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MONGOLIAN ECONOMY



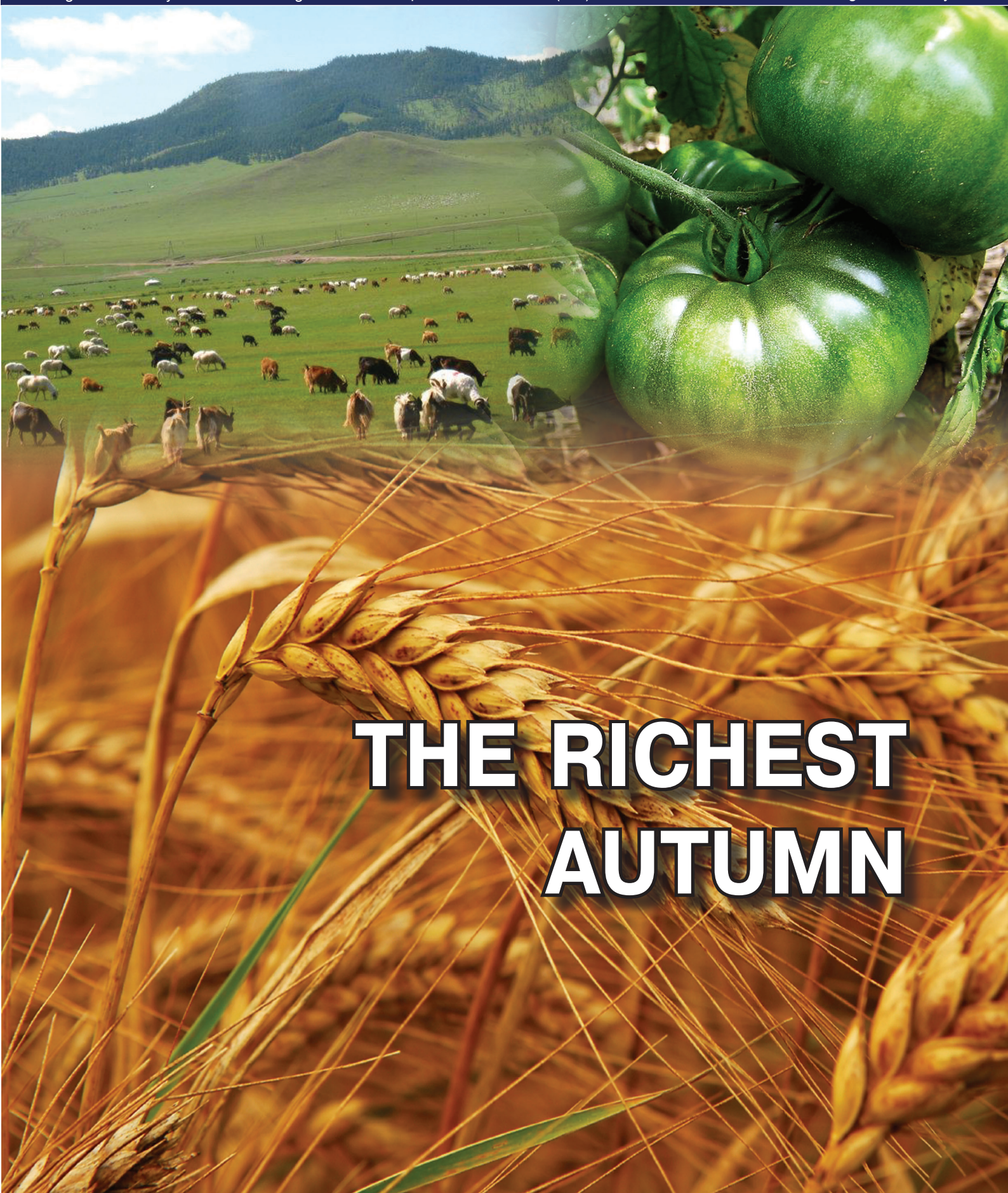
The Battle for Food
Independence is on

A New Crisis

Mongolian Economy and Business Magazine

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Taking Success to the Next Level



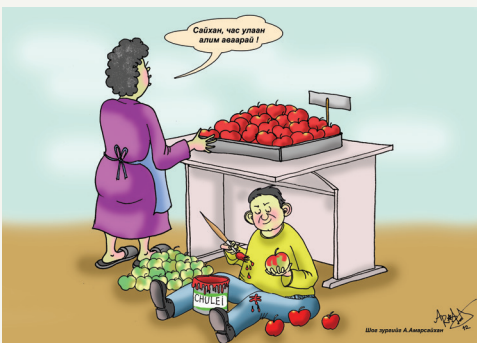
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The Battle for Food Independence is on

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ECONOMY

The World Economic Forum released its annual Competitiveness Index Report. Although Mongolia was ranked at 93 of out 144 countries with 3.9 points, it did not manage to improve its general ranking from that of the previous year. Mongolia is still in the category of "Countries With Results-based Transitions".

BANKING AND FINANCE

The Bank of Mongolia published its Loan Outlook Report, which sets out to uncover issues and outlooks regarding credit communication among banks. According to the report, six banks have reduced credit, while the other six increased theirs. The banks reduced loan spending for private small and medium enterprises. Loans directed towards manufacturing and production, construction and property loans, however, expanded.

BONDS

A motion to release USD 5 billion worth of bonds from the Development Bank of Mongolia received approval from government and is due to go before Parliament. The bond will be sold at international markets. However, money generated from the bond will not be used for social welfares causes. Instead, the government plans to use those funds to stimulate the economy support long-term investment.

CHINA

Uzbekistan is now delivering natural gas to China, reported Xinhua News Agency. Uzbekistan plans to supply Chinese companies with up to five billion cubic metres of gas in 2012. Both countries have signed an agreement to last until 2016. Uzbekistan will increase the amount of gas it delivers to China by 25 billion cubic metres each year until the contract expires.

CORRUPTION

Mongolia is rank among the worst on Transparency International's Corruption Perception Index. The corruption index compiled by the National Development and Innovation Committee (NDIC) revealed that Arkhangai Aimag was the least corrupt province in Mongolia, while Tuv Aimag was the most corrupt. Mongolia's national corruption average of 0.589 is relatively steep compared to other countries.

Mongolia's Corruption Index



Source : Transparency International

BUSINESS

According to the 2011-2012 Business Index from the World Bank, Mongolia is ranked 97th out of 183 countries. Starting a business in Dundgobi Aimag requires the most time, while Ulaanbaatar allowed the shortest time.

Cross border trade 2008-2012 (Mongolia)

	2008	2009	2010	2011	2012
Export expenses (USD per container)	1807	2131	2131	2131	2265
Import expenses (USD per container)	2274	2274	2274	2274	2400
Export documents	8	8	8	8	8
Import documents	8	8	8	8	8
Export duration	33	49	46	46	46
Import duration	33	49	47	47	47

Source: YXJIX

AGRICULTURE

2012 оны ургацын урьдчилсан баланс:

Type	Field	Total amount of harvest	The average unit of
Crop	306.1	481	15.9
Wheat	296.1	468.8	16
Potato	16.2	208.9	128.6
Vegetable	7.1	99.4	138.9
Oil plants	32.3	28.6	8.8
Nutrition plant	11.1	30.8	22

According to the data, domestic flour manufacturing can supply all national demand.

Source: YXAAЯ

THE RICHEST AUTUMN

BY I. OTGON

The state of the world economy has become alarming.

China has begun taking measures such as placing limits on mining commodity imports, yet continues to pour more capital into construction projects. Car manufacturers Toyota and Hyundai faced serious problems and have even closed their doors to give them time to let their fears cool down. Lately there have been gloomy reports in the news about the collapse of prices to the principal commodities driving the country's growth. Though times are tough, there are some upsides too.

The agriculture sector is becoming a rising star these days, as it has begun contributing more to the economy in recent years. While the mining sector is threatened by an impending commodities market crisis, newly installed government authorities are rushing to help but without much clue how.

Produce farmers are working hard under the autumn sun. Though harvest continues day and night, some worry they cannot finish before winter's chill freezes their crops. Potato harvests are particularly overwhelming.

If 2008's Atar III nationwide agriculture programme helped the country supply its domestic potato needs, this year's efforts have managed to supply the nation's need for wheat. Preliminary harvest forecasts show that Mongolia may be able to export surplus crops as well as provide for domestic consumption. But many farmers are hesitant as long as they lack the storehouses to hold their crops.

Recently the United Nations reported that the world may see a repeat of the 2007-2008 food crisis. They warn that it is imperative to take long-term measures against possible food shortages. Some of us may remember that just before the 2008-2009 global economic crisis a big wave overcame us and food price skyrocketed, throwing nations into disorder.

Farming produce is one method to improve self sufficiency, enhance the economy, and instill proper diets—three crucial factors to food security. For that reason, this September issue of Mongolian Economy aims to drive readers' attentions to this issue.



LIGHT INDUSTRY

TAKING SUCCESS TO THE NEXT LEVEL

BY B. UUGANBAYAR

Food manufactures currently lack the resources to expand their operations

He who maintains his dignity and takes it up a notch, lives a decent life. Likewise, one form of progress seen by Mongolia is its ability to supply nearly 60 percent of local demand for food staples.

Last year Mongolia produced MNT 500 billion worth of domestic products and spent approximately MNT 400 billion tugruqs. During the socialist era Mongolia could supply 80 percent of basic groceries. This changed after the democratic revolution and privatisation, but in recent years it is rapidly growing self sufficient once again.

Results from a survey conducted by the Ministry of Manufacturing and Agriculture shows that 1,000 big and small enterprises operate in the light and food industry. This year the country was able to meet domestic demand for meat, wheat and potatoes, in addition to 60 percent of the demand for flour and vegetables, and 50 percent of eggs.

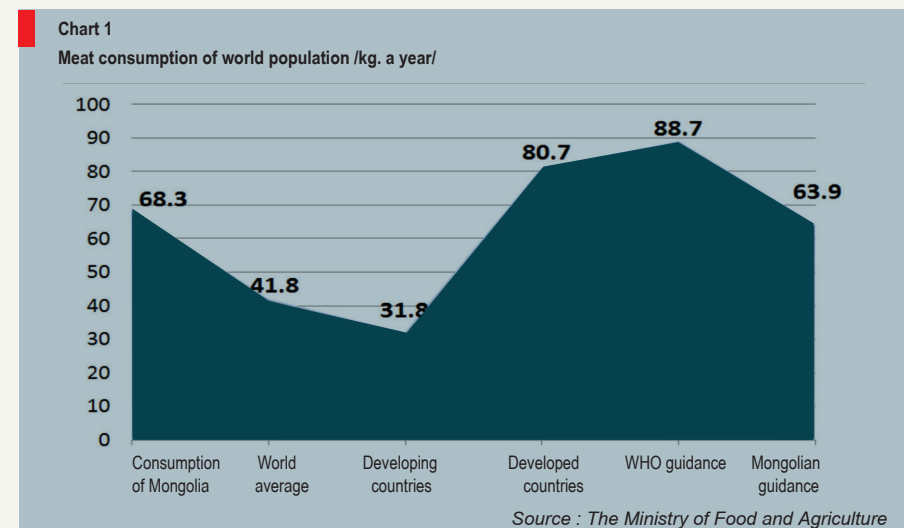
Although it is nice to see at least half of the food items coming from domestic producers, many commodities are still imported in large quantities, including rice, sugar

and vegetable oil. Severe Mongolian winters have made it impossible to produce staples such as sugar and rice, but fortunately it is possible to begin producing vegetable oil. The Altan Tos (Mongolian for *golden oil*) factory started its operations in Darkhan-Uul last year and is currently producing 100 tonnes of vegetable oil per day, or 33,000 tonnes a year.

Ch. Enkh-Amgalan, former chief director of the Food Manufacturing Policy Implementation Agency

(FMPIA) at the Ministry of Industry and Agriculture (MIA), said that the production of beverages, juices, processed meats and canned items has increased in recent years. Mongolia, he said, may even be able to export some of these products soon.

But there are several obstacles, such as quality, standardisation and the absence of a legal regulatory system, in the way of exporting these products. Transportation, storage, and packaging fall below international standards. Representatives of food manufacturers point out that transportation vehicles and trains specifically designed for the transport of food are badly needed. »



► Abundance of Meat

Chart 1 shows that the annual average meat consumption of Mongolians does not fall below the recommendations of the World Health Organization. In Mongolia it is recommended that Mongolians consume 63.9 kilograms. Yet, in 2009, average meat consumption was 97.6 kilograms, 34.5 percent more than national recommendations for nutrition and 9 percent more than the World Health Organization recommends.

Although Mongolia is able to meet its demand for meat, recent years have shown that it is essential that the country maintain costs.

The country's gross annual meat consumption falls between 200,000 and 240,000 tonnes. The number of domesticated animals was 36.3 million at the end of last year, a 10 percent increase compared with the previous year, and grew to some 50 million in the first half of 2012. To meet demand, 8 million animals were needed, with 10,600 tonnes of

meat sold for export.

But this is quite a small figure for animal-rich Mongolia. M. Narmandakh, a meat industry specialist at the FMPIA, said that Mongolia has the market to sort and process its meat products and expand exports. However, the quarantine on meat exports for Mongolia is a large hurdle to overcome and is why Mongolia no longer exports its meats to Russia. Despite many negotiations over the years, there have been no substantial results.

But now a window of hope for Mongolian meat to travel beyond the Ural Mountains is opening. Russia's decision to join the World Trade Organization may help Mongolia establish the legal background it needs to sell its meat products there. Mongolian meat is quite close to becoming a brand famous for its free-range and organic properties, in Russia and beyond. Meat exporters say that the number of countries willing to import meat grows year after year. For instance, two companies have signed agreements to supply

horse meat to China, in addition to 10 companies to Russia, and six companies to Iran.

According to Narmandakh, Mongolia has the potential to supply the markets of developed nations such as Japan, Korea and the European Union, but has not yet taken advantage of that fact because they only purchase meats from countries that use the Hazards Analysis and Critical Control Points (HACCP) system for regulation. Thus far Makh Market is the only meat producer to have introduced these standards into its operations. There are, however, plans to construct 12 meat factories that meet HACCP standards, using aid from China.

Tough Competition

Each year, in August, people gather at Misheel Expo Center for the Green Days of Autumn exhibition to taste and purchase different healthy new produce grown in the native soil. Preserved vegetables and jams stands out the most ►



among technological breakthroughs introduced there. The days of importing all the country's pickled cucumbers, tomatoes and various jams are being left in the past.

Nearly ten big local factories produce preserved goods, including Bagro, Mish Mash, Durvun Ulzii, Suman Gun, Saikhan Gurav and Jino. Additionally there are many other private manufacturers which grow vegetables that should be counted as supporters of the industry as well. Urbanek, which once dominated the market, now faces stiff competition from Bagro and Mish Mash, which produce 500 and 900 jars, respectively.

However, this is not much when compared to the consumption of 2.7 million people—better small than nothing, perhaps.

When asked if there is any possibility of increasing domestic production, L. Burmaa, general manager of Mish Mash, said "Domestic factories for producing preserved vegetables have the capacity to supply the domestic market. But, due to the lack of raw materials, we only operate full-time for two months while on stand-by for the rest of the period".

She said with an ample supply of raw materials such as cucumbers, tomatoes and pepper her company could produce up to three million jars compared with the 500 it currently produces. Other, bigger, factories have the same problem, she said, but the manufacturers say there is a solution.

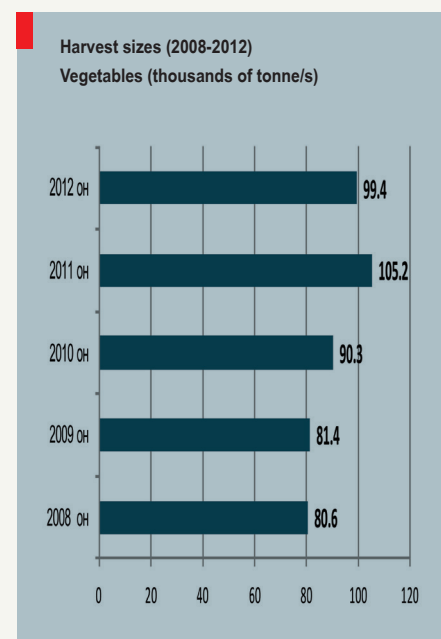
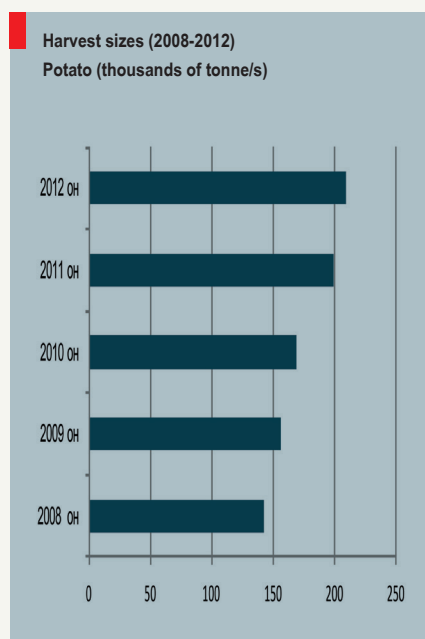
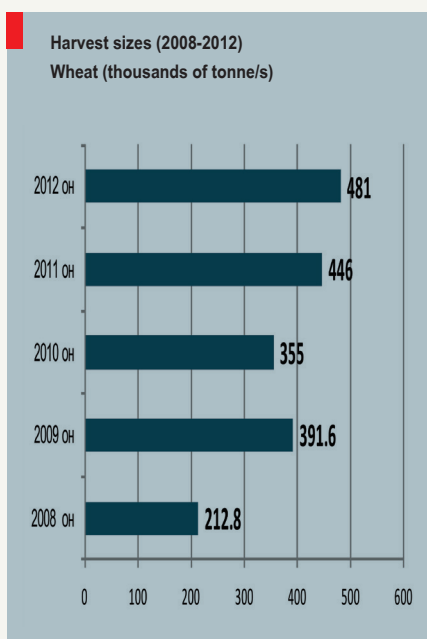
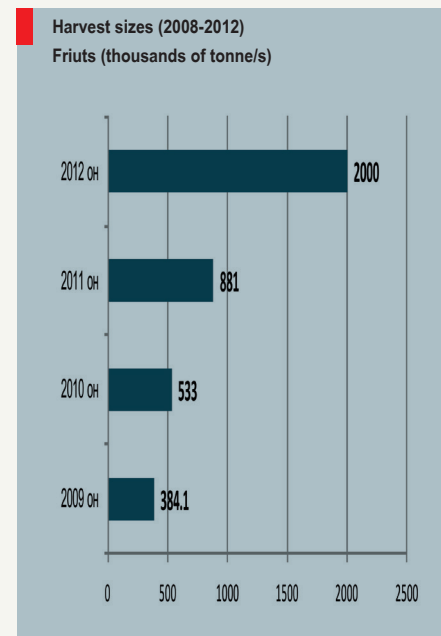
During the Socialist era, a team of Russian, Bulgarian and German scientists designated 500 hectares of land for agricultural at Orkhon Soum, Darkhan-Uul. They chose this land because they found it to be the most fertile and effective soil for growing fresh green vegetables. The trees grown there were protected from heavy winds because it was located at a low plain, and an irrigation system was introduced.

But when the privatisation of farms began, the project was decommissioned. Now the locals there grow potatoes and any other plants they might wish. Government policy could designate this land for the farming of cucumbers, tomatoes, peppers and other fruits and berries accustomed to the Mongolian climate to supply the preserved vegetables factories.

Moreover, the customs tax

imposed on cucumbers and peppers from abroad is too high and there is no policy to support national manufacturers. Burmaa also mentioned that domestically grown vegetables are exempt from tax, but the exemption is not often utilised.

With some support from government policy, Mongolian food manufacturing can take the domestic food industry to the next level and develop home brands for food. ■



THE GREEN DAYS OF AUTUMN

HAVE YOUR WEIGHT BEING CHECKED

E. OTGON

An exhibition for Mongolia's agriculture products presents innovations to the industry and opportunities to purchase fresh produce.

The Green Days of Autumn exhibition presents all types of fresh vegetables planted in Mongolian soil, new products carrying the "Made in Mongolia" label, and advanced technology.

This year is the seventh this even has been organized and could be described as the biggest event ever for Mongolia's agricultural sector. Even the new officials at the Ministry of Industry and Agriculture (MIA) have paid special attention to making this event a recurring one. The Green Days of an Autumn, held each, has become an eagerly anticipated event in Ulaanbaatar held from September 1 to 25 at the Misheel Expo Center. Visitors of the exhibition should restrain themselves from high expectations of cheap fresh vegetables and productive livestock because this exhibition has become an opportunity for broader ideals. For instance, this year the event comes with the slogan "For a Healthy, Proper Diet". It was both practical and wise to align this

exhibition with the promotion of maintaining a modern urban life styles that includes healthy diets consisting organic foods.

In line with this, the Organic Mongolia program sponsored by the MIA, Mongolian National Chamber of Commerce and Industry (MNCCI), and Millennium Challenge Account will educate visitors on maintaining healthy diets with organic products.

Specialists and officers from district health centres

will welcome visitor at the entrance of the Misheel Expo Centre. Before going to visit both booths for the fresh food and new products, visitors can check their weight and receive health advice from specialists and doctors on weight loss, nutrition and leading a healthy lifestyle. There will also be cooking demonstrations promoting healthy diets. The event will continue for three days.

Bere leaving, guests should watch for the "Looking for Fresh and Healthy Food" seminar. It is also worth taking a look at the many products and demonstrations the booths operated by foreign companies have in store, as well as those »



run by local herders and farmers. The fact that the MIA has allowed foreign companies to participate makes this year's event different from all others.

This is the first time in its seven-year history that foreign companies will come to participate in the exhibition. As of August 15, nations such as the Buryat Republic of Russia, Italy and France have sent their requests to participate. Representatives from France will present advanced agriculture technology as well as products targeting fishery cattle, wheat and baking products. It will also offer information on its wine production and consultancy services. Foreign companies plan to focus on establishing partnerships in Mongolia and familiarising Mongolia consumers with their products rather than sales, said organizers of the event.

The event will also have an inspection laboratory operating on site so consumers can leave confidently that the fresh they have eaten there was safe.

According to D. Tungalag, the new head of the Food Manufacturing Policy and Implementation Agency (FMPIA) at the MIA, Green Days of Autumn has educational value as well. Thus, a drawing competition will be held for children who visit the exhibition with their parents. Children will create artwork concerning topics such as nutrition.

Mongolia is having a bountiful harvest this year and, therefore, this year's annual exhibition is full of fresh food and prime cattle. ■



Photo by B. Byamba-Ochir

EXPERT OPINION

THE BATTLE FOR FOOD INDEPENDENCE IS ON

BY I. OTGONJARGAL

Chief Director of the Food Manufacturing Policy Implementation Agency (FMPIA) at the Ministry of Industry and Agriculture (MIA) D. Tungalag discusses the Autumn Green Produce exhibition as well as the supply and security of food staples in Mongolia. She has also worked as director of the foods department at the MIA from 2005 to 2009.

People, especially food manufacturers, are perhaps curious about how the newly appointed chief director of the FMPIA will lead her organization and what policies will be introduced to the sector. What are your plans?

The main goal of the Government Action Plan is to use all Mongolia's land, water, nature and human resources to increase the production of animals, livestock, and growth of all edible plants to use in the food industry and maintain food security.

Staple food products such as meat, milk, flour, pastries, vegetables and other greeneries especially must come entirely from local supply. In short, we are about to start a battle in order to end dependence on any countries when it comes to food supply, sufficiency and security.

That sounds excellent. There is significant progress to be seen in some aspects of local food production. What problems need more attention to reach this goal

of the Government Action Plan?

The only factor that gets in the way of the development of the Mongolian food industry is the severe climate. How do we overcome this problem with the least expenditures? Another issue that needs big attention is how to solve the soil and nature degradation problem.

Mongolia started meeting its local demand for 100 percent of the potatoes it consumes. Yet selling their crops is still a headache for many farmers. Currently they can sell their potatoes for MNT 200 to MNT 250 a kilogram at their fields while urban residents buy them for MNT 700 to MNT 800 from markets and shops. What is the most effective way of bridging this gap in prices?

One kilo of potatoes for MNT 200 to MNT 250 on the field is extremely cheap. Our agency has looked into it. Why do farmers sell their produce so cheaply when there is the possibility of selling them at a higher price in Ulaanbaatar? They



have every opportunity to bring their crops to the city and sell them for MNT 750.

We have organized 13 of the Green Days of Autumn exhibitions in Ulaanbaatar to provide urban citizens with fresh vegetables. Now a big exhibition sale is planned for. The vegetables exhibitions for each district will continue until the 15th of next month. For example, farmers from Selenge Aimag sell their fresh produce in front of Sky Department Store. This shows that the problem of selling vegetables has little ground.

First, this year's harvest is significant throughout the country. Take potatoes for example. Before we used to harvest 13 centners [100 kilograms] from a hectare, this year we are hauling a minimum of 20, and 30 to 35 centners from a hectare. This means the amount harvested from a single unit of area has doubled.

It is a good thing we are harvesting large-scale, but neither individuals nor the government have the warehouses to store such harvest sizes. Therefore, the idea I'm trying to convey is that individuals and companies should prepare a certain amount of food for themselves. A lot of Mongolians live in the areas where they can build warehouses in urban areas and the countryside. »

► This year, due to bigger crop sizes, farmers are harvesting just before the cold weather hits the soil. And because they don't have anywhere to store their food they are selling to anybody who comes rather than throwing them away on the fields.

Building vegetable storage houses must require some technology. Half of the 10,000 food storages nationwide are not up to standard, experts say.

We have to build modern vegetable storages units promptly, either with state or private funding. Agriculture is purely dependent on weather conditions, therefore companies will not invest in such risky business without some kind of state promotion to build warehouses.

Additionally vegetable storage warehouses are not built using old technology. Highly developed technology is used to improve air controls. That technology only needs to be introduced in Mongolia. Ministry specialists must work tirelessly on this.

You said that we have the possibility to produce our entire supply of green vegetables at home. Local manufacturers say they would have the capacity to do so if they only had the raw materials year round. What can be done about this?

The growing season is short compared with that of Mongolia's harsh weather conditions. Therefore, we are planning to discuss the possibility of having winter greenhouses to grow crops even in December to supply the market.

The main issue is to preserve heat. Obviously greenhouse vegetables receive natural heat from the sun's rays. But during wintertime the outside temperature is too low and so will require additional heat. Another issue is whether the winter greenhouses can still be profitable enough with the additional [expense from] heat. International

organisations have done a lot of work regarding this. Our food agency will put a lot of emphasis and work hard to introducing this system into Mongolia.

Also, if the ger districts were connected to a waste disposal system, the issue of building a bio gases factory could be raised as well. This would lead to better land use, less degradation of the environment and result in healthy soil.

The growing season is short compared with that of Mongolia's harsh weather conditions. Therefore, we are planning to discuss the possibility of having winter greenhouse to grow crops even in December to supply the market.

The Green Days of Autumn exhibition gathers representatives of farming, herding and manufacturers from every corner of Mongolia. The funding for renting space used to come from the ministry. Is this still the case now?

Rents are paid by the state fund. But this year the government is paying a lot of attention so that state funds are spent effectively. Thus, the funds are closely monitored.

Registered companies pay only MNT 100,000 weekly to rent nine square meters. This is a meagre payment. In other words, the assistance participants are getting is quite high. Green Days of Autumn is organized throughout the country. In Ulaanbaatar alone, 13 exhibitions are selling fresh vegetables. The consolidated exhibition to be held on the 25th of this month will include two or three of the best companies selected from the Green Days of Autumn exhibition to be held at their provinces and elsewhere.

What measures are being taken in regard to the meat production system and meat supply?

I think it's a shame we only talk about animals and their meat, but nobody is concerned about their fodder. Without feeding them we can't expect animals to gain weight and grow.

Therefore, if we want to consume fresh meat all the time, we have to construct many specialised meat farms near every town and city. It is obvious that the state is not going to build them all, so it has to promote the individuals and registered companies who are behind them.

Currently the benefits of this industry are not going to their rightful owners. We must give credit to the herder who supplies the market with a high standard of meat. Even if they are registered companies, it has to have a ratio of 50:50 or 30:70 [of subsidies for herders to companies]. Only then, can a company store its meat.

The meat risk is fast becoming a problem in Mongolia. A project by the [United Nation's] Food and Agriculture Organization [FAO] is operating here. Its purpose is to build around 10 small meat processing facilities in the countryside. Animal slaughtering is seasonal, therefore, constructing a big factory is not profitable enough. It is better to build small facilities in the far provinces, where it's impossible to bring animals ►►

▶ in big numbers at once and will help animal slaughtering become more closely monitored. Moreover, it will bring innovation as one of the benefits of production.

What needs to be done to increase milk production?

According to statistics, we have produced many million liters of milk. But these numbers do not match reality. There are several reasons for this.

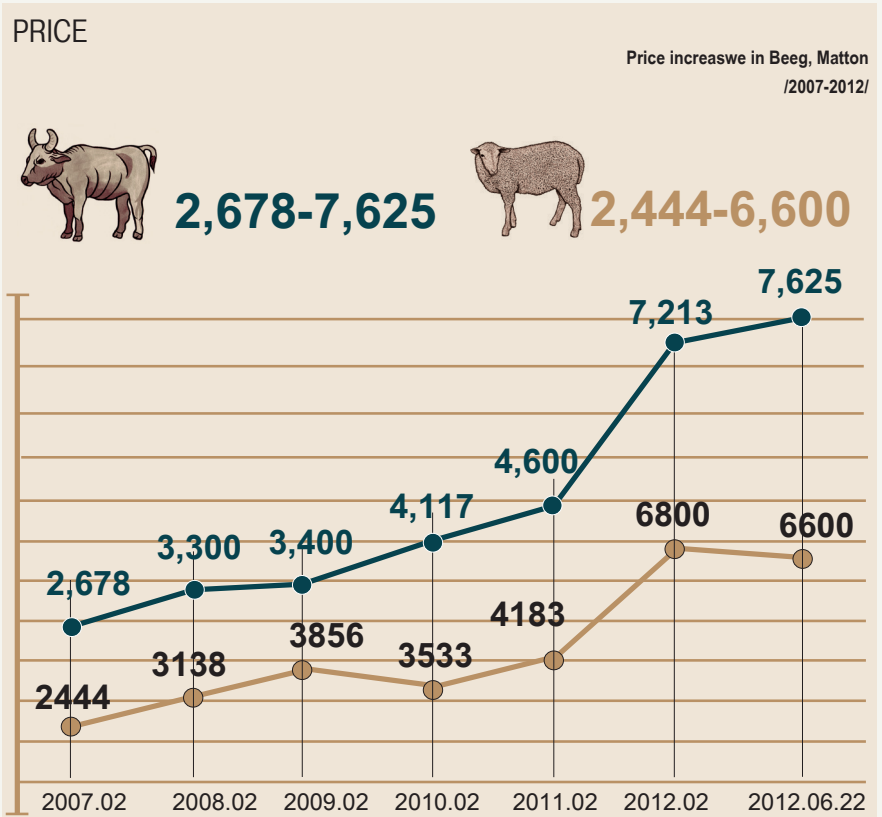
Compared with earlier times, the number of milk farms near the city is growing. The step that needs to be taken is, again, creating a mechanism for milk producers during the winter season.

Of course, milk factories use this method: The price of milk in the market during winter and summer varies by MN 200 to MNT 300 tugrugs per liter. If there was more to benefit from, people would be more willing to produce milk during winter. We need to provide them the support of at least 10 to 20 percent backing. We could either provide investment into manufacturing or the supply of raw materials. This would create interest in putting up farms as well.

The safety of dairy is a big problem in Mongolia. What do you think about that?

I want to talk about aruul first when talking about dairy safety. Aruul has been circulated in the market for a long time now. There are many kinds and varieties of aruul in food markets and supermarkets. But there are no standards at all.

We don't know what they use to make them. There are no labels or information about the ingredients, how much is used, the moisture content, when and where it was produced—nothing. It's a pity because aruul is a special product tightly connected with our culture. It cannot be found anywhere else. That said, I would take my first action towards aruul when it comes to the safety of dairy. ■



Grocery prices in Ulaanbaatar

Products, Service	2008	2009	2010	2011
Flour, 1 st Grade (kg)	783	726	637	722
Bread, Atar (1 unit)	592	612	631	645
White rice (kg)	1,133	1,373	1,639	1,676
Mutton (kg)	3,371	2,860	3,790	4,125
Beeg (kg)	3,674	3,309	4,291	4,695
Liquid milk (1L)	843	974	1,087	1,040
Yogurt (1L)	1,153	1,273	1,403	1,460
Milk powder (1 kg)	5,670	6,465	6,171	6,125
Sugar (1kg)	918	1,289	1,696	1,685
Green tea (2 kg)	3,200	4,164	4,603	4,280
Apple (1kg)	1,565	1,713	1,900	2,495
Potato (1kg)	890	954	971	1,045
Cabbage (1kg)	771	847	1,045	1,015
Carrot (kg)	950	1,039	961	1,210
Beet root (kg)	917	1,091	922	1,680
Round onion (kg)	678	782	1,037	965
White salt (kg)	340	367	354	371
Seed oil (1L)	2,853	3,009	2,781	2,785
Egg (a unit)	203	208	215	236

OECD - FAO Agricultural Outlook 2012-2021



Recent OECD-FAO Agricultural Outlook reports have focused on high and volatile agricultural commodity prices, stressing that prices would come down as markets respond but would remain on a higher plateau underpinned by continuing strong demand and rising costs for some inputs. As anticipated, prices have started to ease but remain at relatively high levels. Food price inflation at the retail level has fallen significantly from its peak in 2008 and its contribution to overall inflation has moderated. Nevertheless, food price inflation remains high in many developing countries and is still outpacing overall inflation in the majority of countries examined.

Price volatility remains a concern, with weather-related yield variability the main threat as long as stocks remain low. With a rebound in crop production, stocks have improved somewhat and markets in 2012 appear less turbulent. The key issue facing global agriculture is how to increase productivity in a more sustainable way to meet the rising demand for food, feed, fuel and fibre.

Nominal prices of the commodities covered in this Outlook are expected to trend upwards over the next ten years (see Figure 1) and are projected to average 10%-30% above those of the previous decade. Prices in real terms (adjusted for inflation) will remain flat or decline from current levels.

Global agriculture is increasingly linked to energy markets (see Figure 5). Oil price projections contained in the macroeconomic assumptions are on average about USD 25 above those used last year (ranging from USD 110 to USD 140 per barrel over the outlook period). These higher oil prices are a fundamental factor behind the higher agricultural commodity price projections, affecting not only oil-related costs of production but also increasing the demand for biofuels and the agricultural feedstocks used in their production.

Despite strong prices, slower production growth is anticipated. Growth in global agricultural production has been above 2% p.a. over the past several decades, but is projected to slow to 1.7% p.a. over the next decade (see Figure 2). Growing resource constraints, environmental pressures, and higher costs for some inputs are anticipated to inhibit supply response in virtually all regions. In this context, this Outlook suggests that more attention be paid to increasing sustainable agricultural productivity growth.

Prices have come off recent peaks, but food price inflation remains a concern in developing countries

Sustainable productivity improvement is key to meeting rising demand

Agricultural prices to remain on a higher plateau

Energy price levels and volatility highly condition the outlook

Resource constraints and high costs limit production growth, despite upward trending prices

Figure 1. Price trends of agricultural commodities to 2021 (nominal)

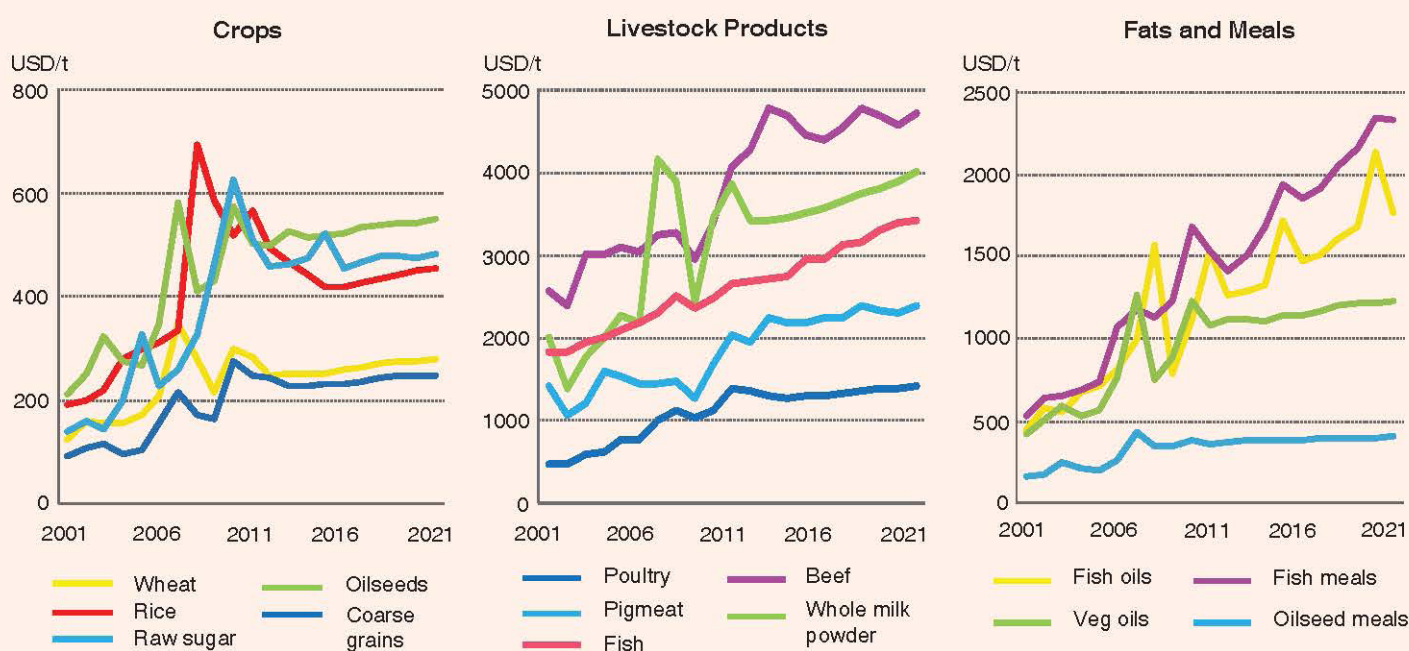
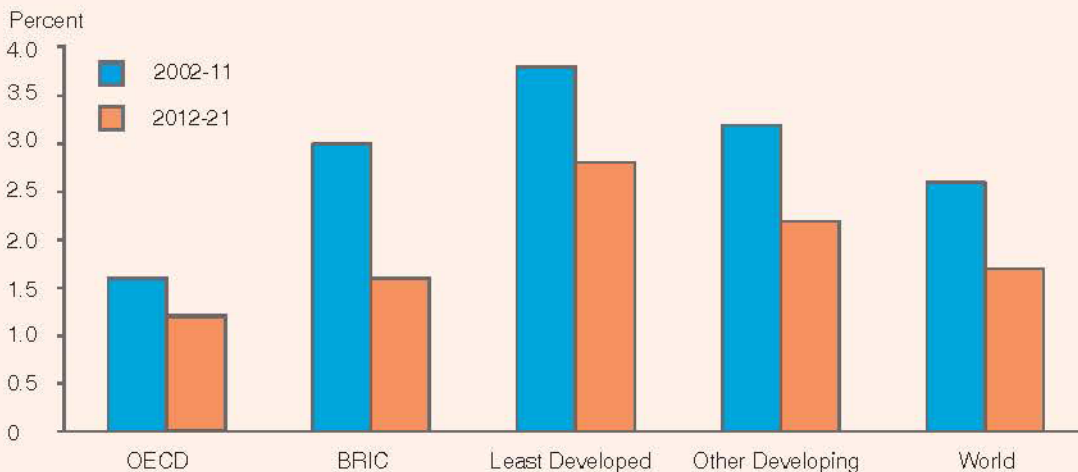




Figure 2. Average annual growth of net agricultural output



BRIC: Brazil, Russian Federation, India, China

Note: Net output is measured as production less seed and feed and valued at 2004-2006 prices for production of primary commodities in this Outlook.

Global agricultural output growth slows down, but remains positive on a per-capita basis

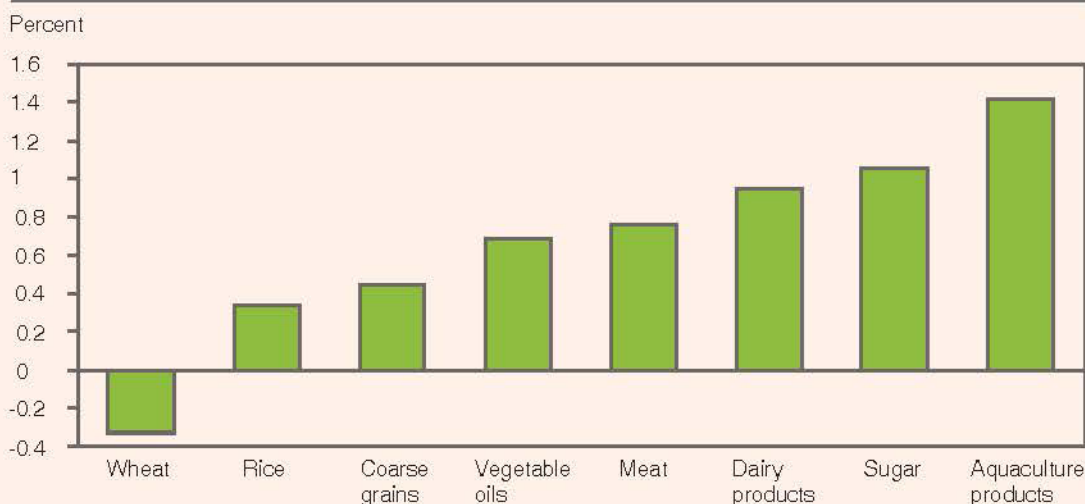
Based on their greater potential to increase land devoted to agriculture and to improve productivity, developing countries will provide the main source of global production growth to 2021. Annual production growth in developing countries is projected to average 1.9% p.a. compared to 1.2% p.a. in developed countries. An additional 680 million people are expected to inhabit the planet by 2021 with the fastest population growth rates in Africa and India. Rising incomes and urbanisation will lead to changes in diets that shift consumption to more processed foods, fats and animal protein. This will favour higher value meats and dairy products, and drive the indirect demand for coarse grains and oilseeds for livestock feed (see Figure 3).

Developing countries continue to dominate market developments

Emerging economies will capture an increasing share of the expanding world trade in agriculture. Most prominent are countries like Brazil, China, Indonesia, Thailand, the Russian Federation and Ukraine that have made significant investments to boost agricultural production capacity. By 2021, developing countries will account for the majority of exports of rice, oilseeds, vegetable and palm oil, protein meals, sugar, beef, poultry meat, fish and fish products.

Emerging economies to play a larger role in expanding world trade in agriculture

Figure 3. Projected average annual growth in global per capita food consumption, 2012-21



Processed foods, proteins and fats show higher growth rates in consumption because of changing diets



Commodity highlights

Global production of bio-ethanol and bio-diesel is projected to almost double by 2021, heavily concentrated in Brazil, the United States, and the European Union. Biofuels are based mainly on agricultural feedstocks and are expected to consume a growing share of the global production of sugarcane (34%), vegetable oil (16%), and coarse grains (14%) by 2021 (see Figure 4).

In response to government mandates, biofuel trade between the United States and Brazil is expected to increase. This Outlook anticipates that the United States would import sugarcane-based ethanol mainly from Brazil to help meet domestic demand created by its mandate for advanced biofuels, while Brazil would import lower priced maize-based ethanol principally from the United States to satisfy the demand from its large fleet of flex-fuel vehicles. US low-blend ethanol demand is expected to be constrained by the blend-wall from 2016 onwards.

Cereal stock-to-use ratios will remain below historical averages, posing the risk of future price volatility. The Russian Federation, Ukraine and Kazakhstan are expected to become much more important sources of wheat exports by 2021, but high production variability in this region may have implications for global trade and world price volatility. Larger exports of rice are projected from Least Developed Countries in Asia, while rice imports are to increase in Africa.

Oilseeds production and exports continue to be dominated by the traditional players, but emerging exporters like Ukraine and Paraguay are expected to increasingly contribute to global export growth. China, the dominant importer, will account for more than half of total world imports. Brazil's oilseed production growth is expected to slow from 4.9% to less than 2% p.a. over the outlook period.

Food and ethanol demand for sugar crops will be sustained over the medium term, maintaining high sugar prices. Production cycles will continue to characterise sugar markets in Asia, leading to occasional large trade fluctuations and price volatility. Because of Brazil's dominant position in the sugar market, the allocation of its sugarcane crop between ethanol and sugar production remains a key market driver.

Increased demand for meats will mostly stem from large economies in Asia, crude oil exporting countries and Latin America, where income gains are expected to be significant. Poultry meat will lead this anticipated growth as the cheapest and most accessible source of meat protein, overtaking pigmeat as the largest meat sector by the end of the outlook period.

Fish production is one of the fastest growing sources of animal protein. World fisheries and aquaculture production are expected to grow by 15% over the projection period. However, with a 33% growth in aquaculture production, it will surpass capture fisheries as the primary source of fish for human consumption by 2018.

Expanding biofuel sector absorbs larger share of crop production

Mandate driven ethanol trade flows between the United States and Brazil are expected to increase

The Black Sea region to play larger role in international wheat trade

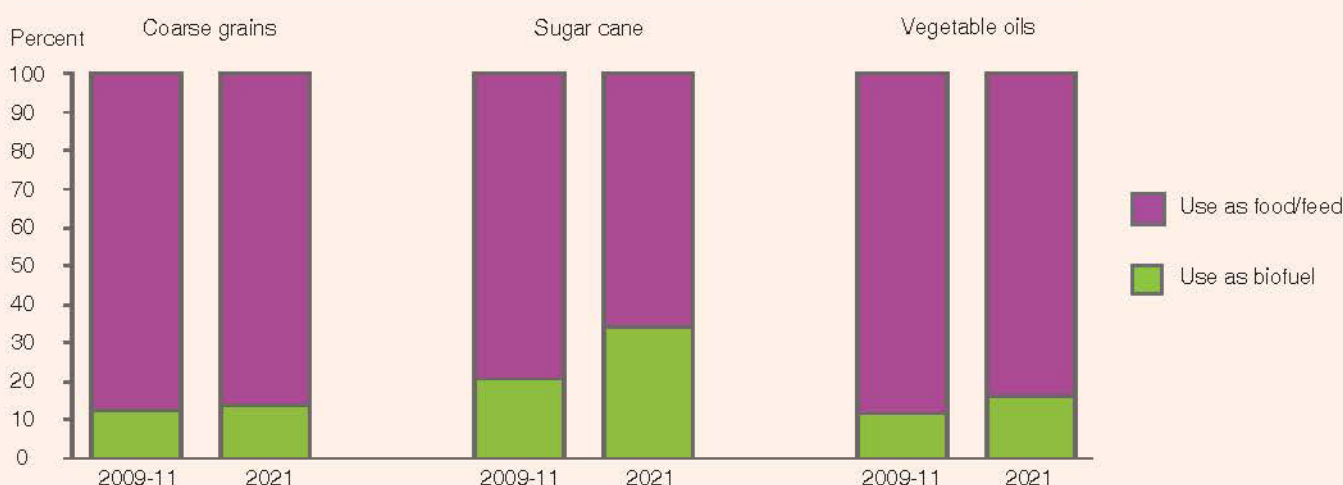
Emerging players in global oilseeds exports, China dominates imports

Brazilian ethanol production influences world sugar markets

Meat consumption expands in developing countries

Aquaculture to surpass capture fisheries in food consumption

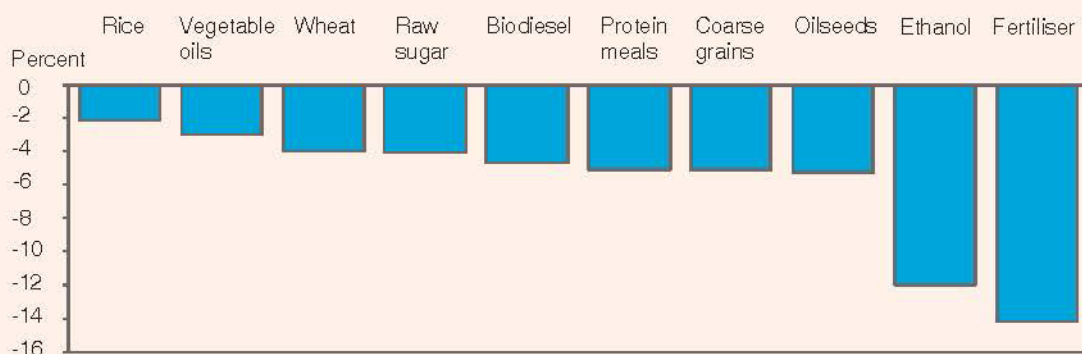
Figure 4. Share of global food/feed and biofuel use



A modest increase in consumption of dairy products is expected in developed countries with the exception of cheese and fresh dairy products, while in developing regions consumption of all products is expected to increase about 30% by 2021. Developing countries are projected to overtake developed countries in milk production by 2013, with large increases in China and India.

Developing countries to become most important milk producers

Figure 5. Impact of a 25% crude oil price reduction on commodity prices (average over projection period 2012-21)



Crude oil prices affect agricultural commodity and biofuel markets

A time for change - longer term perspectives

Agricultural production needs to increase by 60% over the next 40 years to meet the rising demand for food. This translates into an additional 1 Bnt of cereals and 200 Mt of meat a year by 2050 compared with 2005/07 levels. Additional production will also be necessary to provide feedstock for expanding biofuel production.

Significant agricultural production increase needed to satisfy future global food needs

Globally, the scope for area expansion is limited. Total arable land is projected to increase by only 69 Mha (less than 5%) by 2050. Additional production will need to come from increased productivity in the same way as it has for the past 50 years. Increasing productivity will be central to containing food prices in a context of rising resource constraints and will be a key factor in reducing global food insecurity. Productivity gains in the medium-term may come primarily from reducing the productivity gap in developing countries, but a stylised scenario suggests that a significant share of the increased output of crops, used as feedstocks, could be expected to go into biofuel production.

Productivity improvements will be a key factor in reducing global food insecurity

At the same time, there is a growing need to improve the sustainable use of available land, water, marine ecosystems, fish stocks, forests, and biodiversity. Some 25% of all agricultural land is highly degraded. Critical water scarcity in agriculture is a fact for many countries. Many fish stocks are over-exploited, or in risk of being over-exploited. There is a growing consensus that climate change and extreme weather events will increase.

Improved sustainability is critical

Encouraging better agronomic practices, creating the right commercial, technical and regulatory environment, and strengthening agricultural innovation systems (e.g. research, education, extension, infrastructure), including measures addressing the specific needs of smallholders, are essential policy challenges identified in this report. Measures to reduce food loss and waste are also key to meeting rising demand and improving productivity in the supply chain.

Governments need to assure an enabling environment

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or visit our website: www.agri-outlook.org



ISSUES

FOOD SECURITY

BY KH. BURTE

Mongolia depends on imports to feed the nation, but poor inspection can put everyone's health at risk.

In Mongolia, high inflation, price pressures and licensing issues are a molehill next to a giant crisis called food security. If you thought such a crisis could not occur in a country where cattle graze freely and crops grow in abundance, then you are mistaken.

Mongolia imports about 80 percent of its food products from over 132 countries. Sugar, rice, noodles, chewing gum, flavors and aromatics are all imported from abroad. Would you even believe that over 40 percent of milk and dairy products are imported. Importation is not a big issue. However, the standards of quality raise big questions, especially for products from China, given reports in recent years of Chinese products being hazardous to health.

Imported products that pose risks of illness and injury must be discovered before they enter Mongolia's border. The burden of that responsibility lies on the shoulders of customs inspections.

ISO calling for an SOS

Imported products must pass through at least five levels of inspections for admittance to pass through the border, said Ch. Arildii, the head of food and agriculture at

the General Agency for Specialised Inspection. He said after inspection of a new product a professional group visits the country the product came from to give a risk analysis and next decide whether or not to permit it for sale in Mongolia. Samples of imported products permitted into Mongolia are taken as well as additional precautions.

"Inspections are conducted according to international agreements. However, the number of classified inspection laboratories has to be increased", said Arildii.

He added "There are cases where some insects, fungi or other unwanted things happened to be hidden in food products because the packaging procedures didn't meet standards. Citizens tend to have the prejudice that the [circumstances of these] few cases are true for all products".

Arildii said Mongolian inspectors have prohibited a total of 621 tonnes of rice and 79 tonnes of tea from crossing the border. Last month alone Mongolia received 200 tonnes of imported products from 41 countries.

The standards for food security come from the International Organization for Standardization (ISO). The Mongolian government first introduced its standards in 2009

and currently enforces regulation requirement 9001.

Although Mongolia meets international standards and the requirements of the World Trade Organization, the quality of its imports are not very good, experts say. Mongolian industry has been unable to meet domestic demand over the last three years. About 95 percent of meat and 98 percent of dairy products are not processed, which indicates that Mongolia's food consumption is way behind global food standards.

"There are 667 types of food standards in Mongolia. However, 280 have to be revised, and nine standards have to be cancelled", said Vice President of the School of Food Engineering and Biotechnologies M. Purevjav.

"To be honest, Mongolia doesn't have any standards for analysis," said Purevjav. "Many food products which have never been used before have been imported. For that reason, those standards urgently need revision and improvement, and inspections and analysis have to be stricter".

Made in Mongolia

One of the reasons that food security has been lost is the "Made in Mongolia" label. Vendors say that goods labeled Made in Mongolia can be found in China and Turkey as well as Mongolia. However, such products are not put on display in markets. Such trade has formed a network outside Mongolia, said one specialist, that includes juices and ▶▶



► candies.

Over 30 percent of imported products are past their date of expiration or were sold in bulk in their country of origin, where the dates and labels of those products can be changed easily. Unbeknownst to the salespeople at supermarkets, importers can do this very well while remaining undetected.

The Atariin Ayan III project has reduced the amount of imported vegetables. However, in the last six months, imports totaled 600,000 tonnes of pork, 2,140 tonnes of milk powder, 21 million eggs, and 8,000 tonnes of onions, according to official numbers. But no one actually knows how much of unofficially imported products flow into Mongolia. The country is able to provide for all of its domestic potato consumption, but this fact seems to be ignored. Officials note that domestically grown vegetables don't have any labels to inform consumers they were grown in the country.

Mongolian manufacturers import over 400 types of these products from over nine countries, including Russia, China and South Korea.

With one laboratory to analyse these surplus products, analysis cannot be done accurately. In addition, there is no prohibition over products listed as dangerous by the World Health Organization or the United Nations. This is a concern of national security.

Vegetable importer nation without storehouses

Mongolia imports over 80 percent of the food it consumes. However, there are 10,000 storehouses able to store 130,000 tonnes of food. Unfortunately about 50 percent of those storehouses are no longer used. Proper storage is a key factor to quality and safety, but Mongolia does not have enough storehouses. Sometimes vegetables and fruits are stored together at one place, a major risk to food safety.

Every autumn, farmers search for places to store their vegetables. Although the government has pushed a project to provide more storehouses, it has borne few results.

In addition to all these problems,

there is also the problem of transportation. Temperatures are extreme in this country, exceeding 30 degrees Celsius in summer and -50 degrees in winter. Vendors stock their shelves with products that have taken over a month to reach their destination, traveling up to 1,500 kilometres on any kind of vehicle. In winter products freeze and in the warmer months can melt or turn sour.

Can we call food exposed to such conditions safe? Inspectors say possibly not, explaining that food quality can diminish during transport.

The public does not need to witness the consequences of poor food handling. Instead, inspection should be done more effectively. Society demands so.

Mongolia's inspection agency is under the authority of the deputy minister's office, who was recently installed under the new government. As a food technologist and a former minister of food, agriculture, trade and industry, he can be expected to revamp inspection and food safety policies. ■

HEALTH AND HYGIENE

DEADLY WATER

BY E. ZORIGT

According to the WHO, the majority of plastic packages, except for the transparent ones, contain twice the amount of melamine allowed.



Since plastic was first developed in 1869, it has attracted the interests of many for its advantages such as its light weight, pliability and colourful appearance.

However, plastic soon began to be manufactured using coal and crude oil. Now, this well-known, popular material is used globally and daily, today, even by Mongolians.

Plastic products come in a variety of forms—from children's toys to food containers and bowls. However, many do not really know how damaging plastic products are to human health.

In Mongolia the standards of

hygiene and sanitation are not acceptable when it comes to the inspection of plastic packaging.

Melamine and Death

Manufacturing plastic packages requires the use of bisphenol A (BPA) and melamine. Too much of these chemical substances, above set regulations, could have fatal results. U.S. scientists found that BPA triggers different types of cancers, including breast cancer, and can lead to infertility.

After this study was introduced

to the public, the use of plastic products fell dramatically. However, for Mongolians the usage of plastic products is only growing. The majority of imported plastic products in Mongolia contain twice the amount of allowed melamine as standards dictate.

“There is no particular research facility that conducts specific research on plastic products”, said V. Maizul, a lecturer at the Mongolian National University of Science and Technology (MUST).

“Although the General Agency for Specialised Inspection does make studies and inspections for »

▶ this matter, their efforts are still not enough. But most plastic products have to be transparent. If they are coloured it indicates a possible danger”.

According to research from the World Health Organization, the majority of plastic packages, except for the transparent ones, contain twice the amount of melamine as allowed. Also, coloured plastic is a sign that it was recycled.

Coloured plastic cups, spoons and other household products have special standards and instructions for use. For example, plastic household products containing melamine should not be used for hot foods or drinks, such as tea, or else it will produce formaldehyde. Formaldehyde is a toxic mutagen and carcinogen, and can trigger allergies and skin diseases.

In addition, microwaving food in plastic products activates toxic substances. Products containing melamine usually are stamped to inform consumers. However, the majority of plastic products imported to Mongolia do not carry such a trademark, revealed a study from the General Agency for Specialised Inspection (GASI). The agency inspected over 30 companies to find that some were manufacturing below-standard plastics illegally.

Toxins

Light and cheap coloured plastic bowls are common in Mongolia. They are often used to hold water as well as airag. However, what people do not know is those containers were originally meant to contain chemical substances from leather processing plants. But people across Mongolia use them to carry drinking water.

At Narantuul Market are containers, big and small, from five to 200 litres

“One of the most popular products is the water container”, said M. Bold, a vendor selling plastic containers at Narantuul. “A water container



that can hold up to 25 litres cost MNT 8,000, but an aluminum one cost MNT 120,000. People buy the cheaper ones”.

He denied selling containers that could be harmful if used for drinking, but admitted that some vendors do sell these products.

Ulaanbaatar’s Agency for Specialised Inspection has frequently reported that containers that could be toxic when carrying drinking fluids were recycled and sold at Narantuul.

A recent study showed that about 63 percent of Mongolians use these containers that were intended to carry toxic substances rather than drinking fluids. Families living in ger districts have at least two of such containers. The Social Health Institute and the World Health Organization released a report on this issue showing that it found formaldehyde levels that exceeded standards 3,900 times in a 25-litre plastic container and up to 6,900 times in a 200-litre blue container. In yellow containers were up to 39.17 milligrams per litre of formaldehyde and 53.43 milligrams per litre in blue.

The study also showed that the amount of toxins increased the longer fluids remained in the containers. Clearly these containers are not to be used for the household. Specialists also warn that using plastic containers, even those advertised for household use, can lead to cancer or heredity diseases.

“Today, Mongolians have become so indifferent. This attitude is poisoning us”, said G. Erdenebayasgalan, a specialist at the Ministry of Nature, Environment and Green Development. “In addition to this, people have lost their humanity. People sell these water containers only for money, not caring about the fact that they are poisonous. Mongolians are poisoning themselves”.

All markets sell good and bad products. However, Mongolian vendors often import the cheapest and worst goods, warn officials. People should stop buying these health-hazardous products and make the right choices. If demand disappears, so too will supply. ■

ECONOMICS

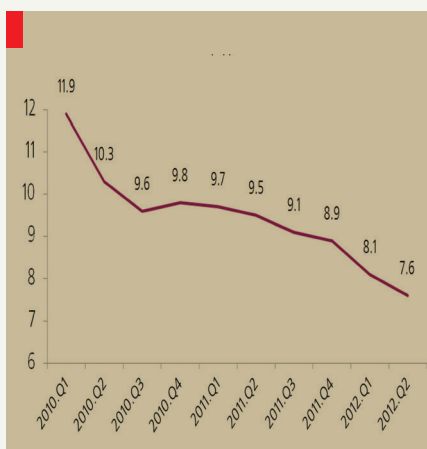
A NEW CRISIS



By U. Ganzorig
(Head of Mongolian
Financial Market
Association.)

In the globalising world, China's economy plays a major role in our lives. China made it through the 2008 global crisis relatively well, and being so close to this guardian angel protects us, too. However, the 2012 crisis might start from China. If that is the case, the picture we could imagine won't look so good.

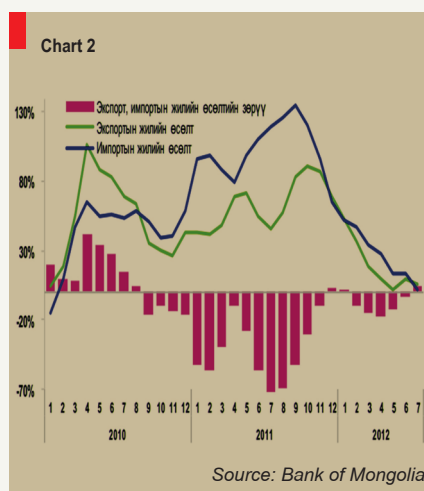
China's growth is slowing, no doubt about it (see chart 1). Currently the country's economic growth has reached its lowest point in 13 years. Only a few days ago China's official purchasing managers index (PMI), a measure of economic growth, revealed that the nation's manufacturing activity is on the decline. A large drop is a very different concept from slowed growth. It is a warning.



The American and European economies are not looking that great. The one and only economy that is making the world economy going round is that of China. Close

observations of China's economy is crucial to Mongolia's because its economy completely depends on China.

Due to inactive coal transportation for the last several months, export growth has started to fall, causing it to drop to the negatives. The end of 2012 could be worse.



If the Chinese economy begins to decline, Mongolia's economy could face a serious crisis within just six months. Alarming signs have already started to appear. According

to analysts from UMC Alpha, Mongolia's construction companies will face a shocking reality this winter. In addition to this, there is the risk of bank loans being declared non-repayable, just like what happened in 2008 and 2009 in the construction sector.

The State of China's Economy

China's PMI is a very important economic indicator that shows the health of the sector. Economists question whether the statistics released from the Chinese government are factual because it is a country governed by a single party.

The PMI fell below 50 points three months in a row, falling to 47.8 in August. Figures below 50 indicates economic decline, while figures above that indicate growth.



The index reveals that export demand and redundancy rates have dropped. As reported, ports are filled with products waiting for export. ▶

(Chart 4: International stock exchange indexes of the last 12 months, 2012-08-29):

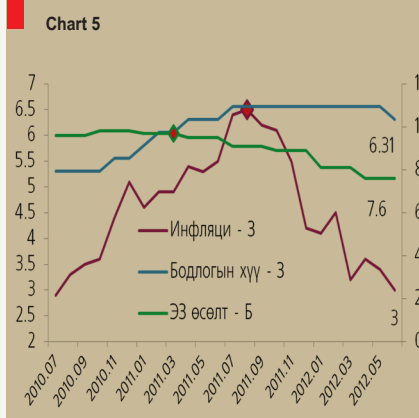


While the Shanghai index dropped 17 percent, the indexes of other international markets grew. It is very concerning that the Shanghai and Shenzhen stock markets are collapsing. Compared to countries such as India and Brazil, where they show significant growth in financial markets, China showed a fall of 17 percent over the last 12 months. Adding to this economic contraction, the profits of China's manufacturers are slipping as well. On August 30 one of the biggest entities in China, the Bank of China, delivered its half-year financial report. Although China's bad debt has lessened a bit, its over-drafted loans have grown by 17 percent, and could turn into bad debts if not paid on time.

Foreign investment in China's stock markets is relatively small. But why does it sell so many shares, undercutting their values?

Inflation in China of 6.5 percent shocked the world. As the second largest global economy, this situation calls for a warning. In response to this rise, China's central bank raised its policy interest rate. As a result, inflation appeared extinguished as can be seen on Chart 4. However, Mongolian importers note that the prices of goods from China have risen by 10 percent at least.

The Central Bank of China has been decreasing its policy interest since its economic growth began to decline

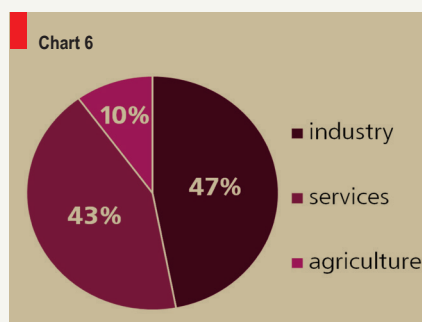


One index that is never released is that of capital flows exiting the country. Since last year's so-called "black market loan" scandal, many of China's billionaires have disappeared without a trace. The recent Bo Xilai scandal triggered fears among other billionaires involved in tax fraud. Some of these people were sent to prison and others emigrated. Due to these situations, property prices have increased in Vancouver, New York and London.

China's Manufacturing and Economic Outlook

Chinese manufacturing has exceeded its demand. If production exceeds sales, companies start to cut jobs. This means unemployment will rise and incomes will fall. Other sectors will also be hurt by the damage and start to cut jobs as well, and so will continue the economic contraction.

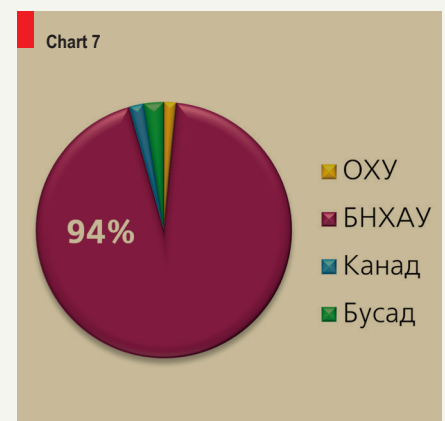
China's economy and manufacturing highly depend on exports



Mongolia's Dependency

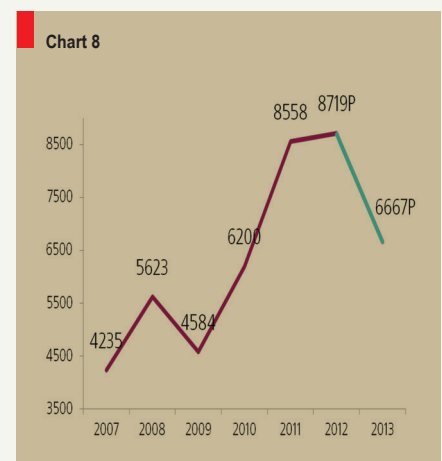
The economy, exports and imports of Mongolia directly depend on China's economy. However, in recent years Mongolia's dependency has grown. At present, China is responsible for about 94 percent of total exports and 31 percent of imports.

In July 2012, 94 percent of Mongolian exports shipped to China



Chief export products such as coking coal, copper and cashmere are some of the basic raw materials of manufacturing. However, the finished products made from Mongolia's raw-material exports are stockpiled in warehouses at the ports of China.

Mongolia's GDP (in billions of USD). If Mongolian exports fall dramatically, depending on China's economic outlook, its GDP could drop to USD 6.6 billion ▶



► Construction: A Method of Avoiding Risks

Oyu Tolgoi will need to import energy from China to start its production. To do so, the company will need to pay up to MNT 200 billion. However, this is quite a sum for Mongolia's economy. Unfortunately, not a single power plant for use by a mine has ever been.

At present over 70 percent of the hired workers working in construction and mining are foreigners, mainly Chinese. An investment worth MNT 500 million from the Development Bank of Mongolia is suspended for the moment, due to the absence of technical economic analysis and a business plan. This is resulting in the loss of MNT 100 million to interest payments every day. All these figures prove one thing, namely, we have only managed to finance our expenses and distribute cash instead of preparing a professional workforce or improve infrastructure by building roads and power plants. If there is economic collapse in China, Mongolia's fragile economy could crumble too.

How to prevent such a disaster:

1. Infrastructure—including education, health, energy, road and finance—must be developed. Every penny that comes from the mining industry must be saved in order to increase value. Mongolia, instead of focusing on possessing more shares, should try to put added value on its products to support the economy.

2. Mongolia should try to attract investors by releasing bonds worth up to USD 2 billion, in addition to some bonds that could be sold in tugrugs. However, technique, economic analysis and master plans for improving the education, health, energy and transportation sectors have to be developed in conjunction with this.

3. Unemployed workers, budget cuts, and export profits

could be utilised to help support the development of infrastructure.

Taking these steps could prevent Mongolia's economy from falling too deep if the economy of China starts to contract even more.

Possible Risks and China's Response Against Economic Slowdown

Compared with the governments of developed countries, the Chinese government is very competent in taking measures for the short term and decisive actions to protect itself against economic crisis. The 2008 economic crisis proved the Chinese government can develop and enforce effective policies.

The Prime Minister of China has been visiting cities where export is centralised. On August 24, after China's manufacturing index fell, China's central bank dispensed USD 22 billion worth of renminbi.

China will invest in its economy, for sure. But the nation won't waste time, as the Greeks did, arguing. Chinese policymakers have started to develop plans to gain the trust of investors. They will provide the resources to finance construction, and if banks have bad debt the government will offer financial support. Such action is called quantitative easing.

Resources: Statistics and information from National Bureau of Statistics of China, the Bank of Mongolia, and International Monetary Fund. ■

DISCOVER MONGOLIA-2012P

NO PROMISES TO COME BACK

BY B. BAYARTOGTOKH

This year Discover Mongolia contended with slowed growth in China, a European debt crisis, and a downturn in commodity prices.

This is a critical moment, as an extremely inextricable issue has arisen. An unpleasant wind is blowing through the steppes with the era of peak commodity price having apparently passed. This peculiar event, characterized by fluctuating

copper prices and declining iron-ore prices, comes as Mongolia's coal production becomes a surplus to the Chinese market and the prestige of gold has lost its luster.

This is perhaps a signal for a world crisis. Countries whose economies ▶



► are not prepared to face these events are floundering.

Last month, as these events were unfolding, the Discover Mongolia international investment forum opened to some 1,500 delegates from more than 10 countries. For sure, those delegates returned weighing the risks and benefits to investing in Mongolia's mining sector, the key sector to the country's development. Foreigners looking for a profitable project with a sustainable deposit, potential markets, and the ability to invest freely were welcomed by a chilly environment. Investors arrived this year just as new government was still developing its structure and was still hammering out the policies and function of the Ministry of Mining.

This was reason enough for investors to return home unsatisfied.

The new government offered a cool reception to investors, as confirmed by the short words given by D. Gankhuyag, minister of mining.

Yet, his suggestion that it was not wrong to debate how the mining sector should operate and that the matter was open for discussion was reason enough to give investors hope.

First Ore

All eyes rested on L. Zoljargal, deputy governor and president and or of the Bank of Mongolia, during his speech on the mining sector's affect on the economy as well as its monetary policies. He revealed that the foreign investment pouring into the country through the mining sector had only touched the lives of Mongolians in the form of the MNT 21,000 monthly allowances from the Human Development Fund. He also noted that they had exacerbated inflation.

Currently Mongolia is among the top 10 countries attracting foreign investment. Although the mineral

resources industry had generated 36 percent gross domestic product (GDP) last year, stimulating 17 percent economic growth, as of August of this year the number of unregistered unemployed people had grown by 2,800 people compared with the same period in the year before to 43,200.

Matthew Gili, chief operating officer of Oyu Tolgoi, hurried on stage to discuss the first ore from the Oyu Tolgoi copper-gold project. Gili said construction of the copper ore concentrator was under way, while repeatedly emphasizing the importance his company places on the development of the surrounding rural region.

Oyu Tolgoi paid USD 96 million in taxes in 2010 and USD 375 million in 2011. In the first six months of 2012, it spent USD 1.3 billion, compared with 1.7 million in the same period in 2011. Annual figures are expected to eventually reach USD 6 million. He ►►



presented positive figures regarding employment—some 2,600 Mongolian workers currently working at the mine site and USD 4.5 million in total spent on their monthly salaries. Including contracted service suppliers, Oyu Tolgoi employs a total of 10,000 Mongolians.

During the presentation on Tavan Tolgoi, The Erdenes Tavan Tolgoi chief executive officer, B. Enebish, said that his company extracted one million tonnes of coal last year and 1.7 million tonnes in the first seven months of 2012. Extraction totals would grow annually, he said, and he expected total extracted coal resources to reach 20 million tonnes in 2016.

“Extraction has already started at Tavan Tolgoi, which was the centre of attention during this forum and has always attracted investors, but processing and the development projects have not started yet”, said Enebish.

Approximately USD 580 million of investment is needed for the project. In addition to the construction of a washing and concentrating plant, the decision to build a 300 megawatt power station is set for finalisation.

The beginning of construction to the power station is planned for next spring.

Postponement of Erdenes Tavan’ Tolgoi’s initial public offering has been extended until next year, said Enebish. With an unpleasant international investment climate and market fluctuations, the company’s financial consultants recommended that now was not the time for a public offering.

Going it Alone

G. Battsengel, chief executive officer of Energy Resource, in his presentation on operating coal mining projects, perhaps offered a glimmer of hope to investors. He gave investors a reason to believe Mongolia can contend with the large mining powers of the world by leveraging the fact that its neighbour is the world’s biggest producer and consumer of mining commodities. He said China’s steel production had expanded 5 percent, or from 150 million tonnes to 700 million tonnes, in the last 15 years. With a greater demand for coal, he said, nobody could compete.

Mongolia can supply around 50 million tonnes of processed coal to China. This is true even if the Chinese economy experiences a downturn. Statistics show that Mongolia supplied China with 45 percent of its thermal and coking coal imports.

Mongolia’s position as a landlocked nation is a disadvantage, there is no changing this. Mongolia must face a number of challenges to deliver its coal, iron ore and other mineral products to foreign markets. Good quality coking coal that is comparable to that of Australia and China is one way to handle this challenge. Investors recommended that Mongolia not rely on investors for everything, and that the government should prepare the foundation for an adequate business climate.

Mongolia could go it alone to develop its steel industry, as Hridaya Mohan, chief representative of the Steel Authority of India for Mongolia and China suggested on day two of the conference. Steel consumption has grown 50 times over the last 50 years. Mohan said Mongolia could produce as much as 1 million tonnes of steel per year. For Mongolia, the moment of the greatest anxiety ▶▶

▶ as well as the most excitement is approaching.

Although the “Government Hour”, an opportunity for attendees to field questions to government officials, was perhaps squandered, one piece of good news came from economist and television host Dambadarjaa “De Facto” Jargalsaikhan during a legislative panel discussion. He told the audience that the ban on the government’s issuance of new mining licenses would likely be lifted next year. Other issues regarding legalities within the mining sector were discussed too, where investors complained of the absence of a stable and transparent legal atmosphere.

Like it or Not...

At the end of forum Punsalmaag Ochirbat, the 2010 chairman of Discovery Mongolia, emphasized that the mining sector will remain as the leading industry of the Mongolian economy for the next 30 years because no other sector that can compete.

Balancing foreign trade, developing the economy, and improving the livelihood of a nation’s citizens are the goals of every government. For Mongolia to do so, it cannot run away from the extraction industry. Mongolia must elevate itself from the stage of exploration to processing. The country has the

opportunity to introduce technology to produce shale gas and oil. Moreover, it can venture into processing coal.

“The opportunity to enter the Northeast Asian market, and, furthermore, reach the markets of China, India and Japan is open to Mongolia, if only Mongolia steps in to concentrate on developing mining complexes and metallurgical plants. There is a demand”, said Ochirbat.

Until next year’s forum, Mongolia’s economy is sure to grow and strengthen. We can only hope to meet with investors again, at the same time next year and under the same blue sky. ■

DISCOVER MONGOLIA-2012P

Anton R. Dammer:

What is your impression of the Discover Mongolia international investment forum?

I’ve been in Mongolia three times now. Our company is interested in developing oil shale resources. We’re doing some seismic and exploratory work right now. We think there may be sizable resources here in Mongolia, and that interests our company because our company is an oil-shale development company.

Well I think Discover Mongolia has been a huge success. We certainly learned a lot. It’s largely concentrated on mining, but we’re an oil and gas company. You don’t hear a lot about oil and gas here. I’ve enjoyed learning about the resources and the different companies that are working here, in Mongolia. Mongolia has huge mineral resources and it’s going to be up to the government here to develop them in a prudent and sustainable manner, and I think that they will. There are very good companies working here. I’m optimistic and you should be optimistic about Mongolia.

Do you think the global economic slowdown as well as the slowed growth in China can affect the mining sector in Mongolia?

Well, commodity prices rise and fall, and the development of commodities are always a long-term proposition. It’s never prudent to step back from the development of your resources because of the current developments and economic trends. Commodity prices will come back and they always have. They’re cyclical.



Senior Advisor, Genie Oil and Gas, Lnc.

What is your opinion of the legal environment in Mongolia?

I’m hopeful that the new government will be more definitive on their regulations. Mongolians have to have regulations and laws that protect their people. That’s their paramount concern. But they have to be fair to the investors. I don’t think that they’re necessarily unfair, but I think that at least in the petroleum area there are a lot of vague areas that need to be clarified to take away a little of the risk that is endemic in investing in Mongolia. It will happen. I am very optimistic in investing in Mongolia over the long term. ▶



Managing Director of
Aspire Mining

▶ David Paull:

What is different about this year's Discover Mongolia compared to other years.

I do see differences every year. I think this year compared with last year is there are probably fewer investors [attendance was 1,400 this year compared with 1,000 last year, said Discover Mongolia organisers -ed]. I think there are more external mining companies and service providers. I think the breadth of depth of service providers in particular is a lot stronger than it was last year.

Do you think the global economic slowdown as well as the slowed growth in China can affect the mining sector in Mongolia?

It certainly does. Resources are a cyclical industry and prices and demand does go up and down. That's a fact of life, things don't just go up. The biggest impact on Mongolia, apart from impacts of revenue to the government (because low prices mean lower royalties and lower taxes), there is now less availability for risk capital in resource projects. Mongolia has a large need for capital in resource projects. That is probably going to be the biggest impact.

What is your opinion of the legal environment in Mongolia's mining sector, specifically in regard to the foreign investment law?

There are a number of laws changing at the moment. There's a draft of a new minerals law. Obviously that affects us greatly as does any law that impacts us on the ability to attract capital to develop our projects. In my view, the foreign investment law is an appropriate response to making sure there is continuing competitive markets for products from Mongolia.

Australia, for instance, has similar laws. Canada has similar laws. The countries that have large resource bases, where resources are important, have similar laws.

The current foreign investment review law has set in place a process of review. Unfortunately the foreign investment community assumes it caps foreign investment in Mongolian resource projects to 49 percent—and it doesn't. It simply sets an approval threshold. Hopefully, over time, the external investment community will understand that it is not a cap on foreign investment.



General Manager-Asia,
Sedgman

Cameron Dorr:

What is different about this year's Discover Mongolia compared to other years.

Sedgman has been in Mongolia since 2008 because of mining resources. Now Mongolia Mining Corporation invited us to come and help them with their plant. We've been engaged to coming to Discover Mongolia for four years now. I think there has been huge growth in regard to the people attending and also the exhibitors that are here. I think one of the key differences for me was the election. Obviously with the election there is a lot of interest with where are we going and what are we doing in Mongolia. I think that is a key interest for a lot of people here today and have been here this week.

And it's a pretty key interest for myself, as well.

Do you think the global economic slowdown as well as the slowed growth in China can affect the mining sector in Mongolia?

I think because Mongolia is an emerging mining sector, they've gone through the [World Trade Organization] and (with energy resources against all trends) went and developed the Mongolia Mining Corporation delivered and [initial public offering] IPO during a time when many companies were pulling away. I think that's a good indication that Mongolia—because it's such an emerging market—has a lot better opportunities than many developed markets to start going ahead. ■



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 September:

BUSINESS

INVESTORS SHRUG OFF NEWS OF MONGOLIA'S FRESH BID OF CONTROL OVER OT

Investors in Turquoise Hill Resources Ltd. (previously Ivanhoe Mines Ltd.) nearing completion of its Oyu Tolgoi copper and gold project drove up the company's share price 15 percent last week, despite news that a group of the country's lawmakers wants to grab a bigger stake of the massive mine.

After a 6.6 percent surge in huge volumes on Friday, Vancouver-based Turquoise Hill—controlled by Anglo Australian giant Rio Tinto PLC—ended the week at USD 9.10 a share on Toronto's big board, up from three-year lows of USD 7.90 at the open on Tuesday. The buying was kicked off by news that Turquoise Hill and Aluminum Corp. of China (Chalco) had terminated an agreement that would have seen Chalco take control of Turquoise Hill subsidiary SouthGobi Resources Ltd.

Mongolian politicians have been vigorously opposed to the Chalco deal, given sensitivities inside the country over Chinese influence over landlocked Mongolia. But on Thursday Reuters reported that a group of influential parliamentary backbenchers in a petition had called for the enforcement of a parliamentary resolution that gives the Mongolian government majority ownership of Oyu Tolgoi

from the current 34 percent.

After recent elections that installed a new government that some observe might call more nationalistic, the outcome could be different this time around. The country's new mining minister, D. Gankhuyag, is one of the politicians in favor of upping Mongolia's stake in the project set to go into commercial production in the first half of 2013.

Source: *Mining.com*

ECONOMICS

MONGOLIA ENTERS CROSS-BORDER TOURISM AGREEMENT FOR NORTHEAST ASIA

China, Russia, Mongolia and South Korea agreed on Sunday to take measures aimed at boosting tourism in Northern Asia. The agreement, a memo signed at a forum involving the United Nations Development Program (UNDP) and Jilin province authorities, aims to promote cross-border tourism.

"Tourism is an industry that concerns a broad range of economic, social activities and, therefore, business interests. It cuts across many policy areas for governments in Northeast Asia and that requires closer ties and committed cooperation," said Choi Hoon, director of the UNDP Tumen Secretariat, a pact between Russia, China, Mongolia, and South Korea to promote economic cooperation in Northeast Asia.

Tourism is booming in Northeast Asia. The Tumen River area is home to a wide

variety of tourist attractions, ranging from spectacular natural beauty to heritage. The China National Tourism Administration said that the Asia-Pacific region attracted 170 million international tourists annually and over half of them traveled to Northeast Asia. The region's annual average tourism growth rate reached 7.7 percent from 2000 to 2010.

Authorities have produced tourist maps for Eastern Mongolia, the Yanbian Korean autonomous region, Russia's Primorsky Territory, and the Rajin-Songbong area of South Korea.

"Northeast Asia represents one of the fastest growing tourism destination regions in the world," said James Macgregor, a UNDP tourism specialist. "The potential for establishing cross-border tourism is huge."

However, experts close to the industry warn the area has too many uncertain elements. Hong Kui, a travel agency manager, said that infrastructure was not ready to handle more international tourists.

Source: *ETN Global Travel Industry News*

POLITICS

PREMIER LAYS OUT 2012-2016 ACTION PLAN

Prime Minister N. Altankhuyag introduced the government 2012-2016 action plan to Parliament this week.

Developed by the members of the Democratic Party

(DP), Mongolian People's Party (MPP), Civil Will-Green Party (CW-GP), and the independents that make up the grand coalition government, the four-year action plan includes three main objectives. First is reducing unemployment and increasing salaries. Second is focusing on fighting corruption and making public officials more accountable, and third is enacting and completing major development and construction projects.

Altankhuyag said that his government would work to achieve lower, single-digit, interest rates, and the creation of 150,000 new jobs. He also promised for tighter controls on oil and meat prices in addition to higher standards at medical facilities, reformed education, insurance provided to at-risk individuals and solutions to the air pollution and traffic jam problems in the capital. The prime minister said introducing greater transparency was a chief goal, transforming so-called "state institutions" into "public institutions."

Members of the Mongolian People's Party (MPP) made several inquiries to the plan while complaining that input from their party was not accepted. In response the prime minister said that special mind was paid during the inception of the action plan to excluding abstract populist ideas. He added that a more detailed plan for implementation will soon be developed.

Source: *Zuunii Medee*