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Reform in China promises a
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MONGOLIA

**Research**

The Economic Research Institute is researching four key economic drivers, including the iron ore industry, sovereign bond offerings, the Tavan Tolgoi power plant and Power Plant No. 5. The outcome from these studies will be posted in forthcoming issues of *Mongolian Economy*.

Budget

The state budget saw a shortfall of MNT 1.5 trillion last year. By the end of last year, budget revenue totalled MNT 5.8 trillion while expenditures was MNT 6.2 trillion, or 80 percent of budget revenue. Finance Minister Chultemiin Ulaan



said that Mongolia's external debt reached 49.7 percent of annual GDP. The Ministry of Finance reported that external debt grew 11.5 in 2013 from 2012. Mongolia pays between USD 50 million and 60 million a year for debt repayments, and is expected to grow to USD 80 million by 2015.

Tax

Erdenet Mining Corporation was found to be the highest tax payer in 2013, reported the Ministry of Finance, paying MNT 362 billion last year. The beverage firm APU placed second, with tax payments of MNT 153 billion. Oyu Tolgoi ranked third, followed by Mongolyn Alt (MAK), Tavan Tolgoi and Energy Resources.

Mining

Erdenet Mining Corporation expects to increase the volume of its copper ore production to 35 million tonnes a year in 2015. Erdenet hopes to raise its copper ore production capacity 10 million tonnes; raising its copper concentrate output from 118,400 tonnes to 135,400 tonnes a year. Increases in production will see investment rise from USD 336 million to USD 524 million. Net profit is expected to double to USD 642 million a year.

Foreign Trade

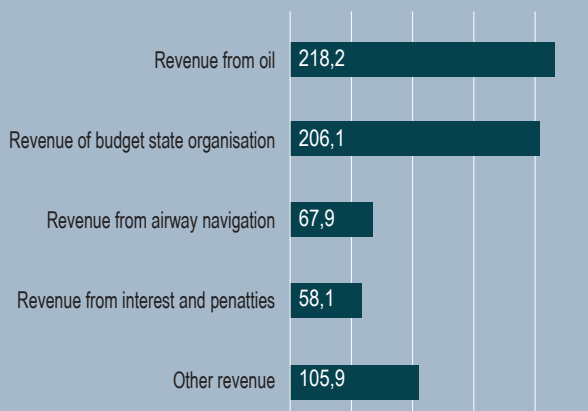
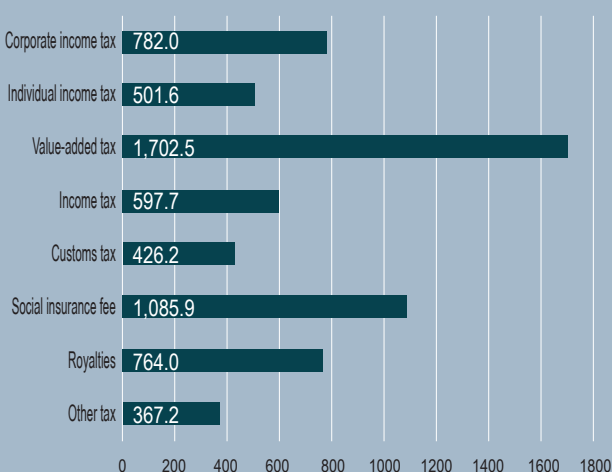
Compared with 2012, total foreign trade reduced by 4.5 percent, or by USD 495.7 million, in 2013. Total exports reduced by 2.6 percent, or USD 112 million, while total imports saw a reduction of 5.7 percent, or USD 383.7 million. Minerals,

precious and semi-precious stones, unprocessed and processed skin and hides, and fur comprised 96.5 percent of total exported goods last year. In 2013, Mongolia traded with 135 countries.

Construction

At the end of last year, the total cost of construction and maintenance amounted to MNT 1.452 trillion, according to the National Statistical

Office. Of that total, 91.3 percent of construction and maintenance work, worth MNT 1.326 trillion, were completed by Mongolian construction companies. This figure represents a 79 percent or a MNT 640.9 billion increase compared with 2012. The percentage of construction and maintenance work done by Mongolian companies increased by 77.3 percent in 2013.

Non-Tax Revenue (billion/s of MNT)**Tax Revenue (billion/s of MNT)**

WORLD

United States

The US Senate has confirmed Janet Yellen as the next head of the US Federal Reserve. Fifty-six senators voted in favour of Ms Yellen with 26 opposed – many members of the chamber were unable to attend the vote because of bad weather. It was the last procedural hurdle for the 67-year-old before taking over from outgoing chair Ben Bernanke on 1 February. She is the first woman to lead the central bank in its 100-year history.

**China**

Up to five private banks will be created in China this year as it looks to open up the financial sector and raise competition in the industry. The banks will be allowed to operate on a trial basis under the supervision of Chinese banking authorities. Private finance will be used to either restructure existing banks or set up new ones "bearing their own risks". China has been looking to open up its tightly-controlled financial sector to spur a fresh wave of economic growth.

Russia

Russia has launched one of the biggest security opera-



tions in Olympic history a month before the start of the Winter Games in the Black Sea resort of Sochi. The authorities are deploying more than 30,000 police and interior ministry troops and limiting access to the area. The main concern is the threat of attack by Islamist militants from the edgy North Caucasus region. Russia's most wanted man, the Chechen rebel leader Doku Umarov, has urged his fighters to target the Winter Olympics.

South Korea

Samsung Electronics, the world's biggest maker of mobile phones and TVs, has forecast a fall in profit for the October-to-December quarter, 2013. It expects to make an operating profit of 8.3 trillion won (USD 7.8 billion) for the quarter, down 18 percent from the previous three months. Compared with the same period in the previous



year, the figures represent is a 6 percent decline. Samsung did not say what caused the dip, but analysts said falling profit margins for smartphones were to blame.

**United Kingdom**

London ranks as the top city for foreign real estate investment opportunity, beating last year's winner, New York, according to a recent survey released by the Association of Foreign Investors in Real Estate. The survey found that San Francisco was the third favourite city for foreign investors, with Houston and Los Angeles coming in at four and five, respectively. The United States remains the most "stable and secure" country for investment by a wide margin of more than 50 percentage points over second-place country Germany. This is the widest margin since 2006. ■



Cartoon by A. Amarsaikhan

FEATURE

A CAUSE FOR OBJECTION

BY B. ALTAI

Mongolia is attempting to transition from a big government to a smart one. The transition promises new opportunities for the economy and fair competition in the market. It also includes the privatisation of Mongolia's state-owned companies as covering their operating costs becomes a greater burden for government.

Companies are paying special attention to merger and acquisition possibili-

ties that may come with the privatisation of the 101 state-owned assets. Total debt held by these companies was MNT 44.2 billion last year, of which the principle payment was MNT 32.5 billion with interest amounting to MNT 11.7 billion. Loan repayment was 7 to 10 years delinquent, according to the National Audit Office of Mongolia.

Erdenes MGL, the parent company of Erdenes Tavan Tolgoi and Erdenes Oyu Tolgoi, is Mongolia's largest state-owned asset – and is apparently growing bigger.

“As a part of this move, 51 percent of Erdenet Mining Corporation is to transfer to Erdenes MGL state-owned company”, said R. Jigjid, state secretary at the Ministry of Mining during the Il Tod (tr: transparency) press release, which took place in December last year.

By incorporating other state-owned companies, Erdenes MGL aims to rival companies on the global market. In 2013, state-owned Baganuur and Shivee Ovoo were incorporated in Erdenes MGL. Other companies to be incorporate in Erdenes MGL are the Asgatyn Mungunii Ord silver deposit, Tsagaan Suvargyn Zes copper and molybdenum deposit, Nariin Sukhaityn coal deposit, and Bargilt, Tumurtei and Tumulug Tolgoi iron ore deposits.

Some years ago, state-owned companies were very much in vogue in Mongolia. This trend finally resulted in excessive intervention from the government in the business sector. This intervention has grown commonplace in Mongolia, according to those who are in the business sector.

According to a study by the Mongolian National Chamber of Commerce and Industry on business environment last year, business people said government had intervened in business affairs too much.

President Tshakhyagiin Elbegdorj warned that the state should be competing with Mongolia's entrepreneurs and proposed a bill that would restrict the operations of state-owned companies and prohibit the establishment of new state-owned companies, without parliamentary approval.

Elbegdorj said the best course would be to appoint an independent board director at state owned companies and introduce good corporate



governance. For example, Erdenes Tavan Tolgoi does not handle the sale of coal for itself, instead, it supervises the sales made by private companies under contract to do so.

Mongolia's southern neighbour China has made a similar pledge to intervene less in business affairs. According to an ongoing study called "China's Economic Impact on Mongolia's Economic and Financial Market", carried out by the Institute of Finance and Economics, then Chinese government owns 50 out of 500 state-owned companies and 61 percent of 500 servicing organisations. The "Chinese Dream" policy put out by China's new regime puts limits on the intervention capabilities of government in business and introduces a new initiative to develop an economy with a "mixed properties" system.

There is piling evidence to suggest that the government runs its businesses poorly. For example, 34 out of the 101 state-owned companies operate at tremendous losses, according to D. Tsogtbaatar, chairman at the State Property Committee. Thirteen of those 34 companies see losses exceeding MNT 1 billion a year, while 11 lose anywhere between MNT 100 million to MNT 1 billion annually, and another 11 state-owned companies see losses of between MNT 5 million to 100 million each year.

Tsogtbaatar said poor management was at the heart of the issue.

Despite the losses seen each year, there is no loud outcry for change. The lack of interest may make the president's initiative to privatise state-owned companies a heavy challenge. ■

fied in the General Taxation Law and product sharing agreements were made;

- Greater clarification of the differences between licences for conventional and non-conventional fuels research, exploration and extraction and an outline for how to fulfil the terms of licensing;

- Creation of a legal environment that removes opportunities for conflict or overlap with the licenses for nuclear energy, mineral resources and oil

- Creation of a supply of raw materials for the establishment of an oil refinery in Mongolia, eased dependency on imported petroleum, increased export, and job creation;

- Clarifications to the legal environment for nonconventional fuels, such as coal-to-liquid fuels;

- Maintain competitiveness of investments and the business environment for conventional and non-conventional petroleum products that are above the international average;

- Impose royalties of between 5 and 10 percent on conventional and nonconventional petroleum products. Some 10 percent of the special licensing fee and royalties will be paid to the local community where the land is licensed, 20 percent will go to the province and provincial capital, and 70 percent to the state budget;

- Cooperation agreements with local governments will be made that directs profits from the fuel producer to a local development funds

The revised Petroleum Law is scheduled for discussion during the current session of the Khural. The current session will conclude in less than a month, however, making it more likely to be discussed in the next session. ■



BUSINESS LEGISLATION

DELAYS TO THE PETROLEUM LAW

BY S. ZAYA

The Petroleum Law has not been significantly amended since it was approved in 1991. A number of studies have been conducted on the liquefaction of coal for fuel creation since then. Now, as this industry develops, clarifications will be required in the Petroleum Law.

In December 2008 the State Great Khural passed a resolution that called for a complete overhaul of the Petroleum law, including clarifications of the state's authority over the industry, royalty rates and instances where reductions and exemptions are possible, conditions for the suspensions or cancellation of licenses, and improvements

to the government's supervisions over oil operations.

Since that resolution was passed in 2008, however, no amendments have been passed. Mining Minister Davaajavyn Gankhuyag last year submitted to parliament a new law that reflects the intent of that 2008 resolution.

The following is what the Mining Ministry has said can be expected from the law:

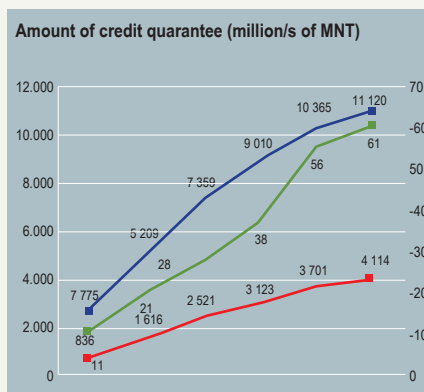
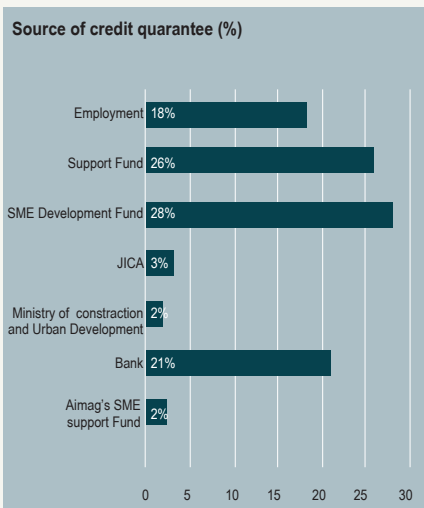
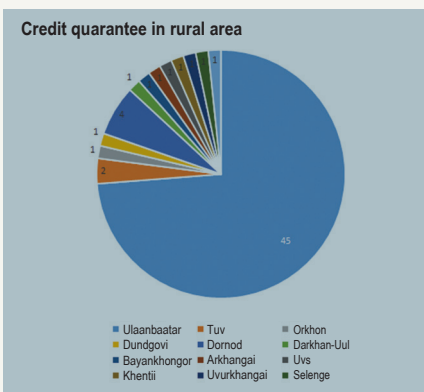
- The removal of clauses in the Petroleum Law that do not suit current operations at oil deposits and the removal of any ambiguities;

- Retention of the tax conditions speci-

CREDIT GUARANTEE FUND

EQUAL ACCESS

BY CH. LUTAA



The Credit Guarantee Fund has yet to help grow small business throughout the country, remaining an immature and untested financial tool for the government.

The fund allows the government to help businesses attain loans by guaranteeing repayment for a portion of the loan. The aim is that supporting small business can effectively expand employment and provide economic stimulus to the communities in which they operate.

Although they were the fund's primary target, Small businesses, however, have been cut off. Its reach is too short and unable to help companies outside the immediate vicinity of its headquarters in the capital.

The fund has provided guarantees totalling MNT 4.1 billion, it reported, out of MNT 15 billion in loans issued to 61 SMEs. Only 16 of those organizations are based outside the capital, however, which is a missed opportunity. SMEs create opportunities for the development of sectors such as real estate, which would be essential to communities outside of Ulaanbaatar, and lay the foundation for distribution networks and supply chains.

According to B. Erdenesuv, a financial officer of the Credit Guarantee Fund, it has no direct representation in any rural communities, instead relying on commercial banks.

Experience

Similar funds found in South Korea, Taiwan, Japan and Malaysia were established in their capital cities first, just as Mongolia has done. When progress was made, those countries began branching out to new cities and towns. Afterwards those funds helped to create jobs, eventually improving living standards and boosting employment.

In China, for instance, credit guarantee funds were established in remote areas where there was poverty and poor living conditions. Today, China leads the world in the number of middle-class citizens and has four times as many as Britain. Foreign nations, with funds to share the credit risk with potential small business borrowers, have documented a variety of cases from which newer funds like Mongolia's can learn.

So, naturally, Mongolia's Credit Guarantee Fund plans to open offices around the country in 2014. The fund is currently looking to publicise its activities and train the staff at local labour departments.

Engaging small businesses and attracting greater participation from SMEs in the programme is a major priority, said Sh. Altankhuyag, the fund's chief executive. She said she hopes this will boost local economies and provide more employment opportunities.

The strategy is to reach out to two provinces and Ulaanbaatar's remote Baganuur district. The fund has already signed a cooperation agreement with Baganuur governor.

If the fund can quickly reach remote communities they might better align with the country's growth. ■



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INTERVIEW

AN ECONOMIC CROSSROADS

BY I. OTGONJARGAL, E. ZORIGT, S. BATZAYA

Mongolian Economy magazine interviewed three former prime ministers of Mongolia: Dumaagiin Sodnom (1984-1990), Sharavyn Gungaadorj (1990) and Dashiin Byambasuren (1990-1992) on Mongolia's current economic policy and development issues. This is their first interview together. Their individual opinions have been broadcast by the media

severaltimes.

Sodnom and Byambasuren are renowned economists who worked as heads of the Communist-era's Price Committee, National Statistical Office and the ministry of finance. Gungaadorj was the minister of agriculture before he served as prime minister.

In the past decade, Mongolia's economy has been driven by mining, with 80 percent of export revenue generated from the resources sector. There is a lot of speculation regarding diversification of the economy. On what sectors do you think our economy should concentrate?

Sodnom: Important economic sectors for Mongolians are mining, agriculture, tourism as well as technology. These are four main sectors in which Mongolia would have to develop in the future. So we need a firm state policy on how to develop the mining sector sustainably, communicate with and contribute to investors and manage the situation. The initiative by the president of Mongolia towards a smart government should be enhanced and developed in the future. As a result, Mongolia's economy may develop effectively.

Gungaadorj: It will be difficult to develop the country without the mining and energy sectors. Mining is the leading sector, but other supportive sectors to mining and large independent sectors need to be developed. We also need to contribute to our agriculture sector. Without agricultural development, it would not be easy to imagine Mongolia. If there is no grassroots development, we can't say that Mongolia is developing.

In this sense, our government has focused poorly on rural development.

Today, Mongolia seems to me a country that only consists of Ulaanbaatar. In the past, you could not imagine Mongolia without its livestock and rural areas. Livestock and land are limitless resources. I think Mongolian state officials lack the foresight on how and where to spend revenue generated from the mining sector.

Byambasuren: Mongolia's current economy is very sick – almost bedridden. We used to often talk about Dutch disease for some years. And now, we are suffering from this disease. Generally, the Mongolian mindset is lazy and people expect to be spoon fed. Development is about creating one's own wealth.

There is a trend in Mongolia for digging up mineral resources wasting the benefits. The resources are from our ancestors – we did not create them. We should use these resources sustainably so they last for our future generations. Today, mineral resources are extracted everywhere. Our economy is suffering heavily from disease.

“No Need to Talk About Development While Many Cannot Prepare Enough Food”

You said that there was a big divergence in the state policy. Would



you please give us a little more detail?

Byambasuren: Recently, we have seen a diversion in state policy. With this, I need to mention three things:

Firstly, there is strong idea among Mongolians that they can become wealthy through debt and loan. This is an unbelievable state policy that is risking Mongolians' future lives today by saying that a good life is coming.

Secondly, the new Investment Law was introduced during a time of crisis. In general, there is nothing wrong in the new law in terms of attracting investors, but the law has some repercussions, including exposing Mongolia's economic space and the divide between the wealthy and the poor. This law legally protects the wealthy by stabilizing conditions, however smaller entities are vulnerable.

According to clause 12.1.1 of the new Investment Law: "Foreign investors shall be entitled to own land in ▶▶



Photo by E. Zorigt

► Mongolia for 60 years and it shall be extended by 40 years.” This means Mongolia is entering a way of selling its land. This is really bad news. Another big problem is Oyu Tolgoi. According to its investment agreement, it was not clear whether foreign investors needed to pay 20 percent tax when they transferred their profits abroad. But the new law states that they are free to do so. As a result, the economic-related legal issues have turned sour, making it increasingly difficult to navigate the economy.

And thirdly, I should mention the transparent discussions by the parliament on reducing a tax to be imposed on gold. For example, there was a certain amount of tax on gold during the early 1900s when Bogd Khan was ruling the country. At that time, this tax was 16 percent. But today, tax is likely to be as low as 2.5 percent. This means that whoever wants to come to Mongolia and dig gold, they are welcome.

In the past two decades, debt has increased enormously, economic direction was lost, and Mongolia's wealth was undervalued. From this perspective, I would like to say that the current economy is toxic. I am not sure if there is enough intelligence and strength to fix it. I agree with Mr. Sodnom and Mr. Gungaadorj on the development of the agricultural sector. Mongolia should be based on mining as it is the sector to generate the required funds at this initial stage.

It would be useless to talk about development while we cannot prepare enough food for us to eat. The number of livestock is approaching 50 million,

but the price of meat per kilogram is MNT 10,000.

The government is spending the proceeds of the Chinggis bond. It also issued the Samurai bond at the end of last year. What would you say about the spending of the proceeds?

Sodnom: Misuse of the proceeds of the bonds will hurt the next generations. The government should have made a more detailed calculation on when and how to repay the loan and principal payments. When the Chinggis bond was issued, I proposed to invest in Tavan Tolgoi by using the bond's proceeds. The proceeds could have also been used to repay a part of the Oyu Tolgoi loan.

Going forwards, the government seeks more beneficial projects and I hope that the government is heading down the right path. Drafting beneficial projects within a short period of time is difficult. Rather than starting just any project, funding should be allocated to developed projects or if possible, for ongoing projects.

Now, I am working at Mongolyn Alt (MAK) where two large projects are being implemented. For example, feasibility study of the project for production of one million tonnes of cement. Construction has also started with expected operation beginning at this year. Wouldn't it be possible to fund a similar large national project from the proceeds?

Large projects have the potential to generate repayments quickly. If any bonds are issued by the government, good local companies and the government need to work together. But the government should not spend the entire

time deciding what new projects need funding and seeking out potential projects. There are already ongoing good projects in Mongolia waiting for funding.



Gungaadorj: Mongolians cannot find a smarter way of how to make the bond the most beneficial to the country. If the situation continues this way towards the future, the next several generations will be indebted.

The government's eyes have just opened to seek out projects for the replacement of imported goods. The remaining balance of the proceeds from the Chinggis bond should fund projects that will bring returns on investment as soon as possible. Hopefully this will happen.

On the other hand, we need to research the Samurai bond thoroughly, or else we'll never know why the countries of the other world have no interest in this bond. I heard that France was participating in profit-making from this bond, but it quit very soon afterwards. Thus, we need to seriously consider if Mongolia could be fall into a trap after purchasing the Samurai bond. Once the purchase is decided, I would say that the profits ►

► should be used to fund domestic manufacturing. In Mongolia, there is pastoral livestock farming, or in other words a means for production.

There are no mid- and long-term plans for the development of Mongolia. The current economic system is sticking to an action plan overseen by the current government. That is why the economic policy is still an illusion. Otherwise, questions such as how to develop the mining sector and support other sectors, and where to allot bond proceeds would have already been answered.

“How About Refusing the 34 Percent?”

The future of Oyu Tolgoi and Tavan Tolgoi are ever pressing to Mongolians. What are your thoughts?



Sodnom: For the Oyu Tolgoi issue, there is suspicion among economists that the Mongolian side cannot benefit from it. The suspicion is supposed. When the initial agreement was made between Oyu Tolgoi and the government of Mongolia, 50 to 53 percent of the profits to generate from Oyu Tolgoi was available to the Mongolian side, in three ways, according to the preliminary feasibility study. This included 5 percent royalties and 25 percent tax that was supposed to be collected as well as dividends for its 34 percent [interest].

After the agreement the issue of greater initial investment arose. If this additional investment issue is not resolved, Oyu Tolgoi's underground mining operations will be delayed. In this way, the situation looks a little more difficult.

This trend is likely to continue in the future. These complications might finally lead to a mere 5 percent royalty for Mongolia. Dividend and tax imposed on total profits are unclear. So, what needs to be done about this? The profiting

from the sales revenue at Oyu Tolgoi needs to be clarified.

For Tavan Tolgoi, the investors need to include representatives of Russia, China and a third neighbour, such as Japan. Investment from each country should be 16 percent, which would comprise 48 percent of total investment. That would leave 52 percent ownership of Tavan Tolgoi to Mongolia. The reason for this is if the two neighbours become a part of Tavan Tolgoi, they would keep the price of transport in mind.

Gungaadorj: The Oyu Tolgoi issue is now more complicated. At first, the issue was understandable. A number of ambiguous issues appeared during what has unfolded. It would be very difficult to describe it from the outside. It would be bad for us if the situation grows worse for the Mongolian side.

Thus, it is important to reach a deal as soon as possible on where foreign investors and Mongolia interests intersect. How about refusing the 34 percent? This is just my thought. But we should not leave Oyu Tolgoi.

There are a number of external factors surrounding Tavan Tolgoi. Thus, I would say that the proposal by Mr. Sodnom needs to be considered. In doing so, ownership by China and Russia of Tavan Tolgoi should be exactly the same. Otherwise, the situation will become worse.

Byambasuren: Oyu Tolgoi and Tavan Tolgoi can be said to be a reflection of various things. Oyu Tolgoi had been under discussion since 2005, but the government has not acted as a wealthy owner. It is acting like a pauper while it gives away the wealth to others.

I said before that Mongolian politicians crawled to foreign investors and kissed their shoes in order to make agreements with them. Why do Mongolians always make concessions when they come to Oyu Tolgoi?

I made several calculations using the data and information posted on [Oyu Tolgoi's] official website. According to the current calculations, Mongolians will give its wealth to foreign investors free and, in turn, we will remain indebted. I think that this complicated situation is due the conflict of interests and all kinds of greed that gathered in and around Oyu Tolgoi. If the government intended to improve the agreement, it could have selected one of the

proposals made by Mr. Sodnom and Mr. Gungaadorj.

The problem is complicated and it is likely to worsen in the future. Rio Tinto is now looking for a loan at the risk of Mongolia's resources. This is unacceptable. But the Mongolian side is already sitting behind the negotiation table. Thus, our side should stop making conclusions and start talking.

Tavan Tolgoi is just a coal mine. Mongolia has enough human resources for hire to run the operations of both an open pit and underground mine shaft. The only problem is the investment. Although there have been great opportunities to attract investment, Mongolia's high public officials have divided Tavan Tolgoi into several pieces and, finally, this issue became controversial. Tavan Tolgoi was supposed to be just another coal mine, but what's happened is chaos.

When Tavan Tolgoi had no income, it distributed free money and stocks to all Mongolian citizens—neither of which has resulted in success. Hopefully, it's learned from its mistakes from the past. Thus, every aspect of Tavan Tolgoi must be considered, including society and infrastructure.

Last question: What are your opinions on Mongolia's current state policy and foreign relations?

Sodnom: For international relations, Mongolia should be very precise and careful when communicating with foreign business communities, especially, at this time when foreign investment has become an idol in Mongolia. The “economic hit man” could possibly come to Mongolia. There is no hesitation if some of them are already in Mongolia.

The way that ministers in the government are involved in the process of making agreements with foreign companies is wrong. The president said: “Agreements should be made by professionals who are specialised and are knowledgeable in economics and other related areas.” I agree with him. The economic hit man could enter Mongolia in the form of professionals. Therefore, we should be extra vigilant all the time.

Besides that, Mongolia should be smarter when communicating with China and Russia. Mongolia's economic relationship is being developed very ►

▶ well with China. China is also supporting its companies to work with Mongolia through its state policy.

When Mongolia's economic ties come to Russia, smart policy is needed. Five percent of exported goods are exported to Russia, while 60 to 70 percent of all imported goods including petroleum and electricity are imported from Russia. Thus, government-level meetings and discussions need to be held between Mongolia and Russia to further economic relations between the two countries. It means that smart state policy on how to develop the economic relations with Russia is still missing.

Gungaadorj: Mongolia has no way but to follow the same strategic policy of communicating with its two neighbours.

When I served as a chairman of the ministers' council in 1990, the US Secretary of State James Baker paid an official visit to Mongolia. I told him that Mongolia wanted to become the third neighbour of the US. "That is fine, but you will have to cross over the two neighbouring countries first so that the third neighbour becomes available", he answered.

In the past, there might be some things that we missed out on by keeping balanced relationships with China and Russia. This should not continue on this way into the future. Economic security needs to be a serious consideration.

Byambasuren: Mongolia lies at the intersection of three great civilisations. To the north, it borders Russia where Catholicism is dominant; to the south is China where Buddhists reside; and on the west are Muslim communities through to Bayan-Ulgii aimag, or western Mongolia. Economic relations need to be developed at every direction.

Regarding international relations, Mongolia's economic policy has been subpar. For example, in 2011, Mongolia increased the volume of coal export, breaking the world's coal market.

The price was so high then and it was good for Mongolia. How about now, then? We should think on it.

Now we are about to break the world's copper market. We need to be smart about this. Mongolia needs to improve its relations with production manufacturers and the regulations also need to improve. But it is good that Mongolia's reputation expanding internationally. Now we can proudly say that Mongolia is a democratic country. ■

GREEN ECONOMY

THE WILTING GREEN ECONOMY

BY E. ZORIGT

Mongolia is at the entrance of a detour road with a decision to make: It can continue down its current route towards energy shortfalls and over-reliance on mining, or take a detour through greener pastures.

Many countries believe that the planet cannot sustain a widespread "brown" economy, and instead are looking to explore other industries. So-called brown economies, like Mongolia's, produce a great amount of carbon dioxide into the atmosphere and are dependent on limited resources.

According to a projection by The United Nation's Food and Agriculture Organisation, if China transitions to a green economy, it could save USD 1 billion a year; or what is approximately 15 percent of its GDP by 2015. Russia also shows signs of heading towards a greener economy as it plans to reduce its carbon emissions by 40 to 45 percent a year by 2020.

For the transition from a brown to green economy, the previous government developed the Five 20s – five green goals to achieve by 2020. They are to increase energy efficiency, the capacity of renewable energy production, reduce green-house gas emissions, increase investment in the environment, and raise the number of state and local "green" purchases – all by 20 percent each.

However, the new Democratic-led government that took power in 2012 shows little signs that it will continue this Five 20s programme. The same could be said for Sukhbaataryn Batbold's previous government's interest in renewable energy. That government helped Newcom establish the



Salkhit wind farm and the "100,000 Solar Gers" project that helped install solar panels for ger households in remote areas of the country. The current government does make claims that it contributes to the development of the renewable energy sector, however – for example, the establishment of the Ministry of Environment and Green Development.

Also, Mongolia's traditional, coal-fired energy generation facilities are on the brink of collapse. The price of electricity increased in August last year and certain measures aimed at saving energy were taken in response.

"Mongolia is very close to finding itself with a scarcity of energy", said G. Purevdorj, a PhD and former secretary general at the Mongolian Energy Association.

A plan for the construction of Power Plant No. 5 was set into action last year. When this plant will start its operations is unclear, however. Worse still, the energy sector saw a loss of MNT 80 billion last year.

With little action and tangible benefits having materialised from the Five 20s programme and the Ministry of Environment and Green Development, it's hard for the people of Mongolia to see the transition from a brown economy to a more sustainable green economy. ■

POLICY

THE STATE POLICY ON MINERALS

BY S. ANIR

Mongolia is in urgent need of a state policy for its mineral resources as its GDP is now almost completely dependent on mine production each year.

Many of the goals of the state policy were first introduced in the Millennium Development Goals' 2008 Comprehensive National Development Strategy of Mongolia and the 2010 Concept for National Security. The policy has been a matter of discussion since the State Great Khural's spring session last year.

Although many hoped it would be approved by the beginning of January this year, the Mongolian People's Party (MPP) has delayed its passage, saying it is still in need of review and revision. The opposition party is not alone however. The Democratic Party's governing coalition partners, the Mongolian People's Revolutionary Party and the Mongolian National Democratic Party, have also criticised the proposed document.

The policy will influence legislation presiding over mining as well as mid- and long-term programmes aimed at improving the management of the mining sector. Included in the policy are clauses that call for cooperation in corporate governance. It also aims to remove any discriminatory measures between the types of properties held and investors.

The following are some of the clauses up for ratification by the Khural:

3.1.3. When exploitation and exploration licences are transferred (if an entity and control stock is purchased), a legal setting should be created in which a special licence holder shall have an economic evaluation of a deposit made by a professional organisation, notify the



respondent state organisation, regarding this and pay tax;

3.1.4. Improve laws in creating transparency in the operations of mining, transportation, storage and sales of gold;

3.1.7. Legislate and introduce the demand of fully researching deposits and extracting minerals from [deposits];

3.1.11. Introduce an evaluation system for minerals and create a legal environment to regulate the relations of economic benefit;

3.4.1. Support value-added processing plants, including those for cathode copper, metal works, uranium yellowcake, processed gold and rare earth elements concentrate;

3.4.2. Implement projects such as the construction of a coal concentration facility, coke and chemicals plants, power station at coal deposits, extraction of smoke-free fuel from

brown coal, extraction of a liquid fuel from coal and oil shale, and extraction of quality gas fuels from the gasification of coal;

3.4.3. Support new and modern technology and innovations that are environmentally friendly and harmless to human health in the processing industry;

3.4.4. Contribute to the processing industry through the tax and finance policy and improve the quality of mineral processing;

3.5.2. Restrict activities at coal deposits with a sulphur content greater than 1.5 percent and prohibit activity at deposits with a sulphur content greater than 3 percent;

3.6.4. Sell mineral products to international and domestic markets in open, optimal and efficient ways that will meet market principles; set a fair price; develop a domestic capital market; regulate export through an integrated policy; and establish a Mongolian Minerals Exchange;

3.6.11. Reduce the volume of export of raw or crude minerals step by step; contribute to the manufacturing of value-added, semi-finished and final products; and improve the calculation method for royalties under a policy that creates opportunities to sell those products at competitive prices on the international market while expanding revenues to be generated from those sales;

The state policy for the mining sector will encourage the development of programmes concerning geological mapping of the country for coal, iron or, fluorspar, rare earth elements, copper, and minerals used in building construction. This will require the involvement of a number of professional and scientific associations as well as business. ■

PRICE

GROWTH IN THE PRICE OF CONSUMER GOODS

BY S. AZ

The prices of consumer goods increased 30 percent in 2013. The same can't be said for wages

One year ago, the government said increasing wages and pensions would exacerbate inflation. To curb expected inflation, the government opted to increase wages and pensions gradually.

Inflation grew to 12.5 percent in 2013, according to the National Statistical Office, while economic growth grew to 12 percent in December. The last increase in pension and wages was 30 percent in May 2012 – prior to the parliamentary election. At the time of the increase, economic growth was 12.3 percent.

Wages failed to increase last year despite the 27.7 percent increase in the price of consumer goods recorded by the World Bank. Government ministers insisted that the prices of consumer goods were steady and people were living good lives. That sentiment, however, has not been shared by the average family in Mongolia.

The prices of consumer goods typically grow before Tsagaan Sar. Just a few days ago, the price of 25 kilograms of flour averaged MNT 16,500. At the time this was written, it increased to as much as MNT 22,000. These sudden price hikes add to the pressure most families are already experiencing.

Mongolia has more than 45 million livestock – a 10.2 percent annual increase according to the the National Statistical Office. An increase in supply has not translated to stable or lower prices. Mutton sold per kilogram now costs MNT 7,500 at Khuchit Shonkhor

– the wholesale market where meat is sold at the cheapest price. Compared to December, the price has increased from MNT 700 to MNT 1,000.

Also, flour prices have increased. This has impacted the price of traditional Mongolian biscuits.

Most families in Ulaanbaatar spend

a significant sum of money on Tsagaan Sar celebrations because it is considered the most important time of the year. The price growth seen each year at this time has households stretching their wallets further and further, making Tsagaan Sar a financially tough start to the new year. ■

The price of meat per kilogram (MNT)

Төрөл		Price (MNT)		
		Khuchit Shonkhor market	Bumbugur market	Mercury market
Beef	Boneless	8000-8500	8500-9000	9000-11000
	Meat on the bone	7500-8000	7500-8500	8500-10000
Mutton	Boneless	6300-7200	7000-7500	7200-8000
	Meat on the bone	6200-6500	6300-7000	6500-7200
Goat meat	Boneless	5800-6200	6000-6500	6500-7000
	Meat on the bone	5200-5500	5500-6000	5800-6500
Chicken	Boneless	5000-5500	5200-5500	6000-6500
	Meat on the bone	4800-5500	5000-5500	5500-6000
Horse meat	Boneless	5000-5500	5200-6000	5500-6500
	Meat on the bone	4500-5000	4700-5500	5000-6000

The price of vegetable per kilogram (MNT)

Potato	600-800	650-800	700-900
Carrot	1000-1200	1000-1100	1200-1500
Onion	1300-1500	1500	1500
Turnip	1000-1200	1200-1500	1300-1800
Cabbage	1200-1500	1200	1500-1800
Garlic	3500-4000	3000-4500	4000
White radish	2000-2500		2500-3000

The price of other food products (MNT)

Sunflower oil	3000-3500	3200-3500	3500-4000
Sugar	1600-2000	1800-2000	2000-2500
Rice	1800-2000	2000-2200	2000-2500
Buckwheat	1500-2000	1800-2000	2000-2500
Salt	600-1000	500-800	500-1000

The price of flour per kilogram (MNT)

		10 kg bag	25 kg bag	10 kg bag	25 kg bag	10 kg bag	25 kg bag
Ulaanbaatar	High grade	12000	20000	12500	19500	13500	22500
Altantaria	High grade	11000	25000	11500	24500	12000	26000
	1st grade	8000	18500	8500	19000	9000	21000
	2nd grade	5000	9500	5500	10000	6000	11000
"Arap"	High grade	11500	26000	11000	25500	12500	26500
	1st grade	8000	18500	8000	18000	9000	19000

NEIGHBOUR

REFORM IN CHINA PROMISES A NEW BEGINNING

BY B. TOGTOKH

Mongolia's southern neighbour China is changing a great deal as it strives to differentiate itself from the past. Now it faces the prospects of a new reform agenda in China that might lead to greater freedom for doing business in China.

at the Mongolian Academy of Science, during a forum on Chinese-Mongolia relations last month. "Without knowing China, it would not be possible to have mutually beneficial cooperation with China as Mongolia aims at long-term cooperation with China".

Reform and greater openness in China is important to Mongolia because

vestment. But China learned a hard lesson from the global financial crisis, when the US and European markets it relied on suffered from turmoil in their economies, meaning less purchases of Chinese goods.

One item of importance from the resolution passed last November is entitled "Establishing a New and Open Economic Mechanism", which calls for a push for more openness in the economy. It also calls for the creation of a stable and transparent foreign investment policy, the removal of restrictions that create bottlenecks for foreign investment, and more of its own investments abroad.

The resolution also calls for a new opportunity for business in the areas where China's state-owned companies dominate. China is now preparing to establish special economic zones in areas where China borders its neighbours. China hopes to create a more favourable business environment in these areas. Mongolia sends 92 percent of its exports to China. Unfortunately, although China expanded its coal imports last year, the volume of exports remained unchanged for Mongolia. And while China is interested in importing from Mongolia more minerals and other raw materials, Mongolia is set on producing more downstream, value-added goods.

There are some cracks in Sino-Mongolia economic relations due to Mongolia's hesitance to allow Chinese state-owned companies buy up its deposits and infrastructural bottlenecks limit export potential. The good news is that reform in China is likely to better accommodate relations. Mongolian economists and researchers expect that the reform will bring new opportunities for cooperation. ■



The new leadership in China have planned out a strategy for China for the next six years. In November last year the Communist Party of China passed a resolution that encompasses politics, the economy, culture, society and the environment, and removes the political obstacles that have so long delayed the launch of reform.

"Mongolia should be aware of the goals and objectives set by the new leaders of China in both internal and external policies", said D. Shurkhuu, head of the Institute of International Studies

China is Mongolia's top trade partner and the sustainable development of China will have a direct impact on Mongolia's economy and its development. Mongolia expects to export 31.4 million tonnes of coal to China in 2014. This is just a tiny portion of coal imports to China. The basis of the reform in China is a new economic model dependent on local consumption rather than exports.

Over the past three decades, China has developed its manufacturing sector and relied on exports while making use of its cheap labour force and foreign in-

CONSTRUCTION

FROM COLLAPSE TO CHALLENGE

BY B. BAYARTOGTOKH

The construction sector in Mongolia has bounced back after nearly collapsing in 2009 from the financial crisis. With a number of construction projects now underway, the construction sector comprises 10 percent of the Mongolian economy.

The Bank of Mongolia launched its 8 percent mortgage programme and opened a channel for commercial banks to finance the construction of new apartments. The Financial Markets Association of Mongolia's Construction Sector Outlook 2014 predicted that the construction sector in 2013 spent MNT 355.2 billion, or 153 percent more from the year before.

"Compared to 2012, construction sector output increased 125 percent last year, and most of the building material manufacturers have started to produce building materials to replace imported products", Zoljargal said at the CEO Summit in September.

Vice Minister of Construction and Urban Development G. Baigalmaa said the mortgage and finance mechanisms were the launch pad for growth in the sector. The central bank issued MNT 291.1 billion in loans to construction companies for the Price Stability Programme. Those loans will go toward construction materials producers, such as cement producers, so they can expand their operations, while construction companies can borrow more cheaply from the government than commercial banks for the construction of apartments.

Construction companies receive a third of all imported goods in Mongolia, and represent more than 30 percent of total credit from commercial banks. The Price Stability Programme aims to allow those materials to be purchased more



cheaply from producers at home.

As of December 30, commercial banks lent MNT 739.1 billion to 12,803 citizens. According to real estate firm Master Properties, Ulaanbaatar could see the construction of 10,000 to 12,000 new apartments a year while demand stands at some 240,000 apartments.

The National Statistical Office reported the construction of 11,349 new apartments in 2012 and 19,390 new apartments in 2013, while the Mongolian National Construction Association expects 20,000 to 25,000 new apartments in 2014. Market Research from Master Properties predicts 15 to 40 percent growth for investments into real estate annually.

"There is the opportunity for attracting investment for real estate, to issue IPOs [initial public offerings], and raising cheap capital by uniting the construction companies", said U. Ganzorig, president at the Financial Markets Association Mongolia. Such a federation, he said, would allow construction companies to mitigate the pressures

of short-term, high-interest loan from commercial banks. If these construction companies could introduce better governance and meet the market requirements, said Ganzorig, they could also attain more confidence from investors. Asian investors are especially more interested in real estate investment, he said.

Master Properties expects that Ulaanbaatar will be a central region for real estate development through to 2020, and will likely be home for the largest real estate firms in Mongolia. In Ulaanbaatar, 38,311 new apartments were sold - 36,815 apartments and 1,496 houses - out of the 219 construction projects that took place. About 50 percent of apartments constructed in 2013 remain unfinished, however, and are expected to finish later this year.

The Financial Market Association of Mongolia's report on the construction sector said it expects sharp growth between 2014 and 2016, making it an important economic driver those years and, likely, for many more to come. ■



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HEALTH

A HEALTH SECTOR DESPERATE FOR REFORM

BY S. ZAYA

According to the World Health Organisation, 7 to 9 percent of a country's GDP should be spent on its health sector. Yet Mongolia spends less than 3 percent, with most of this going toward purchasing medical products and equipment.

The Mongolian National Chamber of Commerce and Industry carried out a study in 2013 on various services found that the health sector was thought to be weighed down by more red tape than any other industry. Although the Constitution of Mongolia promises that every citizen should enjoy the right to proper healthcare, funding seems to depend largely on the whims of the government of the day.

The 2014 budget allocated MNT 570 billion to the health sector. With more than MNT 200 billion more coming from social insurance fees deducted from salaries, healthcare should receive MNT 760 billion to 780 billion this year, or 2.7 percent of GDP. That compares with developed economies such as the United States spending 8.2 percent of GDP on healthcare in 2011, as well as 6.2 percent in Australia, and 7.7 percent in Britain, according to the World Bank.

Financing the healthcare sector

An Asian Development Bank study reported that the main cause of poverty among Mongolia's population correlates with its underdeveloped health sector. For example, families with sick relatives often have to sell their belongings to send him or her to the hospital. The study revealed the necessity of transitioning to a new health system where diagnosis and treatment expenses are funded by health insurance providers.



The current system is funded by both inpatients (hospitalised patients) and outpatients (those not hospitalised). The number of inpatients in Mongolia ranges from 25 to 30 percent. In other countries, such as China, the number of inpatients comprises 3 to 8 percent of the population – much lower than Mongolia. Many believe Mongolian hospitals are too quick to recommend hospital care, and often do so when unnecessary. Inpatients in Mongolia have to pay 60 percent of treatment cost according to the Asian Development Bank.

Health sector infrastructure is also under scrutiny. No new hospital buildings that meet international standard have been built since 1990. In recent years, the construction of several hospital buildings was included in the budget.

Several buildings - including a 300-bed healthcare centre in Khan-Uul district, the new Maternity Hospital No. 3 and a new hospital for public officers - await completion. Controversy surrounds the latter most health facility. Its purpose as an office building or hospital is still undecided.

Medical Services Need Improvement

The Law on Health Insurance requires some change within the current health insurance. Doing so would require an overarching healthcare organisation, which is a main topic of discussion by the State Great Khural.

Such an organisation would be responsible for defending its members' rights by negotiating agreements with hospitals and prevent circumstances such as the ones seen today where medical costs exceed revenue earned.

One method for the government to do that, said Vice Health Minister J. Amarsanaa, is by protecting the investments made for the equipment and tools.

"We have started to insure expensive medical equipment", he said. "Previously, any damages incurred were the responsibility of those who operated the equipment. The renewal will reduce the cost that is paid for by citizens".

The vice minister also said, they hoped to introduce private competitors to

▶ bring up the quality of service found and provide patients with more options.

“When competition increases between public and private hospitals, the excess of patients in public hospitals will reduce substantially.

Health sector outlook

Prenatal care is a main target for the health ministry, said Amarsanaa, noting that the infant mortality rate declined 6 percent in 2013 from 2012.

“This year is the year to support health

of mother and children”, Amarsanaa said.

In 2013, the government spent MNT 26 billion for new medical treatment equipment, with installation expected to complete within the first half of 2014. This includes seven diagnostic devices installed in seven provinces, such as brain scans, MRIs, and x-rays.

There are only two diagnostic imaging devices in State Central Hospital No. 3 and the National Trauma Orthopaedic Research Centre. There are an increasing number of patients who are waiting for medical diagnosis in need of those machines.

A working group that included parlia-

mentarians and officials from the Health Ministry and the Population Development and Social Protection Ministry recommended that the health sector be funded by the equivalent of 5 percent of GDP. Meanwhile the practice of using hospital fees to pay for overhead costs should be eliminated.

As this working group was responsible for drafting of the Law on Health Insurance for Citizens bill, it is a good bet that those sentiments were submitted to the Khural. So, if by any chance those items are not included if a law is eventually passed, the buck would have to end with the lawmakers themselves. ■



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 December:

BUSINESS

PROJECT FINANCING NEARLY RESOLVED, SAYS OYU TOLGOI BOARD MEMBER

Financing of the underground mine shaft at the Oyu Tolgoi copper-gold mine could be resolved by the end of the month, said Erdenes Oyu Tolgoi LLC director Da. Ganbold in an update on the mine.

Ganbold said construction of the underground mine could be complete by July or August this year, adding that stakeholder negotiations in October saw the resolution of

21 of 30 points of dispute.

Development of the underground mine investment would require USD 4 billion, which he said would likely be resolved by the end of the month. Oyu Tolgoi has agreed to pay the government taxes quarterly in 2014 and 2015, for annual payments of USD 60 million, said Ganbold. He added that resolution was close regarding the terms of water usage fees.

Oyu Tolgoi had produced 252,200 tonnes of copper concentrate on 18 December from a total projection of 300,000 for 2013, of which 10,000 tonnes had been sold to copper smelters in China. Oyu Tolgoi's board of directors approved a budget of USD 1.283 billion. With an expected income of USD 2.653 billion, Oyu Tolgoi expects to produce 692,300 tonnes of copper concentrate, or 175,600 tonnes of copper and 23.9 tonnes of gold.

Source: Udriin Sonin

ERDENES TT SAYS IT'S PREPARED TO TAKE ON STRATEGIC PARTNERS

State-owned coal miner Erdenes Tavan Tolgoi LLC said it is now prepared to take on strategic investors and has submitted a proposal to the government. Interested parties include Peabody Energy Corp., and Shenhua Group.

Erdenes TT more than doubled coal output in 2013 from the year before, with output growing from one million tonnes of coal in 2011, 2.5 million in 2012 and 5.2 million tonnes in 2013. The miner produced 2.7 million tonnes of coal from the East Tsankhi and 2.5 million tonnes from West Tsankhi. Sales and shipments also increased, with exports of 373,000 tonnes from the Tsagaan Khad warehouse. The company has an additional 138,000 tonnes at the warehouse ready for export. It has hired a total of 500 trucks to transport coal from

the mine to Tsagaan Khad.

Sales from the West Tsankhi site began this year, for which Erdenes TT contracted 12 companies to sell 2.7 millions of tonne coal this year. As of December 25 it had sold 1.2 million tonnes. Coal is sold directly from the mine, cutting out the need for the transport of coal by the company itself. Mongolia established a customs office at Tavan Tolgoi the East Tsankhi mine in September, allowing direct shipment to the Gantsmod port. Erdenes TT shipped 829,000 tonnes of coal between September and December through the customs office. The miner has 319 trucks contracted out from Chinese companies and 233 trucks from Mongolian companies for transport to Gantsmod.

All of the coal sold in 2013 went toward repaying Erdenes TT's USD 350 million debt to Aluminum Corp. of China Ltd for a 2011 off-take agreement. The company ▶

► has also received approval from the Mining Ministry for its feasibility study for the construction of a coal refining factory at East Tsankhi. The company said it is currently studying a dry refinery method developed in Japan.

Source: *Unuudur*

MSE COOPERATING WITH FTSE ON INDEX METHODOLOGY

The Mongolia Stock Exchange (MSE) is working with FTSE Group to adopt a global index methodology to the Mongolian capital market by the second quarter of 2014.

FTSE International capital market index calculation and FTSE Group signed a "Cooperation Agreement in the direction of financial index processing" with the Mongolian Stock Exchange on 18 October 2013. The new indices will enable the accurate measurement of market performance, attract international investment and boost investor confidence to Mongolia's Capital Market.

Source: BDSec JSC

ECONOMY MONGOLIA BOND YIELDS AT FOUR-MONTH HIGH AS MOODY'S CUTS BANKS' OUTLOOKS

Mongolia's borrowing costs rose to a near four-month high as Moody's Investors Service joined Fitch Ratings Ltd. in downgrading the ratings outlooks for some of the country's banks.

Yields on the North Asian country's dollar notes due in 2022 climbed to 7.96 percent today, close to the 6 January level of 7.962 percent, which was the highest since 17 September. The country's debt, including corporate securities, fell to 99.01 on 6 January, the lowest since 10 December, according to JPMorgan

Chase & Co. indexes. The ratings outlooks of Khan Bank LLC, Trade & Development Bank of Mongolia LLC and XacBank LLC were demoted to negative from stable, because of the negative impact of the global commodity-market slowdown, according to a Moody's report today.

The nation's economic growth decelerated to 11.3 percent in the first half of 2013 on reduced Chinese demand for its coal, after an expansion of 12.4 percent in 2012.

"Given the resource-based nature of the economy and a large lending concentration in mining, there is the risk of boom-bust cycles, resulting in a volatile operating environment", said Hyun Hee Park, an analyst at Moody's. "The system's non-performing loans ratio rose to 5.3 percent at the end of November 2013 from 4.2 percent at the end of 2012".

Khan Bank is the nation's biggest lender, while Trade & Development Bank has the second-largest loan portfolio, according to the report. Trade & Development Bank is considering an offshore yuan bond sale, according to a source familiar with the matter, who asked not to be identified because the matter is private. The bank is starting on a series of fixed-income meetings from tomorrow, the source said.

Fitch revised the outlooks for Khan Bank and XacBank to negative from stable last month.

Source: *Bloomberg*

MIK TO LEND FOR PHASE 2 OF MORTGAGE PROGRAM

The Financial Regulatory Commission (FRC) has authorised Mongolian Mortgage Corporation (MIK) to release real-estate-backed bonds to finance a second tranche of

the state-backed 8 percent mortgage program.

This second phase of the mortgage program will provide mortgages for the purchase of apartments for rent. MIK will purchase MNT 328 billion in bonds from commercial banks and the central bank, with real estate used as collateral to finance the next tranche of 8 percent mortgages. The bonds are 90 percent guaranteed for repayment by the Bank of Mongolia for 20 years at a rate of 4.5 percent while commercial bank 20-year bonds will sell at a rate of 10.4 percent. The bond offering will bring zero profit to MIK.

Source: *Zuunii Medee*

POLITICS FUTURE REMAINS UNCLEAR FOR U.S. MINING EXECUTIVE STUCK IN MONGOLIA

Fifteen months after discovering he wasn't allowed to leave Mongolia, U.S. mining executive Justin Kapla still doesn't know when authorities will lift the travel ban.

Those barred from leaving Mongolia say about 20 foreign executives in the last two years may have been subject to similar bans under the 11-year-old law, which allows authorities to stop foreigners wanted for questioning in civil disputes, criminal probes or immigration cases from leaving the country.

Authorities threatened to suspend the license of SouthGobi Resources Ltd. after an attempt by Aluminum Corp. of China Ltd. (Chalco) to buy majority interest in the company. These moves, along with changes to Mongolia's mining laws, killed the USD 920 million Chinese bid to acquire 60 percent of SouthGobi Resources. Kapla, a 40-year-old U.S. native, was then president of the min-

ing unit holding the licenses, SouthGobi Sands LLC. About a month after Chalco's bid sank, and as a state probe into SouthGobi's finances deepened, Kapla and two colleagues found themselves barred from leaving Mongolia.

Kapla said Mongolian authorities had not filed formal charges but in private conversations accused him, SouthGobi Sands and former colleagues—Philippine nationals Cristobal David and Hilarion Cajucom—of laundering around MNT 6 trillion and evading USD 105 million in taxes. All deny the allegations. State prosecutors privately told investigators at least once in a document seen by Kapla that the government does not have enough evidence to make a case, he said. "There's nowhere where you can see how they came up with these things", Kapla said.

In some cases, Mongolia has moved relatively quickly to remove travel bans on foreign executives. Standard Bank consultant Christopher Bradley said Monday he was freed on 19 December, less than a month after he said the government held the New Zealand citizen over a business spat. A SouthGobi Sands lawyer was freed about two months after travel controls were imposed for her in October 2012.

The three executives have all left SouthGobi Sands. Kapla amicably resigned in April to take up a job with a Mongolia iron ore company. David said he chose to move to a Canadian mining firm. Cajucom said his contract was not renewed and that he remains unemployed. None of the trio knows why they have been left in limbo for so long or if a trial is forthcoming.

Source: *Wall Street Journal* ■