environmental issues to develop there. Thus, building a hydropower station on the Selenge River with a capacity of 200 megawatts is under discussion. Compared with foreign hydropower stations that produce 5,000 megawatts, ours would not be large. Yet, it would be big for Mongolia. Building a 200 megawatt hydropower is not a challenging issue. It is urgent that we begin because it plays a role in the energy security of our country.

It would be right to first explain the issue to public, then study and agree upon it.

**The documents on policy that would solve issues concerning strategically important deposits are at what stage of development?**

The policy documents have been approved. The policy would allow special licenses for a 300-megawatt power plant for Erdenes Tavan Tolgoi. The technical and economic calculations will soon be ready.

Also the license for a 300-megawatt plant for Oyu Tolgoi is being discussed. But the most vital thing here is water. The capacity of a station built at Oyu Tolgoi would be a little bit lower. Thus, we are now working to create a joint network that would connect Tavan Tolgoi and Oyu Tolgoi. Also,

construction of another thermal power station with a capacity 600 megawatts in the central region in addition to thermal-coal-fired Power Plant No. 5 is under consideration. A contract with private entities is being made, and technical and economic calculations are ongoing.

**You have big issues in front of you, such as Power Plant No. 5 Tavan Tolgoi. How are these projects proceeding?**

Concerning Power Plant No. 5, the work our ministry is responsible for is now finished. Technical and economic calculations have been made and submitted to government, and it is set for approval. This issue is now with the State Property Committee. On May 7, the final decision will be made. It might be postponed. But the materials will arrive within May.

There are four companies out of 11 up for selection. They are Mitsubishi, Samsung, International Kub, and Dailing. Issues concerning coal provision, transportation, the expansion of the Baganuur and Shivee Ovoo mining project are now left. But we are working to address the issues facing Power Plant No. 5 in May.

Operations at Tavan Tolgoi have begun, and it currently has had 1.5 million tonnes of coal extracted. Around MNT 340 billion from company profits has contributed to the state budget. These funds were used to finance the MNT 21,000 allowances from the Human Development Fund and as assistance to 500,000 students. This year also MNT 300 billion will be rendered towards the state budget. From this, MNT 1 million will be allotted to the Human Development Fund.

Thus, it is wrong to talk about Tavan Tolgoi in a negative sense. It is operating. Foreign investment to certain parts of the projects is now under discussion. It's necessary because of the need to transport goods, and to produce value-added products. The volume of investments and the role of participation are still undecided, but we have to understand that it has begun operation, and is benefiting folks. ■



PUBLIC PRIVATE PARTNERSHIP

## INNOVATING THE ENERGY SECTOR

In a country like Mongolia where economic growth depends on mineral profits, one step that can be taken to avoid the “wealth curse” and its side effects is to invest in infrastructure.

BY KH. KHULAN

Mongolian Economy enquired about the public-private partnership within the energy sector to B. Zayabal, the acting chairman of the State Property Committee.

### What kind of development could a government partnership with the private sector bring to the energy sector?

Infrastructure and the energy sector are considered to be the major criteria to providing sustainable development and reducing poverty in emerging-economy countries. In a country like Mongolia where economic growth depends on mineral profits, one step that can be taken to avoid the “wealth curse” and its side effects is to invest in infrastructure. Doing so would enhance the competitiveness of other industries unrelated to mining. According to The Global Competitiveness Report 2011-2012, Mongolia ranks 136 out of 142 countries in the criteria of infrastructure. For energy supply it ranked 108, which is quite a poor performance. We all understand that infrastructure, especially within the energy sector, needs innovation, and out-of-date equipment must be replaced in order to enhance production capacities. In addition, there is a lack of financial support and time for new construction projects. The only way to solve these issues is through a public private partnership (PPP). Introducing a public-private partnership to the energy sector would create the possibility for citizens to benefit from quality, reliable and cheap services, while supplying electricity to rural regions. Also, it enables the private sector to run and expand long-term stable businesses. The government would be able to decide on financial issues without putting pressure on the budget, and allow it to implement its policy goals with the additional time and money. In addition, introducing »



► suitable knowledge, skills and management would influence the government's involvement while benefiting society with efficient, environmentally friendly technologies. The development of a public-private partnership opens up the gates for renewable energy projects that includes building solar, wind and geothermal power plants; or recycling electricity through biomass, biogas and recycled disposals, in addition to traditional projects like hydro-electric power plants.

**It has been a year since the public-private partnership was first initiated. What activities is the partnership currently working on?**

The concession law allows the State Property Committee to implement projects that are listed within the articles of the State Property Concession. There are a total of 16 projects included in the category of the energy sector on the list ratified in 2010, according to the 198th Resolution. A team was formed from members of the State Property Committee, Ministry of Mineral Resources and Energy, and other relevant agencies to choose and implement some of the projects that were in their preparatory phase and did not need financing from the budget; or could attract investors from the private sector. The concession agreement to build a 60-megawatt Mogoin Gol Power Plant has been signed. Tenders for Power Plant No. 5 to be build in Ulaanbaatar and a 100-megawatt power plant in Dornod have been announced. Also, projects on creating energy from recycled disposals are being studied and prepared.

**What examples are there of public-private partnership successfully implementing such**

**projects in foreign countries?**

Financial support to infrastructure in developing countries has greater demands than in developed countries. From 1990 until the beginning of the Asian financial crises in 1997, investments into the energy sector from private entities in developing countries had dramatically increased. By mid 1998, around 73 developing countries had introduced involvement from private enterprise into their energy sectors. Over 600 projects were being developed. However, investment from the private sector, which had slowed for five years due to the Asian financial crisis and other events, has been recovered since 2001. Until 2005, annual investments hovered at USD 16 billion. But drastic increases in investment beginning in 2005 eventually brought investment to USD 60 billion in 2009. Currently 44 percent of investment from the private sectors into infrastructure is directed to the energy sector, 25 percent to transport, and 26 percent circulates throughout the information and communication sectors, according to statistics. This shows how many projects in the energy sector are implemented using partnership agreements between public and private parties.

I personally think it would be more interesting to talk about a small, renewable-energy PPP project, instead of big power plants. In Denver, in the United States, a two-megawatt solar power plant was built in a three-hectare field right next to an airport. A public-private partnership was used to finance this plant, which generates three million kilowatts an hour annually and reduces the airport's annual output of CO<sub>2</sub> by 2.268 tonnes. ■

## CONCESSIONS

### List of Concessions:

Name of Concession Items	Description of Concession Items	Types of Concession	Works and Services to Perform	Financial Support or Guarantees from the State Budget	Competitive Bidding or Direct Contracting
Tavan Tolgoi Power Plant	Construction of a power plant at Tavan Tolgoi coal mine, capable of supplying power in the Gobi region	Build; own; operate	Build the power plant and facilities, produce and own energy production	Not required	Competitive bidding
Power Plant No. 5	Construction of a power plant that can supply the energy needs of Ulaanbaatar	Build; own; operate	Build the power plant and facilities, produce and own energy production	Not required	Competitive bidding
Ikh Toiruu energy grid	Construction of a thermal power plant to supply power and heat of Ulaanbaatar city	Design; build; finance; transfer ownership	Design, build, finance and transfer 110 kilowatt energy grid for Ulaanbaatar	Decide upon investigation	Competitive bidding

Improvement of heat supply	Improvement of power and energy supply to residents of Ulaanbaatar	Design; build; finance; transfer ownership	Design, finance, build and transfer heat pipelines and expand the existing ones in Ulaanbaatar	Decide upon investigation	Competitive bidding
Power plant in Dornod	Improvement of heat supply to residents of Ulaanbaatar	Build; own; operate	Build power plant, produce power, use and transport	Not required	Competitive bidding
Thermal power plant at Mogoi River	Construction of a 60-megawatt thermal power plant	Design; build; finance; transfer ownership	Build power plant, produce power, use and transport	Not required	Contract renewal
Shivee-Ovoo project	Construction of a coal mine, thermal plant complex and high-voltage power lines for export to China.	Build-Own-Operate	Build power plant, produce power, use and transfer	Not required	Due to the mutual governments' agreement
Powerlines for between Ulaanbaatar and Mandalgobi	Construction of 260 kilometres of 220-kilowatt power lines, with steel footings, 2xAC-400/51 transmission cables with two reinforcing ropes	Design; build; finance; transfer ownership	Construction of powerlines	Decide upon investigation	Competitive bidding
Powerlines for between Baganuur and Choir route	Construction of 180 kilometres of 220-kilowatt powerlines	Design; build; finance; transfer ownership	Construction of powerlines	Not required	Competitive bidding
Airlines for power for Choir-Tsaagan Suvarga route	Construction of 180 kilometres of 220-kilowatt powerlines	Design; build; finance; transfer ownership	Construction of powerlines	Not required	Competitive bidding
Power Plant No. 3 project	Improve heat generating capacity and renovate technical equipment	Build; own; operate	Produce, operate and own heat and energy source	Not required	Competitive bidding
Erdenet Power Plant project	Improve heat generating capacity and renovate technical equipment	Rehabilitate-Operate-Own	Produce, operate and own heat and energy source	Not required	Competitive bidding
Orkhon-Gobi Reservoir	Construction of water reservoir and pipeline in order to improve the water supply and reclamation of environmental degradation in the Gobi region	Build; own; operate	Manage water supply via pipeline; build power infrastructure and facilities; produce, operate and transport power	Not required	Competitive bidding
Tuul-Songino Water Reservoir Complex	Renovate technical equipment and improve performance	Build; own; operate	Treat wastewater; supply potable water; provide plumbing; build power plant and facilities; produce, operate and control power source	Not required	Competitive bidding
Energy production from waste processing	Build a plant for Technology to process waste under high temperatures, and produce energy out of waste processing	Build; own; operate	Build waste processing and power production facilities; produce, operate and own energy production	Not required	Competitive bidding
Rehabilitation of the Central Waste Water Treatment Plant of Ulaanbaatar, and pre-treatment facilities	Supply the population with a reliable water source, reduce environmental pollution and contamination of soil and water through rehabilitation of the Central Waste Water Treatment Plant and pre-treatment facilities of Ulaanbaatar	Build; own; operate	Rehabilitate, operate and transfer the Central Waste Water Treatment Plant and Industrial Waste Water Treatment Plant of Ulaanbaatar while applying environmentally friendly technology	Decide upon investigation	Competitive bidding

## CRITICAL ISSUE

## FROM BANKRUPTCY TO BUOYANCY

In the past energy production has been unprofitable, leaving government to foot the bill. This will soon change, and people will have to learn to manage new expenses to make this possible.

BY B. BAYAR

The energy sector has begun to rid itself of its losses and debts collected over the many years. However, the mindset among society to save and spare energy has not changed a bit. If they don't learn and teach their children how to save energy, they might not be able to deal with inevitable higher energy expenses. Maintaining balanced household budgets requires that they support a green economy and change their mindset to one for efficiency.

The 72nd Article of the energy law, introduced in 2010 to provide guidelines to the fuel energy sector passed by Parliament states that actions directed towards the fuel and energy sector should support this sector, which nearly collapsed due to inefficient operations, before it falls at the nation's feet. In order to save this sector, a kilowatt of electricity would have to cost MNT 115 by 2014. This directive is meant to provide citizens with stable electricity as well as the ability to live warm and comfortable lives. Thus, energy prices, which have steadily increased, must be carefully correlated with national demand. Protective actions for consumer rights have already been taken.

Operators in the mining sector pay MNT 100 for every kilowatt of electricity, the highest fee regarding

energy imposed in Mongolia. Residents in the central provinces pay around MNT 84 per kilowatt. However, if this price does not reflect true market value, losses will be impossible to avoid.

End users consume electricity at a true cost of over MNT 100. Liberalised prices are scheduled to be financed through MNT 15 billion in subsidies from the annual state budget up until 2014. It is assumed by then that energy producers will operate independently by then and the payouts will stop. That means people will have to pay real prices when that happens.

"The price for energy in Mongolia is below the international average", said T. Tserenpurev, the head of the Energy Regulatory Committee.

If people continue to live as they do now, then households in Mongolia will have to pay large sums for their electric bills.

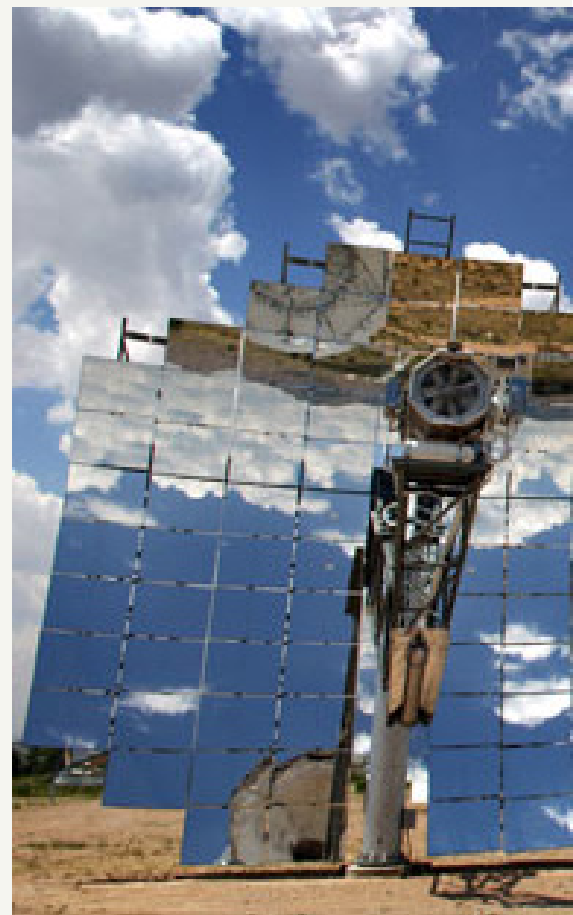
### Discounts for Saving

A household that consumes a maximum of 150 kilowatts an hour of electricity will pay MNT 79. The Energy Regulatory Committee will increase that price once a household passes that threshold, according to the aforementioned 72nd Resolution.

"Although the price of energy

have increased from MNT 79 to MNT 84, it's not enough to make up the losses", explained N. Myagmarsuren, coordinator at the Energy Regulatory Committee.

Mongolia has the cheapest ▶



▶ prices for electricity for consumption at night. It is also included in the list of countries where a discount and welfare policy is enforced, allowing, it to enjoy cheap prices for electricity. That calls for a change in mindset. Beginning in 2014 one kilowatt of electricity will cost MNT 115. Imagine how much more you will pay then.

The price of energy is cheaper than its true value, which results in losses to producers. Energy producers experienced a loss of over MNT 39 billion last year. The energy law was amended in 2011, stating it would pursue “profitable prices close to real prices”.

However, instead of seeking profits, the committee has been operating only to make up for its losses. It is no secret that there is widespread opinion that price hikes would put a great deal of pressure on people’s lives. For that reason, the price for energy will increase gradually until reaching MNT 115

per kilowatt two years later.

Prices that account for all expenses incurred through production would have the following results:

(1) Better quality services: Companies with special licences function to produce, deliver and supply energy and heat. Higher prices would allow energy producers to operate without incurring losses, and therefore allow improved technical services from servicing companies. That would be passed on to provide customers with more reliable and quality services as well.

(2) Investment: A more efficient price scheme would attract more foreign investors. Prices that fail to earn profits will not attract anyone’s attention or investment dollars.

(3) Cost savings: Families would be forced to pay more mind to their energy consumption and use more energy-efficient thinking.

(4) Green habits: Energy savings are key to the green energy movement.

## Indexing energy

When the new price is introduced in 2014, analysis and research to their impact can begin to help develop a price index. This index would be used to adjust price depending on the expenses incurred by fuel costs (coal and oil as well as their transport).

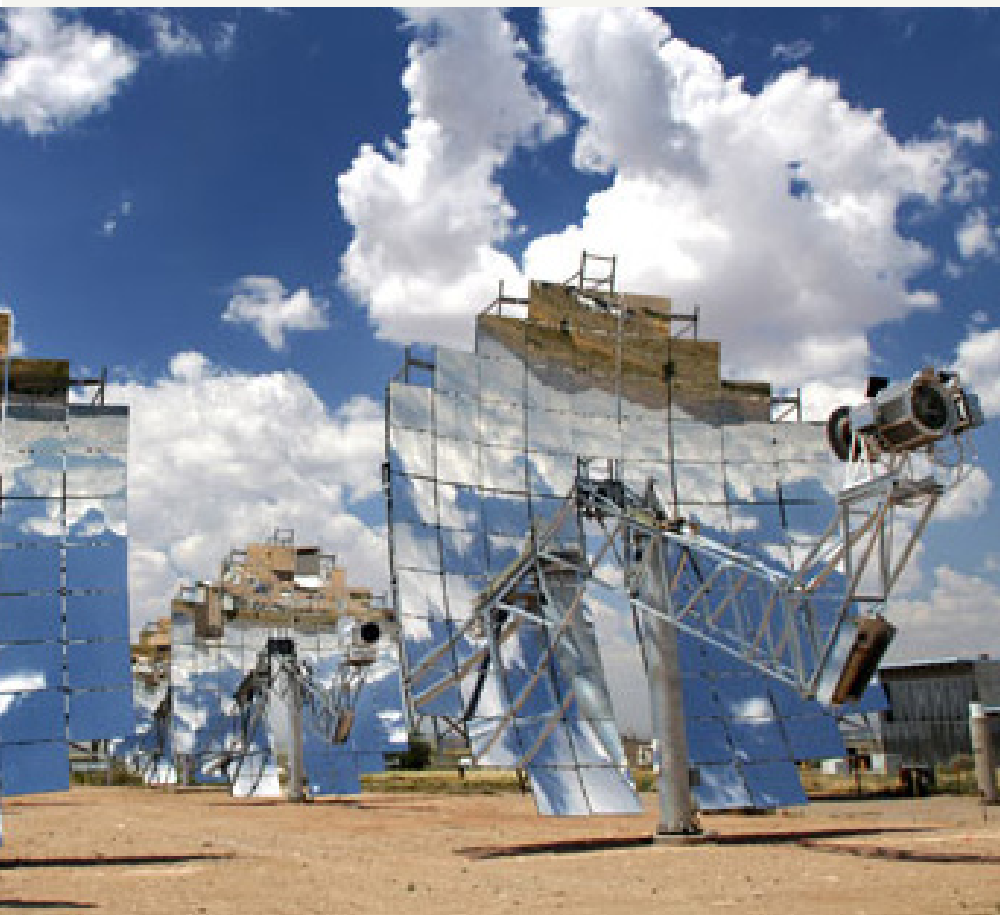
Such costs comprises up to 50 percent of spending in the energy sector. There is also the currency exchange rate to account for. Because all of the equipment needed in this sector must be imported, trade must be done in foreign currencies. The same goes for imported energy, which amounts to over 200 million kilowatts in addition to interest collected from long-term credits each year. Indexed energy prices would allow the sector to adjust electricity and heating fees so they align with fuel prices, exchange rates, and consumption price indexes.

“Energy consumption is increasing every year. Supplying rising demand has become a headache for the sector”, said N. Nyamsuren, another coordinator at the Energy Regulatory Committee. “Of course, a new energy source is needed immediately. Also, people must learn to save energy. There is so much heat lost. We lose so much heat through windows, the walls and doors. We are too wasteful”.

He added, “The sector has recovered over the last two years. Debts are being lessened quickly. Before, debts were greater than profits. Now the opposite is true. That debt will soon vanish. But that doesn’t mean everything will be fine. These are just the first signs of improvement”.

Last year, most of the debt from coal mines and power plants were repaid. Representatives from this sector have confirmed that it has switched over to a policy that obligates immediate payment for the coal it purchases. Experts also have noted that foreign investments in the sector have increased.

From now on, the energy sector might operate with fewer losses and function with a positive balance sheet. ■



SUSTAINABLE DEVELOPMENT

# CAN MONGOLIA BECOME THE HEART OF THE WORLD?

Mongolia has enough trouble today producing enough energy to meet demand, and the problem is surely to grow worse. Renewable energies seems to be the only course for success.

BY E. ZORIGT

**Sustainable development:** These words are just as important to the energy sector as any other. Currently, Mongolia is highly dependent on fossil fuels to meet its energy demands. For example, Mongolia extracts 90 percent of its power supply from coal. When there is additional demand, Mongolia imports energy from its neighbouring countries. Experts warn that this dependency is a weakness to the national security of its energy sector. Well then, is this stable development?

“Sustainable development in the energy sector means a reliable supply for consumers”, said the director of the Energy Regulatory Committee, T. Tserenpurev. “Electricity must be supplied to where, when and to whom most need it”.

“Further development to the energy sector is a concern for every country. To create sustainable energy development that is suitable to Mongolia, it must develop new policies based on the experiences of other countries and find what suits its policies, strategy and development model best”.

## Global Trends

The whole world has declared its

love for the colour green. The topic has become the talk of the town. The world strives to create a green energy sector with emphasis on renewable energy. The International Renewable Energy Agency (IREA) estimates that 50 percent of world’s energy consumption would be generated from renewable energy by 2050.

Mongolia has the capacity to meet all of its energy needs with its renewable energy resources. Mongolia has the second biggest desert in the world after the Sahara, which could provide plenty of solar energy. The Gobi also has great potential for wind power (See Table A). These resources are being utilised little by little.

For example, Newcom is constructing the nation’s first wind power plant, which will have a 50-megawatt capacity. There is also the 100,000 Sun Rays project, which was first introduced in 2000. This is just the beginning. Chief Executive Officer of Newcom Group B. Byambasaikhan has said Mongolia could become a paradise for renewable and recycled energy.

Tserenpurev echoed that thought, explaining Mongolia’s wind and rays are key to stable development.

“Mongolia has enough renewable

energy resources from solar and wind. It only needs development”, he said. “However, it’s even more important that we develop hydro-electrical plants. As a matter of fact, big hydroelectric plants are considered to be the most efficient method to supplying consumers with reliable energy sources. It also ▶

TABLE A

About 16% of global consumption energy comes from renewable energies.

Biomass	10 %
Hydropower station	4.3 %
Solor, wind and other sources	3 %

Source: Energy Authority

TABLE B

Energy production of Mongolia

Hydropower station	0.3%
Diesel station	1.3%
Energy, imported from Russia	8.1%
Wind energy	0.2%
Solar energy	0.25%
Thermal power station	89.85%

Source: Energy Authority



▶ happens to be the reason for the stable development of energy”.

### Politicising Water

Mongolia owns seven power and heating plants that together produce four billion kilowatts of energy every year. However, the nation

has imported energy from Russia for the last 40 years whenever consumption has exceeded production capacities.

Consumption in Mongolia is expected to exceed production by 1,128 megawatts during the peak loads by 2020. Although Power Plant No. 5 will have been commissioned

by then, energy production still will not be able to keep up.

“Importing energy from Russia isn’t as bad as we thought since everything, including the energy sector, is globalising”, said Minister of Mineral Resources and Energy D. Zorigt. “However, as we start to think about sustainable energy development, we must reduce our dependency. We must hurry up with the construction of big hydroelectric plants if we are ever to do so.”

Talk surrounding construction projects for hydroelectric plants on the Selenge, Orkhon and Egiin Rivers has lingered since 2000. Yet, as usual, politics has halted any progress.

Recently plans to build a chain of hydroelectric plants at the banks of the Selenge River have become a topic for debate. Those working in this sector have carried with them the hope that their dream of having a hydroelectric plant might finally come true ever since President Ts. Elbegdorj proposed to Kuwaiti officials that the two nations cooperate on such a project. The Energy Regulatory Committee is currently procuring the necessary technical details.

Vice Minister of Mineral Resources and Energy T. Enkhtaivan once said in an interview that Mongolia is capable of making up for all it has lost in the past 100 years in just six years time with its potential hydro-energy resources. If this dream comes true, then Mongolia is one step closer to securing its energy needs.

Today, all of the world’s combined energy sources are barely enough to supply the world’s 10 billion inhabitants. What can we do as that number continues to grow?

The answer is renewable energy, inexhaustible resource from nature. Mongolia happens to have a lot of it. Thus, if we use our resources wisely enough, then Mongolia could become the heart of the world. ■

## QUESTIONS

**What's your opinion on the investment environment in the energy sector?**

**What is the development forecast for the energy sector?**



**B. BYAMBA-SAIKHAN,**  
chief executive  
officer of Newcom  
Group

### Let's Us Be leaders in Clean Energy in Rural Areas

As far as the legal environment is concerned, Mongolia's energy sector has reached the certain standards. However, the missing piece to the puzzle is the regulatory independence. Thus, we have to develop a more sophisticated and beneficial legal and regulatory system. Energy is the root to a country's economic basis. The ability to produce energy guarantees economic development and can stand as a pillar to national security. Huge investments and great construction projects are in store for this sector in the next 10 years.

I personally think that Mongolia is an oasis for energy. People say that Mongolian resources are hidden under the ground and that 80 percent of the nation's territory holds coal. But I think its resources are on the ground, not under it. Mongolia's most precious wealth is its creative, energetic and optimistic people.

The National Laboratory of Renewable Energy reported that Mongolia holds up to 2,550 terawatts of wind power capacity, which is a very good evaluation. With the addition of small wind capacities in rural areas, then Mongolia would be able to produce 8,123 terawatts each year. Based on this resource, Mongolia is currently processing the technical and economical analysis for its second wind power plant, this one with the capacity of 300 megawatts. Generating energy in such ways would enable us to benefit from clean energy not only in the city but in rural areas as well.

The Asian Energy Super Network project has been widely discussed. The project will include territories around the Gobi. It is not just some kind of dream. It is an idea that can become reality. And Mongolia is a major participant in the project. It is our (Mongolia's) goal to produce energy from clean resources and become a leader.



**R. GANJUUR,**  
the President of  
Mongolian Energy  
Engineers' Association

### New Development Policy and Innovation is Needed

There is uncertainty concerning investment to the energy sector. That's why it can be said that there are no investments. Even if companies invest, there is almost no revenue coming from that sector. Currently only Newcom Group is investing in the sector. Energy issues seem to be spread over areas such as the Ministry of Finance, the Ministry of Mineral Resources and Energy and State Property Committee.

There is a need to release public offerings of state owned companies. Doing so would allow more monitoring through public ownership. For example, 51 percent of Power Plant No. 5 could be state owned and 49 percent could be sold over the stock exchange. According to research from the Russian Energy Agency, Mongolia's energy sector development is ranked at 117 of 137 countries, which obviously is a very poor »

performance. Since 1990, the sector has been operating with old infrastructure and policy.

Now the sector demands a brand new policy and innovation. Mongolian organisations must receive approval notices on their infrastructure. However, over 200

organisations didn't receive approval due to electricity problems. As the economy and industry continue to grow, energy will be under greater demanded. If we can't make decisions and improve sector policy with our energy resources alone, then we might tackle the nation's economic development.



**TS. TUMENTSOGT,**  
*Resident Representative of General Electric Company*

### **Development is Possible Only When Energy Supply Becomes Reliable**

The energy sector gained quite a bit of independence since the energy law was ratified in 2011. However, there is a lot to improve and develop. Improvements to the price and fees for energy transmission so they follow the market are in progress. We plan to reach that goal by 2050.

But we don't receive big investment in the energy sector. So, we could at least try to invest in the sector from mining revenues.

Currently, we're not able to meet demand in energy consumption. Operations in the Gobi regions are facing delays because there's no electricity. Only when these matters are solved is development possible. For example, we can become solar and wind power producers. Although the forecast looks bright, we have too many unresolved problems.



**TS. BATBAYAR,**  
*Director of the Energy Authority*

### **We are Far from Able to Say the Legal Environment is 100 Percent Secure**

We can't say that this sector's legal environment is complete. There is a lot left to be done. For example, there are specific conditions on foreign energy trade agreements needed. Mongolia has a shortage of energy supply and in times of over-demand it is unable to deliver enough to consumers. Though foreign investors have expressed their interest in investing in this sector, prices haven't yet been specified.

The government has ratified its renewable energy law. However, the law didn't include any articles on these matters. It is uncertain what percent the government would be subsidised or how much would be taken

from citizens. Thus, there are questions over who would create the timetables, collect fees and regulate the industry. All this is still unclear.

This sector had been development actively developed since the late 1980s to mid-1990. However, that development was eventually set aside. Proper negotiations could bring the energy sector's development to a whole new level. Great construction projects are beginning their plans, including the construction of a water and wind power plants. Thus, Mongolia has started to expand its energy sector both vertically and horizontally. ■

## REPORTAGE

## A NEW ERA FOR MONGOLIA'S HERDERS

The modern nomad is a far cry from the image most might imagine. Today herders are gaining access to the simple luxuries most take for granted.

BY CH. ZOYONOO

It is typical for desolate, rural areas to go uninhabited. There are almost no other sounds than the bleating of sheep and goats as well as the barking of dogs. Herders live widely spread over Mongolia's vast territory. Some of them occasionally meet in these remote spots while tending to their herds, giving them the chance to exchange some news and information. That news, however, could be weeks or even months old.

Electricity is a main instrument of any developing society. However, without it herders live as if they were blind, deaf and dumb to the world. Sometimes they enter a regional town centre to call on their children who study there and can hear current events then. But most of the time, herding mothers just say their prayers and give their best wishes to heaven. Candle lights are the only rays of light in the dark. When those lights dim, the countryside seems even more silent. ▶



## ► From old to new

04.05.2012

Herders in Tsagaanburgastai of Altanbulag Soum, Tuv Aimag, are already settled in their spring camps, where the bells of newborn cattle jingle. The first buds of flowers have appeared and trees have started to sprout their greens. Blades of grass begin to cover the hill and mountain tops, and the world seems to look all the more beautiful for all this green.

The Batchuluun family have been living in the Tsagaanburgastai spring camp and Baamiin Bulga winter settlement for over 40 years. They have a daughter named Oyuntulkhuur and a son named Gan-Od. The family has lived over 30 years without electricity. But today, they are able to enjoy music videos. One big and another smaller battery charger sat underneath their 15 inch television with many electrical wires and cables running in all directions. The two thickest cables follow the ger's pillar up to the light fixture that hung above them. The family was first able to bring electricity to their home after the 100,000 Sun Rays project was implemented in 2002.

"When we didn't have electricity, it was if we were like the illiterate. We didn't have any news or information about anything", said Batchuluun. "We were able to hear some recent news from our children if they were back from the city. I used to ride to the town centre only to hear the cashmere prices. But now we can see not only domestic news but global news as well by watching television".

Today Mongolian herders can now easily trace where their lost cattle have gone to, or hear any news about their sons and daughters.

"When I was a child, it was hard for me to do my homework, because we didn't have electricity", said Oyuntulkhuur.

"A herder's work never ends, you know. It becomes dark before you even notice. Doing homework by candlelight was the reality of our life together. We bought candles from town centres, and we had to save them".



Their son Gan-Od could not fathom life without electricity, however. "It's unimaginable to live without mobile phones or television", he exclaimed.

Who knows, one day herders might use iPads, surf the internet. Herders could only dream of having a mobile phone 10 years ago. It is not so unlikely that these dreams too might come true in the future.

The 100,000 Sun Rays project enabled herders to benefit from the use of electricity and walk hand-in-hand with global development. The project has sparked new development for modern-age herders. There might have been many ups and downs during the implementation of this project, but in the end it brought light into the dark lives of many herders in barren areas. Now you can see two or three cars, a small satellite dish and solar panels outside the many gers of herders.

### The history of light

Herders switching on light bulbs in their homes instead of lighting candles became a common thing in 2000. This was a prelude to the government-initiated 100,000 Sun Rays project. Its last phase for this project for the procurement of electricity for herder in rural areas project began in 2008. The project delivered over 25,000 solar panels.

The developers of the project said it is not any easy task to accomplish. For example, herders often do not know how to use a solar panel, misplace them, or leave the battery charger out to freeze or spend all its energy.

This project grants nearly every household in Mongolia electricity. Surprisingly, 100,000 solar panels would not be enough for the over 170,000 Mongolian herding families roaming the countryside. The project team conducted a survey prior the programme's implementation, and found out that 10,000 herders live with candles in the 21st century. The rest of them have energy provision. Although today herders can get news and information, they still cannot use a refrigerator, vacuum cleaner, or washing machine.

"This simple project has allowed herders to learn to use solar panels and battery chargers, and given them the opportunity to understand the value of electricity", said Ch. Batbayar, the head of the renewable Energy Department of the Energy Authority.

"Thus, we need to implement more efficient projects. Maybe we can bring refrigerators to these people. During hot summers herders have no other choice than to consume meat in a short period of time. The government and its agencies have to take this matter into consideration". ■



## NEWSWIRE HIGHLIGHTS

***NewsWire is a Weekly news feed 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 May.***

### BUSINESS

Corruption investigation sinks Ivanhoe's stock price  
Ivanhoe Mines Ltd.'s shares fell sharply Tuesday after Mongolian anti-corruption authorities visited the head office of the Canadian miner's coal operations.

SouthGobi Resources Ltd. said the Independent Authority Against Corruption (IAAC) "formally requested information" from the offices of subsidiary SouthGobi Sands LLC. Vancouver-based Ivanhoe Mines owns 57.6 percent of SouthGobi Resources. Ivanhoe's shares were down 7 percent at CAD 9.66 (USD 9.65) in early trading. SouthGobi Resources' shares fell by 13 percent in Hong Kong.

SouthGobi Resources said the decline was spurred by an attempt by the Mongolian government

to limit foreign ownership of Mongolian strategic assets to 49 percent and the visit of anti-corruption officers to its offices.

"SouthGobi has previously been advised this is in connection with an investigation into a third-party and has no reasons to believe SouthGobi Sands LLC is itself the subject of any investigation", the company said.

Last month the Mongolian government objected to a bid by China's state-owned Aluminum Corp. of China Ltd. The Chinese company had agreed to buy a controlling stake in SouthGobi Resources in a deal valued at as much as HKD 7.2 billion (USD 927 million).

*Source: Wall Street Journal*

### ECONOMICS

#### **LSE HOSTS RESOURCE INVESTORS PREPARING FOR MONGOLIA'S BOOM IN COMMODITIES**

The London Stock Exchange (LSE) last week played host to international resource investors clamoring to grab a chunk of the commodity-fueled economic boom that is sweeping Mongolia.

Over the past four years, the country's mining companies have ramped up their output, and foreign resources giants are increasingly invested in the region. But if Mongolia is to enjoy the spoils of its natural wealth, the country's capital markets have to be reformed—starting with its fledgling national bourse.

Founded in 1991, the Mongolian Stock Exchange (MSE) has 366 listings. Many names are inactive and overall trading on the exchange is thin at just two hours a day. With a capitalisation of USD 2 billion (compared with the LSE's 3.7 trillion) the market is too illiquid for chunky home-grown listings.

"Because of the lack of sophisticated infrastructure, mining companies haven't been able to gain exposure locally", said Altai Khangai, the exchange's 30-year-old chief executive.

The Mongolian government intends to change this. Last year, the Ulaanbaatar-based partnered with the LSE to overhaul the Mongolian market. As part of the deal, the MSE will implement the LSE's technology platform MillenniumIT.

Parliament is reviewing a draft securities law

that, among other things, incorporates elements of the United Kingdom's Financial Services Act listing rules and increases transparency and disclosure requirements. The exchange estimates that the MSE will notch up USD 45 billion in listings during the next 10 years through the privatization of state-owned companies and other assets—and the LSE hopes it will get a slice of the action.

Khangai also hopes the reforms will result in several of the nearly 50 foreign-listed international mining companies with assets and operators in Mongolia to seek a dual listing at home. Khangai added the development of the local market is even more important for non-mining firms, since domestic Mongolian companies that are not part of the commodities boom find it difficult to gain international exposure.

Currently the exchange trades stocks and government bonds but it is exploring the introduction of vanilla exchange-traded funds, which are growing popular among emerging market bourses.

*Source: eFinancial News*

### POLITICS

## MPS DILUTE PROPOSED INVESTMENT LAW

Mongolian legislators have agreed to water down a draft law to restrict foreign investment amid fears it could hurt the mineral-rich country's economic growth. However, mining, media, and banking projects will still be subject to stringent restrictions, though some analysts expect the draft will be further diluted before becoming law.

MPs agreed on Tuesday to reduce the number of strategic sectors that should be 51 percent state controlled under the draft law, according to details of a committee meeting published on the official

parliamentary website.

The draft was initiated by nationalist backbenchers in the wake of Chinese aluminum giant Aluminum Corp. of China's (Chinalco's) efforts to take a majority stake in the Canadian firm SouthGobi Resources Ltd. A provision saying that projects worth more than MNT 100 billion should be subject to majority ownership has also been removed.

"If the current draft Foreign Investment Law is ratified, the BCM believes that this will undermine Mongolia's development trajectory, which has been on a steep upward path," said the Business Council of Mongolia (BCM) in a statement issued on

Wednesday.

Critics said the definition of 16 "strategically important" sectors, which included minerals, food, agriculture, power, property, transportation and communications, was too wide. While the list will now be cut back, the mining and banking sectors will be retained and investors will still need to be wary, advised securities firm Frontier Securities.

Others included are those that "directly or indirectly" affect the price of minerals or harm Mongolia's environment and economic independence. This latter clause was designed specifically to restrict state-owned Chinese firms like

Chinalco.

The new foreign investment legislation was drafted by N. Batbayar, a Democratic Party representative also responsible for drawing up a widely criticised windfall profit tax in 2007. The tax, passed despite government opposition was eventually repealed in 2009 to pave the way for the investment agreement on the Oyu Tolgoi copper-gold project, which granted 66 percent of the project to Canada's Ivanhoe Mines Ltd. Batbayar also eventually led a movement to increase the government's stake in that project as well.

*Source: Reuters*

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 0.6 L /bottled/  
 1 L /bottled/  
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