

For a green development

MONGOLIAN ECONOMY

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Scenarios for Mongolia

The Future Of the Coal Industry



CAN COAL MAKE A COME BACK?

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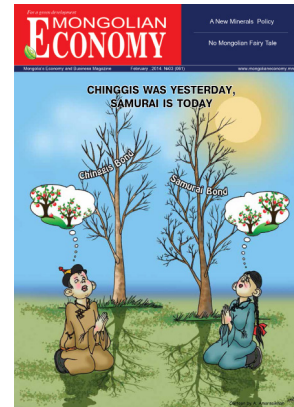
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- Mir bookstore:
- Grand plaza
- Metro mall
- Sky supermarket
- Ulaanbaatar store
- Max mall

MONGOLIA

Report



The Financial Stability Council released its second Financial Stability Report of Mongolia December last year. The report shows that the banking sector alone represents 95 percent of the financial system and that the financial market was still in its early stage of development. It also warned that when dealing with financial stability issues, decision making that considers only monetary policy and banking would be biased.

Development

The fourth Mongolia Economic Forum will take place at the State Palace on March 24 to 25. The forum will focus on crucial issues such as smart government, infrastructure and the further development of the country. The forum will also create the opportunity for open discussion with the general public about the scenarios presented by the World Economic Forum on Mongolia's development.



Monetary Policy

The Monetary Policy Council at the Bank of Mongolia held three meetings this month where it decided to maintain the interest rate at 10.5 percent. Last year, the central bank reduced the interest rate two times. The council decided this year that the interest rate should not be changed.

In a statement the council said it was more important to focus on improving the efficiency of the government's joint mid-term programmes with the central bank. The programmes aim to support economic stability and stable growth.

Infrastructure



Mongolia's construction output rose 70 percent last year for a commissioning of 20,000 apartments in Ulaanbaatar and 7,000 outside the city. This year, another 20,000 apartments are expected to finish construction throughout the country.

As a part of the Bank of Mongolia's Price Stability Programme, some 97 construction companies were given loans of MNT 430 billion to finance unfinished



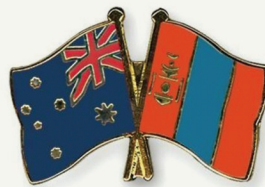
construction projects.

Shadow Economy

A research team at the Bank of Mongolia has carried out a study on the shadow economy in Mongolia that reveals it to represent 35 percent of GDP in 2012. The shadow economy has expanded sharply since 2000. The main reason for the growth was the burden of taxation and strict regulations for businesses. Some entities are hiding their businesses to avoid taxation.

Australia Mongolia Business Council

Australia Mongolia Business Council, a body aimed to promote the mutually beneficial economic, investment and business interests of Mongolia and Australia was registered by the Australian Securities and Investments Commission January 28. Mark Green, an international managing



partner of the Minter Ellison law firm was selected as chairman.

In recent times, the level of investment into Mongolia from Australia has risen significantly. There are around 30 Australian companies that have established their local office in Mongolia and 170 small-medium sized companies linked with Mongolia. The Embassy of Mongolia in Australia was supportive of establishing a business council initiative from the beginning. The Australia Mongolia Business Council intends to host a number of events in Australia to facilitate the sharing of experiences of doing business in Mongolia.

BTMU Opens Ulaanbaatar office



The Mongolian Bankers Association reported that the Ulaanbaatar Representative Office of the Bank of Tokyo-Mitsubishi UFJ (BTMU) has joined the Mongolian Bankers Association. The BTMU is the largest bank in Japan, founded in 2006 with the merger of the Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Ltd. The BTMU has more than 1,500 offices in Japan and over 40 offices around the world. The bank serves as the core retail and commercial banking arm of the Mitsubishi UFJ Financial Group.

WORLD

**The United States**

The US House of Representatives has passed an increase in the government's debt limit, after the Republicans gave up on their attempt to win concessions from the Democrats in return. The House voted 221-201 to waive the USD 17.2 trillion debt limit for just over a year, with only 28 Republicans joining most of the Democrats. Officials had said the US could breach the debt limit by the end of February.

People's Republic of China

China's trade surplus



jumped to USD 31.9 billion in January, easing concerns the world's second-largest economy may be stuck in a slowdown. The figure was up 14 percent from a year earlier and stronger than forecasts for a USD 23.7 billion surplus. Imports rose by 10 percent from a year earlier to USD 175.27 billion – led by record shipments of crude oil, iron ore and copper. Exports increased by 10.6 percent from a year earlier, far faster than analysts' forecasts, to USD 207.13 billion.

Japan

The Bank of Japan does not need to ease monetary policy further now with inflation heading toward the bank's 2 percent price target, a senior International Monetary Fund official said. But in light of recent global market turbulence, the central bank needs to monitor developments carefully and "take



necessary action" if inflation shows signs of stalling, Jerry Schiff, deputy director of the IMF's Asia and Pacific Department, told reporters in Tokyo.

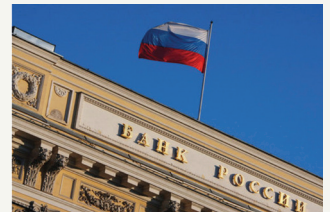
Euro zone

The euro zone and its constituent parts will report

fourth quarter economic growth numbers at the end of the week, offering policy makers at the European Central Bank a needed snapshot of the bloc's underlying strength. Reuters polls suggest euro zone GDP will come in at 0.2 percent quarter on quarter for a year-on-year increase of just 0.4 percent. Germany's projected 0.3 percent quarterly rise, however, would translate to a relatively strong 1.3 percent for the year.

Russia

Russia's central bank has withdrawn the licenses of two small Moscow-based banks, Eurotrust and LINK-bank. Eurotrust's license was revoked because of a failure to meet obligations to its creditors and depositors, and to create sufficient reserves to cover potential losses on loans, Reuters reported. LINK-bank failed to create



provisions against risk and both banks were involved in "dubious operations," such as money laundering, according to the central bank.

Asian markets

Asian stocks rose after new Federal Reserve chief Janet Yellen pledged "a great deal of continuity" in policy until the US economy improves. Wall Street also rallied on the news, with the S&P 500 index closing 1.1 percent higher, the Dow adding 1.2 percent, and the technology-heavy NASDAQ gaining 1 percent. Japan's Nikkei 225 rose nearly 1 percent while Hong Kong's Hang Seng opened up 0.4 percent. ■



FEATURE

SCENARIOS FOR MONGOLIA

BY LIZZY HOO

More than 2,000 of the world's billionaires, politicians, celebrity philanthropists and power brokers descended on the picturesque ski town of Davos-Klosters, Switzerland for the World Economic Forum from January 22-25. President Tsakhiagyn Elbegdorj and his entourage were among the diverse mix of attendees, there to wrap up the World Economic Forum's "Scenarios for Mongolia" report.

The World Economic Forum made Mongolia a special focus for 2013 with an exercise aimed at developing scenarios along which the country might potentially progress. This exercise included over 250 stakeholders and experts who helped to develop three scenarios as well as a visit to Mongolia by Forum officials in September 2013. The event has made spotlighting a particular country or region a tradition, with previous subjects including Russia in 2012 and the Mediterranean in 2011.

During the discussion on the "Scenarios for Mongolia", chaired by former British Prime Minister Tony Blair, President Elbegdorj expressed his gratitude:

"We are grateful that the Scenarios for Mongolia was produced and the discussion was held this year. We would pay close attention to the WEF's recommendations and researches. The development of Mongolia depends on economic and political situations. We have launched an initiative "From a Big Government to a Smart Government" last year. I believe in better and positive scenarios for Mongolian development if we make the state of Mongolia research-based, service-oriented and ruled by law".

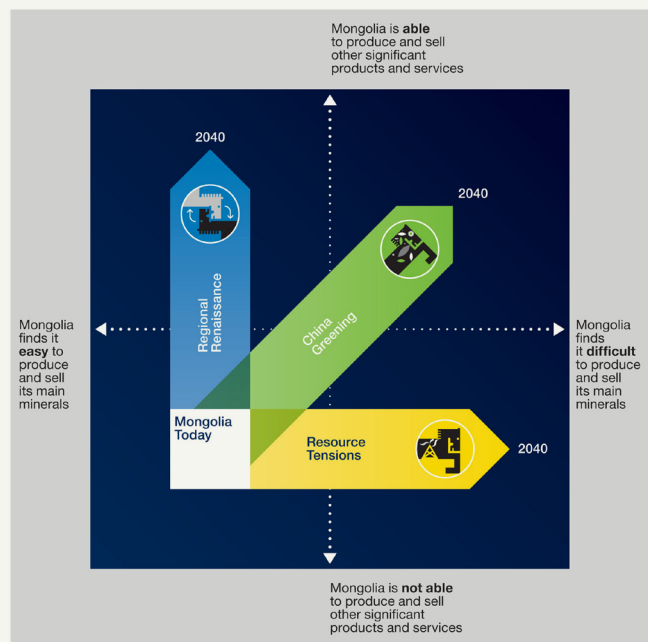
World Economic Forum scenarios at a glance

Scenario 1 – Regional Renaissance: As the name suggests, this scenario sees Northeast Asia becoming more integrated along with strong economic growth, giving Mongolia the opportunity to sell its minerals.

Scenario 2 – China Greening: A revolution in environmental attitudes sees China lead the way towards sustainable green growth. This reduces the demand for Mongolia's main minerals but opens up the opportunities for exploring a green economy.

Scenario 3 – Resource Tensions: The third scenario imagines geo-political tensions making trade difficult. In this context, Mongolia struggles to access finance and markets for its minerals and achieve economic diversity. The opportunity to be a respected and neutral neighbour is also acknowledged.

Scenarios Framework



Although each scenario allows for individual policy options, several policy options are common to all three scenarios. These include creating avenues for investment and a business climate with a public buy in; a sovereign wealth fund; and neighbour engagement.

Each scenario involves critical uncertainties which are explored in the report and measured against the following questions: Will Mongolia's circumstance allow it to produce and sell its main minerals with ease? Will external factors help or hinder the development of other economic opportunities?

Uncertainties include commodity demand and pricing, regional collaboration and the integration in Northeast Asia, levels of foreign investment, and social and environmental norms. Access to human capital with the necessary skills and »

- ▶ knowledge required to compete with international markets was also considered.

The scenarios present a global perspective on Mongolia's future. Locally, the Economic Policy and Competitiveness Research Center developed its own scenarios for Mongolia for 2025.

"The WEF scenarios are developed to give just an idea of what could happen. But as for what we have to do, if our development leans towards one of those scenarios we have to do our homework for ourselves," said the director of Economic Policy and Competitiveness Research Centre, B. Lakshmi explains, when asked how the scenarios differ. "From one side we looked at the global perspective, such as commodity prices, and on the other hand we looked at more internal aspects. We have also developed tasks for each group of society and each scenario. We also look at what kinds of early warning signs can we see or expect with each scenario."

Collaborating with a cross-section of stakeholders, the following four scenarios were devised by the Economic Policy and Competitiveness Research Centre:

Scenario 1 – Future Promise: Commodity demand declines gradually to moderate levels and Mongolian leaders are pressured to create a shared vision and plan to build an economy that is more open, educated and competitive.

Scenario 2 – Nine White Banners: There is high commodity demand but growth creates widespread challenges such as inflation, currency appreciation and social turmoil. Businesses and political leaders work together to build a positive future for all Mongolians.

Scenario 3 – Storm of Gobi: There is a high yet volatile demand for commodities. The gap between the rich and poor widens and competitiveness falters as political and economic power is used for personal growth.

Scenario 4 - Disappointed Dreams: Mongolia's mineral wealth is halted due to a slowdown in China, placing pressure on governments and businesses worldwide. An ultra-nationalist party comes to power and international support ceases.

Though 2025 may seem distant – and 2040 a lifetime away. Mining projects and the identification of other sector opportunities require long lead times and deliberation. While Mongolia is essentially the master of its own growth, forces beyond its control will inevitably affect its future.

"Cautious optimism" was the phrase dominating the final media wrap ups from Davos. This year's forum was considered to be the most upbeat since the global economic downturn in 2008.

"I am cautiously optimistic," said Haruhiko Kuroda, governor of the Bank of Japan, at the forum. "The US economy will

grow, Europe is recovering and growing; emerging economies will grow and accelerate. But we need to be mindful of downside risks."

While Mongolia has some cause for optimism, that sentiment must be tempered by a realistic view of the challenges that the country is certain to face. The World Bank's November Economic update showed a revision in Mongolia's baseline growth forecast for 2013 to 12.5 percent – down from its previous forecast of 13 percent. The downgrade is a reflection of the softer growth in China and a lower-than-expected pace of recovery in mining. Other development risks include wealth disparity, environmental damage, social unrest caused by widening economic disparity and the threat to traditional nomadic lifestyles.

Mongolia's potential cannot be taken for granted. Scenarios and contexts are certainly ways of promoting a unified vision for Mongolians. The big picture is positive, but must be underpinned by good policy and foresight from its leaders. ■



The following are addresses given by attendees of the World Economic Forum.

Smart Government and Development

The President of Mongolia Tsakhiagiin Elbegdorj

We will further consider the report and suggestions issued by the WEF, but Mongolia's development will likely depend more on socio-economic trends than scenarios for Mongolia. We are undertaking a transition from a bigger state to a smarter state. I believe that development scenarios for Mongolia forming a smarter state based on research, directed services and respect for the law will be more optimistic.

Stable Decisions are Important

L. Purevsuren, adviser to the president of Mongolia on national security and foreign relations ▶▶



- ▶ Mongolia must follow stable and clear state policy for its mining industry. The stability of state decisions is important.

First of all, the economy needs to be diversified. Aside from the mining industry, there are vast renewable sources and 45 million livestock in Mongolia. Raw materials such as cashmere, hide and skin, milk and dairy products, and meat have enormous potential for economic diversification and increased exports in the future.

There is a big market waiting for us. The export industry and the appropriate trade policy should be developed. Dependence on a single market needs to be reduced, which would bring economic security to the country. Mongolia has wide potential to develop within the region.

Green Economy – The Most Noteworthy

B. Lakshmi, chief executive at the Economic Policy and Competitiveness Research Centre

I think that the top priority should be Mongolia's partnership with Southeast Asia, the first scenario recommended by the World Economic Forum. I guess that Mongolia will focus more on this scenario. This suggests there is the opportunity to access other Asian markets, other than China.

Mongolia's present relations with Asian countries are sufficient. Thus, there is the opportunity to develop its international relations with some Asian countries up until 2040, based on its already strong relationships.

These scenarios have been mainly discussed outside of Mongolia. During the Mongolia Economic Forum,

which will take place in March this year, there are plans to submit the scenarios for internal discussion among Mongolians. This would translate to how well Mongolia is prepared deal with issues in this scenario.

Interestingly, there is another scenario called "China Greening." It is important for our southern neighbour to green now that air pollution has reached disastrous levels. This is due to China's neglect towards the environment and the green economy in the past. The environment is being seriously degraded in China.

The government of China is likely to take decisive actions against pollution and degradation. This scenario reflects how "China Greening" will affect Mongolia's future. For Mongolians, we have not reached a deal yet on the integrated concept of a green economy. We talked a lot about this greening, but our talks have not brought results."

Macroeconomic Stability is Vital

Naidansurengiin Zoljargal, governor at the Bank of Mongolia

Mongolia could address all challenges in the upcoming 26 years until 2040 if it could be more open and transparent, not only internally but with other countries.

Mongolia will need more rapid economic development because it will have to contribute to regional economic growth in the future. For Mongolia this would be an enormous and difficult challenge, but these challenges might have a positive effect on the country. It would be our choice whether we grow the economy 20 percent or 25 percent, or expand the economy as much as twice every three years or every five years. Maintaining macroeconomic stability is vital. ■

WATER RESOURCES

THE DEVALUATION OF WATER

The following article follows the “Devaluation of Water” TV programme produced by Mongolian Economy’s Economy TV studio.

BY CH. LUTAA

The undervalued remains undervalued. Mongolia’s estimation towards the value of water is quite low. And only once the water that is so taken for granted today begins tugging on the purse strings of households will people begin to change their ways.

Most of the rapid socio-economic development in Mongolia has borne visible results in just a few places, including Ulaanbaatar and the mine sites within Umnugobi. If things continue in this way, water scarcity is likely to go from a looming threat to a real problem in these densely populated areas.

“When the Ulaanbaatar population grows, water consumption rises,” said Z. Batbayar, member of a steering committee for Mongolian Economy’s non-government organization Green Economic Growth. “As a result, the groundwater level that is replenished from the Tuul River Basin is reduced by 15 metres a year.”

The total volume of Mongolia’s drinking water is 5 percent of the total consumption of blue water – surface water from rivers, lakes and oceans. Meanwhile, freshwater is needlessly flushed in the toilets of apartment buildings in Ulaanbaatar.

According to the United Nations’ Food and Agriculture Organisation (FAO), some 85 percent of the world population lives in arid land, and more than 780 million people do not have access to fresh water. Anywhere from six million to seven million people die each year due to water

disasters and waterborne diseases. A child dies each minute in the world due to water scarcity.

Almost half of the world population lives in urban communities, and water security grows more problematic day by day.

Water use in mining, manufacturing and agriculture are also sharply rising. According to an estimate by FAO, water used by agriculture is likely to increase 19 percent by 2050.

Water Footprint

A water footprint is a representation of the amount of fresh water utilised in the production of goods and services by any one individual or group. For instance, 10 litres of freshwater is consumed to produce a single piece of A4 paper; 40 litres for the production of a slice of bread; 140 litres for one egg; 8,000 litres for a pair of shoes, 11,000 litres for a pair of jeans;

15,400 litres for one kilogram beef; and 150,000 litres for the manufacturing of a car.

The value of water is growing around the world. In the most recent five years, the price of water increased 27 percent in the United States, 32 percent in Britain, 45 percent in Australia, and 58 percent in Canada, according to FAO data.

Meanwhile, in Mongolia, the price for one litre water is just MNT 1 in Ulaanbaatar’s ger districts. Apartment residents pay MNT 0.32 per litre. What else can be bought by MNT 1 or 0.32 from the market?

“International practices reveal that the price of water is set by certain number of steps, said Ch. Erdenechimeg, director at Water Service Regulatory Commission of Mongolia (WSRC) “The idea is to provide an opportunity for citizens to pay the lowest possible price for their water supply while water consumers, including factories and companies, pay the market price.” ▶



▶ WSRC submitted a proposal for an increase to the price of water to the Authority for Fair Competition and Consumer Protection (AFCCP), but did not receive support from the agency. AFCCP argued that the increase water price would upset water consumers and could trigger price growth for consumer goods.

There are two main camps on this issue. The first favours focusing on treating the delivery of water to consumers as only a base price. They argue that the current price scheme is only a service fee without any cost for the water. The second camp would counter that the price hike should only be applied to companies. In that vein, government has already introduced laws such as the Water Resource Usage Fee.

Green Economic Growth's Batbayar argued the government should not be so restrictive over water usage because it is so important to manufacturing. After naming 2011 as the Year for Water the government spent MNT 140 billion for the development of water usage. In the past 10 years, the government has implemented several laws and regulations for water consumption, including the National Water Programme.

"The National Water Programme is a large-scale project, but when asked if it was implemented properly according to the programme, it is problematic," said Erdenchimeg. "So, all water-related programmes need to be integrated." She added that clarification from the government was needed to create consistency in water consumption and the usage of water resources. She also said mechanisms should be introduced to encourage the saving of water and its reuse.

Fresh water is used for normal habits such as drinking, cooking, washing and even flushing the toilet. The director of Ulaanbaatar's Water Supply and Sewerage Authority, S. Unen, said that to delivering ground water from the Tuul River to city residents required the withdrawal of water from four sections of the water deposit at depths of 160 to 170 metres underground. Unen said this groundwater was the most hygienic water the city had to offer and could not be used for drinking.

"A policy is still missing in the water

sector of Mongolia," said D. Basandorj, a professor at the Mongolian University of Science and Technology. "Groundwater is being consumed for all uses and consumption."

"We could have a policy that would use the outflow [of water] leaving the country that is not used, as well as the harvesting of snow and rain water for the purposes other than drinking," he said.

Statistics show that Mongolia uses 552.65 million tonnes of water a year and 1.5 million tonnes a day, of which some 40 percent is used for mining and energy generation. The Oyu Tolgoi mine, for instance, consumes 110,000 tonnes of water for its production of copper concentrate each day. Oyu Tolgoi estimates that its consumption of 40,176 tonnes of water from the Balgasyn Ulaan Lake in Umnugobi can last 25 years before it is depleted. But what impact will that have on the people there and the livestock that depend on that water? Water scarcity is also a growing concern in Dornogobi – where the current price for water consumption is MNT 0.15 a litre – because of the planned industrial park for Sainshand.

The mining wealth in Mongolia has come at a heavy cost to the country's water resources. In the past 20 years, some 29 rivers have been polluted, according to Ministry of Environment and Green Development. If the situation continues like this the water supply for mining

companies in Mongolia might become completely unusable.

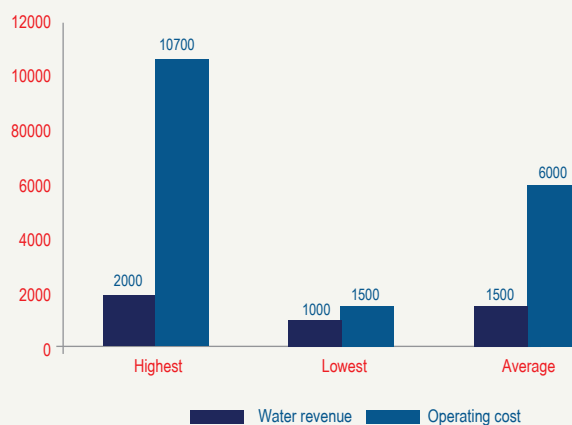
A global issue

Water security is an issue being addressed worldwide, which is why one of the 250 sessions at the World Economic Forum took up the debate. According to a Global Risk Report by Forum, water was among five major issues facing the world.

"My mother told me that water is the origin of our lives," said President Tsakhiagyn Elbegdorj in an address to the forum. "Water is indeed the beginning of living things. Water pollution and droughts are the things that hurt the earth and are the disasters that threaten its existence. The next important issue is our aim to support entrepreneurs that prefer to save water and implement the appropriate water policy."

He added, "We have been working with WEF and international water management organisations in the most recent four years," he said. "We are also aiming to have water management in the mining sector. The water security issue and ecologically friendly solutions are becoming one of the priorities in Mongolia. Our aim is to closely co-operate with initiatives by the United Nations and develop water sector." ■

Water revenue and operating cost comparison in ger districts of Ulaanbaatar city and rural areas



Source: Water Service Regulatory Commission of Mongolia

COAL MONGOLIA

DRAWING INVESTMENT BACK TO COAL

BY E. ZORIGT

It is uncertain which direction the Mongolian economy is heading. Last year the total volume of exports fell short of their target because of a slowdown in the demand for commodities. While the 11.7 percent economic growth seen last year was cause for some jubilation, most other statistics brought on more downtrodden sentiment.

The State Great Khural last year approved several laws that set out to support foreign investment after nearly two years of decline in foreign dollars. That includes the government policy for the mining sector – which sets the tone for the kind of laws to regulate the industry – and a new Investment Law.

The Investment Law is meant to create the basis for investment in Mongolia. The law creates opportunities for foreign and Mongolian investors alike to drive growth in the sector. But what can any of these laws do to boost Mongolia's competitiveness in the coal industry?

That was the question delegates faced at the 2014 Coal Mongolia conference held in Ulaanbaatar on February 20 and 21. The main aim of the conference was to attract foreign investment for the coal industry and introduce new advanced technologies. It also aimed to facilitate the development of mutually beneficial cooperation and boost the competitiveness of Mongolia's coal industry within Asia.

The conference also sets the stage



to gauge how well the new legislation passed by the Khural has attracted investment dollars back to the country.

"2013 was not a good year for the coal industry, said B. Altanshagai, secretary of Coal Mongolia. "The number of participants from last year's conference is no less. It shows that investors' confidence is returning."

To encourage better attendance from foreign guests, conference organizers provided free registration for foreign attendants, he said, with translation provided in English, Chinese, and Russian. In the display hall were 62 exhibitors.

This year's Coal Mongolia conference comprised six sessions: "Strategic Trends for the Development of Coal Manufacturing;" "The Coal Market and

Mongolia's Competitiveness;" "Project Financing;" "Value-Added Production;" "Deep Coal and Oil Shale Processing;" and "Investment Projects and Technology in the Coal Industry."

This year speakers included Christopher Hagedorn, president for the Asian region and trade at Peabody Energy, to present the 2014 Outlook for World Coal Market, and Vice President of Fenwei Energy Consulting Wenlin Sue to present on China's coal Market.

While the 2014 Coal Mongolia conference provides a platform for foreign investors to see the possibilities for Mongolia's coal market, it is also where many hope to find answers to their questions about the industry. Mongolia can use the momentum set off by this conference to move investment forwards. ■

COAL MONGOLIA

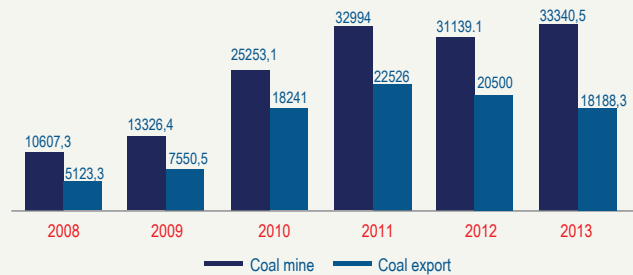
THE FUTURE OF THE COAL INDUSTRY

BY E. ZORIGT

Last year, Mongolia's coal industry was affected by market fluctuations and the temporary suspension of the operations of some of Mongolian coal companies, including Tavan Tolgoi – Mongolia's largest coal mine. Suspended activity and curtailments in operations were reported industry wide.

In 2013, coal exports comprised 26.1 percent of total exports and 27.7 percent of the state budget revenue. Two to three years ago, the coal industry accounted for 45 percent of total exports. Despite its lacklustre performance in 2013, Mongolia's coal industry is hopeful for a recovery. The optimism is partly due to the new state policy overseeing the coal industry, which sees a focus placed on coal exports based on industry projections. (See Figure 1).

Mongolia's coal mines 2008-2013 (thousand/s of tonne/s)



World's 10 richest countries in coal resources

Rank	Country	Resource (million/s of tonne/s)	Percentage in the world coal resources
1	United States	237,3	22.6
2	Russia	157,0	14.2
3	China	114,5	12.6
4	Australia	76,4	8.9
5	India	60,6	7.0
6	Germany	40,7	4.7
7	Ukraine	33,9	3.9
8	Kazakhstan	33,6	3.9
9	South Africa	30,2	3.5
10	Mongolia	23.5	2.5

Mongolia's Coal Industry Projection (thousand/s of tonne/s)

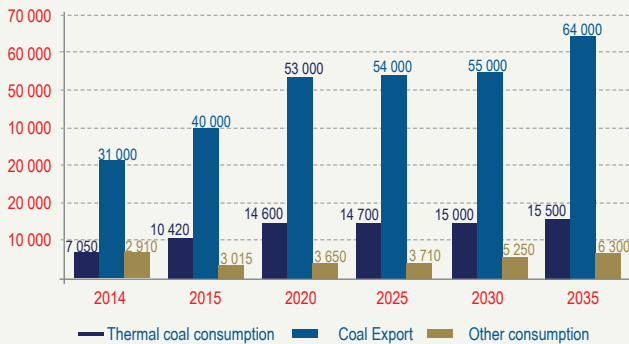
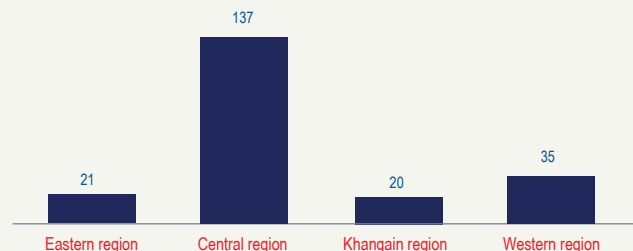


Figure 1 shows consistent growth in coal exports. The largest coal exporters are Erdenes Tavan Tolgoi, Tavan Tolgoi, Mongolyn Alt (MAK), SouthGobi Sands, Energy Resource and Qinhua MAK-Nariinsukhait. These companies exported a total 18.18 million tonnes in 2013 – a tiny portion of the country's abundant coal reserves.

Mongolia has more than 300 coal deposits located in 15 coal basins. As of the first half of 2013, Mongolia's estimated coal resource was 173.3 billion tonnes, including a proven resource of 23.5 billion tonnes. Mongolia is the world's 10th richest country in terms of coal resources, with deposits evenly distributed throughout the country. Brown coal is dominant in eastern Mongolia while coal and coking coal are found in central and western regions.

Number of issued exploitation licences in Mongolia (by region)



China is the largest coal importer in the world. In November last year, the president of China National Coal Association, Wang Xian-Zheng, said: "According to our preliminary estimate, China's total consumption of coal is to reach 5 billion tonnes by 2020. Our coal industry has an enormous development market." ▶▶

China's energy demand has increased although demand for coal has weakened in the past few years because of a slowdown in steel production in 2012. However, China's main energy resource in the next 10 to 15 years will still be coal and coal exporters will continue to be directly impacted by China's demand for coal, according to the a study commenting on the status of Mongolia's coal industry by the Mineral Resources Authority at the start of this year.

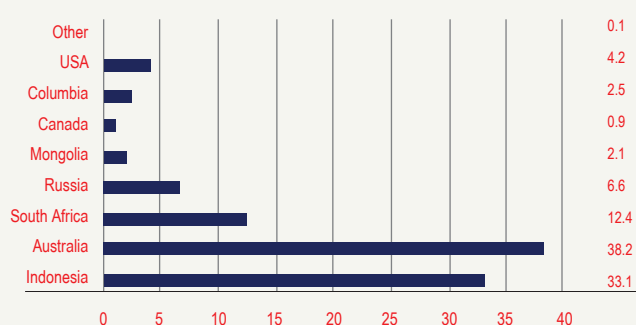
Mongolia's geographic location and coal quality favours its export potential to China, but this does not necessarily mean Mongolia's exports to China will not be without challenges.

In recent years, China has been importing coal from other countries including Australia, Kazakhstan and Russia. Amid these countries, Mongolia's coal exports are relatively small.

Improving railway networks and coal processing efficiencies will help Mongolia compete with other major coal exporting countries. In terms of price and quality, Mongolia's coal is comparable, but effective coal transportation poses a risk for Mongolian coal.

Excavation of the new 225 kilometre railway between Tavan Tolgoi and Gashuunsukhait is 70 percent complete according to recent media reports, according to Mongolian coal exporters. If the solution of the new railway can be made by this spring session of parliament in March or April this year, Mongolia can export its coal to China by using the new railway as soon as this year.

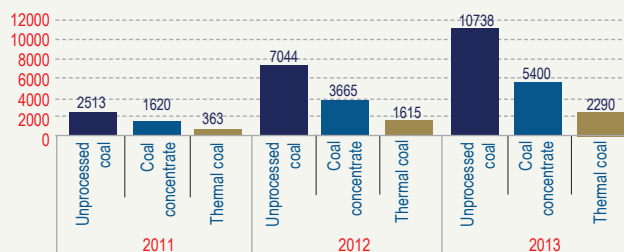
Structure of China's coal import



Apart from the construction of the new railway, Mongolia's main effort in growing its coal industry is taking place with the creation of downstream coal processing. In 2011, coal processing comprised 6.8 percent of total mined coal while this volume increased to 19 percent in 2012 and 32.2 percent last year. Private enterprise Energy Resource's coal processing plant has the ability to process 15 million tonnes of coal per year.

Replicating this innovation among state-owned enter-

Ukhaa Khudag coal processing plant's output



prises, including Baganuur and Shivee-Ovoo as well as private enterprises including Sharyn Gol and Aduun Chuluun would add value to additional coal exports.

Other potential technologies are also being explored to capitalise on China's stable demand for coal in the next 10 to 15 years. During the visit of Prime Minister Norovyn Altankhuyag to China in October last year, Mongolia's mining minister and China Petrochemical signed a memorandum of understanding for a project to establish the infrastructure for the gasification of 50 million tonnes of brown coal and the production of 15 billion cubic metre combustible gases.

The memorandum includes the establishment of a working group to explore other mining industries as well. The working group found that Mongolia has the potential to produce combustible gases by using coal, mine coal methane; extract fuels from oil shale and brown coal; and produce natural gas.

The joint project between Mongolia's Nature and Environmental Consortium, Raven Ridge Resources Inc. – a representative of the US Environmental Protection Agency and MAK carried out research for methane gas at the Nariinsukhait deposit to determine a resource of 728.97 million cubic metres 500 metres underground.

The project is also supported by the Coal Department at the Mineral Resources Authority for the development of a feasibility study for construction of a gas plant.

The development of the country's coal and gas industry as well as China's stable coal demand offers a brighter future for Mongolia's coal producers.

Source: the Minerals Authority of Mongolia, China's International Radio and the China National Coal Association. ■

INVESTMENT

OCHIRBATYN CHULUUBAT: INVESTMENT WILL INCREASE IF CONFIDENCE RESTORES



O. Chuluubat

BY B. TOGTOKH

Mongolian Economy magazine interviewed Ochirbatyn Chuluunbat, vice minister of economic development. Parliament passed several foreign investment-friendly laws last year. Do you think investment will increase this year?

FDI [Foreign direct investment] in Mongolia declined by 50 percent last year. This is heavily affecting the economy. The decline in the amount of general income resulted in lower-than-expected new job creation. The state budget revenue fell short unprecedentedly. There has been an increasing loss in foreign trade and the inflation rate did not reach its targeted level last year. The Mongolian tugrug rate fell enormously against foreign currencies. The amount of loan issuance by commercial banks was not sufficient.

A new Investment Law was approved last November and is aimed at appeasing the aforementioned situation. This cannot bring a quick recovery to FDI. Trading is similar to the selection of correct life partner.

An unpredictable investment environment and government disputes with Rio Tinto's Oyu Tolgoi mine led to the large decreases in FDI. Did we learn from these situations?

Foreign investors are carefully observing the recent changes in the legal setting of Mongolia. Their interests are long term. It will take a certain period of time to bring the foreign investors' confidence back. Today, the legal setting could be

improved in Mongolia, but it is obvious that this would not happen tomorrow. We should learn from our big mistake that we broke the investors' confidence easily. We should put our effort on not repeating this mistake. It made us understand that we should think and act smarter. It showed us the risk of being biased.

The state policy should not be change always when it comes to the succession of policy. Somehow, the proper succession plans were missing in certain policies. Investors do not see Mongolia in relation to any political party. They will see it as a whole country.

We need to reach a deal on an integrated investment concept as our doing represents Mongolia. But we cannot deny the previous policy and decisions made by the previous state. The above situation is the result of our doing in the past including a controlling attitude and unstable decision and policy. The new investment law will not be able bring their confidence back in the same day.

What do you think of the poor performance of Mongolian stocks listed abroad?

Stocks of large projects implemented in Mongolia are being traded on the international stock markets including London Stock Exchange, Toronto Stock Exchange and Singapore Exchange. The value of Mongolia's stocks is being lowered. Half a year ago, the value of the stocks was approaching USD 30 billion in total. But today's value is a mere USD 3 billion. Typically, it is good indicator if

stocks are traded at a high price on international stock markets.

Some civil movements and politicians are biased in thinking that foreigners trade Mongolia's minerals wealth in foreign countries. They need to get rid of this perception. In order to not repeat the above mistake, the recent legal changes need to be shown to the investors through our actions. Because actions speak louder than words, we need to think several times before coming up with the final solution.

Mongolia's economy grew 11.7 percent last year. Did this transpire into an improved quality of life for the average Mongolian?

Personally, I am critical on this growth issue without any political perspective. As a former member of the State Great Khural who acted as a policy maker, the growth was not beneficial for the citizens. The tugrug's rate [against the US dollar] fell over 28 percent which made our purchasing power weaker. Under this condition, the citizens would not be able to benefit from the economy.

What needs to be done about bringing equal access to the increasing growth?

Budget and monetary policies need to be consistent in order to have equal access to the increasing growth. The monetary policy needs to contribute to the economy. Loans comprised the majority of the growth last year including USD 500 million by the Development Bank of Mongolia and the USD 1.5 billion proceeds of ▶▶

► Chinggis bond. As a result of the proceeds, job creation and citizens' revenue increased.

If the proceeds were not in the economy, the situation could have been much worse. The bond proceeds recovered the loss of FDI. People say that the economic growth was 11.7 percent last year. This is an estimate made in regard to the Mongolian tugrug. If the estimate was made by the current rate of U.S. dollar against the tugrug, there would have been much lower growth or, even no growth. This is the reason why the citizens cannot benefit from the growth last year. According to a study on the economic indicators by the Ministry of Economic Development, the main economic indicators were poor.

What indicators are you referring to?

The revenue generated from service sectors that largely created new jobs. I guess that there are no companies that had revenue increases from the service sector last year. I met the chief executives of many companies. None of them said their revenue had grown.

Freight turnover declined in Mongolia. Besides that, the number of airplane passengers and the number of inbound tourists also declined. These indicators affected revenue and are the sign of economic inactivity.

What we need to do now is to make a conclusion on this issue and work for making the legal setting clear and stable.

Has the policy change attracted the attention of foreign investors?

After the approval of the laws, we need to show the foreign investors [our intentions] through our actions. It is said that the investment environment is being improved in Mongolia. Yet it needs to be shown to them whether it improved or not.

Now the state needs to remove any obstacles from mining companies and let them move forward. Some ready-to-launch projects are being delayed due to

A draft Wealth Fund Law will be discussed in March by the State Great Khural. How should the revenue generated from the mining sector be spent?

Mongolians received their wealth fund when they were born. When we inherited this land from our ancestors, the wealth fund was also given together. The wealth is underneath our land. It is important to convert it to money.

For instance, Saudi Arabia was a country some 50 years ago. This country has managed to convert its wealth to money successfully. This is the main contribution to its development. Some countries, including South Korea, Singapore and China, are making money by working really hard. But for Mongolia, we need to convert our wealth into money at initial stages.

What would be the main pillar of the economic development in upcoming years?

The mining sector. The sector needs more open policy. I work for the government, but I think that the opportunity should be given to the private sector rather than striving to reduce the state intervention in the private sector and thinking that the state will do everything. The government would only need to generate tax from the mining sector in a way of making good regulation. It is true that the state intervention in the private sector is too much. The way that the state wants to do everything, in return, is freezing development. The state does not necessarily need to intervene in everything. ■

MINING

B. ALTSUKH: COAL'S ONE STOP POLICY



B. Altsukh

BY B. BAYARTOGTOKH

Mongolian Economy interviewed B. Altsukh, director of the Coal Division at the Mineral Resources Authority of Mongolia.

The 2014 Coal Mongolia international coal investors' conference will be held in Ulaanbaatar on February 20 and 21. How has the conference influenced Mongolia's coal industry?

Globally, information is very important. Whoever has better information, he or she has better opportunity. If there is no information, businesses cannot move forwards. And if a company does not have the right management, it can do nothing. The importance of this fourth conference is to spread open information on Mongolia to the world – and at least within the country. The conference is becoming the platform where we can raise a

number of issues, including the volume of Mongolia's coal resources, what are our interests in selling coal, and what are the opportunities for our coal industry. All of these issues would be good actions for start-ups, investors, and even final decision makers.

Several proposals on establishing a minerals exchange market and selling commodities on the market were proposed. Such an exchange would set fixed market price for commodities. Do you favour this kind of mechanism?

The attitude towards the market price issue is critical. I think that there should be market prices for commodities. People have been setting the price on their own. For instance, it is up coal traders to set the price of coal. In the past when there was the market price in Mongolia, coal traders used to compete with one ►

▶ another by increasing the price of coal. But now there is no market price so that the traders are competing by decreasing the price.

As Mongolia is an independent country, it should have its own market price. We are following this direction. It means that a lower price would not be allowed when pricing commodities. But we need to be flexible especially during hard times, including during crisis and price declines.

I agree with the commodities exchange. It has been included in the government's action plan. According to the plan, the coal exchange is to be established and coal exported through the one stop policy. If every merchant is having one tonne of coal to trade in the market, it would not be coal trade. This sort of coal trade should be done through an international professional trade organisation, I think. So, it would be appropriate to sell coal on the exchange – the “one stop policy” – but through an internationally renowned trade company.

How is Mongolia improving its coal export competitiveness? Are there plans to launch any projects for coal washing or processing plants in 2014?

Coal processing work should be done very rapidly. Last year, the Ukhaa Khudag coal washing plant was commissioned. Mongolia now has the capacity to process 15 million tonnes of coal a year. A dry coal concentrating plant was also established at the Khusuut coal mine. The same plant was also built by SouthGobi Sands.

The main theme for this year's Coal Mongolia conference is coal gasification and liquefaction. What was achieved in these areas in 2013?

In Mongolia, some four coal gasification and liquefaction projects are being implemented. Those include MCS's project jointly implemented with a South Korean company for the Baganuur coal deposit; the coal liquefaction project by Mongolyn Alt (MAK) at Aduunchuluun coal deposit; the coal liquefaction project by Tsetsens Mining at the Tsaidam Lake coal deposit; and a project by Mongolia Aj Uildveriin Corporation at the Tugrug Lake coal

deposit. The design of two of the four projects has been created while the other two are still in the development stage.

During the premier's official visit to China, the two sides signed a memorandum of understanding. What did this agreement achieve?

Under the official visit, an MoU was signed around the production and export of 15 billion cubic metres of gasified and liquefied coal from Mongolia to China. As a part of the MoU, a joint research project is being conducted by Chinese and Mongolian researchers, including which coal deposits need to be gasified. This will be mass production requiring lots of coal. In order to extract expected gas, 50 million to 60 million tonnes of coal will be required per year.

Which coal deposits is the research group looking into?

The proposed coal deposits are the Tsaidam Lake deposit, Chandgana Tal deposit, Tevshiin Gobi deposit. These would be large projects.

Would you please share your opinion on coal processing?

Everything has two sides. We will process coal. We should not think that we only have to produce the final product. Coal processing for sure will be beneficial for Mongolia. In this case, competition will be subject to the quality of coal processing. It means that pure coal will be transported without any mixture of waste. It will increase the value of coal, but it has setbacks including water scarcity in the Gobi area.

A large amount of water is required in processing coal. But how about water resources in Gobi? So we have a water waste issue. The waste will remain in the country. Another thing is the limited coal market. We will have to meet the requirements of coal importers. The most important issue is to consider their activities. It would be concerning if we only try to export processed and washed coal without considering the possible risks.

Did any coal mines launch last year, despite the poor market conditions?

Mongolia ranks number 10 in the world for its coal resources. Mongolia's proven coal resource accounts for 23.5 billion tonnes. Currently, more than 140 mining companies hold 220 mining licences.

At the beginning of this year, some 44 coal mining work plans had been submitted to the Ministry of Mining for approval. As we see from the experiences of past years, a number of mining companies have not been able to run their activities so far. The number of active mining companies running is around 30. It means that investment has been made and now it is ready for the launch.

For start-up mines, they lack experience, infrastructure and competitiveness compared to other mines which have already launched.

Today's mines aim to bring their operations to their full capacities without waste while improving the quality. At the end of last year and the beginning of this year, the Baruun Noyon coal mine was commissioned in the territory of Noyon soum, Umnugobi aimag. This mine is expected to export half a million tonnes of coal in its first year.

At the end of last year, investment issues were tackled so the project could build coal processing plant at the Sharyn Gol coal mine. We are focusing on introducing requirement for long-term investment and advanced technology in the coal sector. Our priority is to increase the volume of coal exports by using several large but highly productive coal deposits rather than increasing the number of coal deposits.

What are your expectation for the Mongol Nuurs (translation: coal) programme?

The Mongol Nuurs programme was formulated in 2003. The state policy on the coal sector has also been made. Under the policy are plans to develop a programme for each mineral as well as the establishment of a working group or task force to fulfil these programmes. We are planning to submit the programmes to the government within this quarter. And deep coal processing, coal liquefaction and gasification are all needed. Mongolia has the potential to produce chemicals by processing its coal. ■

RAILWAY

FROM BAD TO EXPENSIVE?



BY S. BATZAYA

It was six or seven years ago when Mongolia first set out to build 1,800 kilometres of new railway to increase the volume of exports to China. The issue became hugely political, however, and even though the matter was considered settled in 2010 – after the State Great Khural barely passed a strategy for rail development – some issues remain unresolved.

The 2010 rail policy proscribes 400 kilometres of rail between Dalanzadgad, Tavan Tolgoi, Tsagaan Suvarga and Zuunbayan; 350 kilometres between Sainshand and Baruun-Urt; 140 kilometres between Baruun-Urt and Khuut; and 150 kilometres between Khuut and Choibalsan. But construction never launched in 2010 as it was supposed to, with very little explanation as to why. Parliamentarians blame investment challenges.

Although the initial phase of the project has yet to kick off, some work for the second phase has launched. The sec-

ond phase includes the construction of small spurts or rail, such as 45.5 kilometres between Nariin

sukhait and Shivee Khuren; 267 kilometres between Ukhaakhudag and Gashuun Sukhait; 380 kilometres between Khuut and Tamsagbular; and 200 kilometres between Ukhaa Khudag and Gashuun Sukhait. The excavation of 267 kilometres of rail between Ukhaa Khudag and Gashuun Sukhait launched last year.

However, crucial details such as how ownership should be divided, the costs, and what specifications should be used are still matters for debate.

Ownership

The government announced an open international tender bid in 2009 for a contract to lead the railway construction project. That contract was awarded to Mongolian Mining Corporation, which owns the Ukha Khudag mine.

But another tender was announced

in 2012 that invited seven companies from Australia, China and South Korea to participate. South Korea's Samsung C&T Corporation eventually won the contract to lead the construction of 267 km railway between Ukhaa Khudag and Gashuun Sukhait. Another 12 Mongolian companies are assisting in the construction. Mongolian Mining received compensation from the government for the lost tender.

According to a preliminary estimate, construction will require USD 5.2 billion in total. That is a sum greater than the annual budget. Investment is the only option left to finance the project. However, the government will have to be clear about its relationship with its partners.

Former President of the Russian Federation's Republic of Kalmykia Kirsan Nikolayevich Ilyumzhinov has expressed interest in investing in the project. Ilyumzhinov, a millionaire who held office from 1993 to 2010, has promised to invest up to USD 1.6 billion for the project. "If we could sign the agreement soon, we are willing to start the construction work," he said. Ilyumzhinov plans to establish a consortium for the project, including Spain's Uchi Yel - one of the world's top 10 railway builders that has constructed more than 6,000 kilometres of rail in countries such as the United States and China.

Ilyumzhinov has also invited Canada's Bambarde and Rau Ji De to join the consortium, in addition to companies from Russia, France and Britain. He is also interested in working with Russian Railways (RZD).

All that is left is to draw up a shareholder agreement with the Mongolian government. ►►

► Costs

Mongolia Mining's Ukha Khudag mining subsidiary Energy Resource launched construction of the railway between Tavan Tolgoi and Gashuun Sukhait. The Mongolian Railway Engineering Association (MREA) says it has repeatedly notified officials at the Ministry of Road and Transport of the USD 2 million per kilometre of rail price tag for construction between Gashuun Sukhait and Tavan Tolgoi.

But according to Mongolian Railway project director A. Zorig, that is not enough. "The cost Energy Resource [planned to] spend for the project construction ranged from USD 2.5 million to USD 3.2 million per kilometre," he said.

The MREA estimate would not provide a rail with a load capacity large enough for the freight Mongolia plans to deliver by rail, Zorig said.

Gauge

Although construction has already begun in some places, a critical issue remains unresolved: should Mongolia build its rail using the standard gauge used in China or Russia's broad gauge? Although the 2010 policy strategy calls for the broad gauge, the issue is set to be discussed once again after the Khural recommences for the spring session.

Politicians have argued hardest over the gauge issue. Many argue the broad gauge that is standard in Russia is not practical for use since most exports will be heading for China, which uses an incompatible, narrow gauge.

MREA argues that the narrow gauge is the standard in most countries, excluding a few countries such as Spain. Still, there is little justification for using the broad gauge preferred by Russia, says the Association, and installing rails with both gauges looks unfeasible.

Not surprisingly, Ilyumzhinov argues Mongolia has more to benefit from the use of the broad gauge because Mongolia should not be placing even more dependence on China. Using the broad gauge would likely be costly, however. Transit via a broad-

gauge rail includes an additional cost of USD 2 per tonne once goods reach the Chinese-Mongolia border, said Zorig. That adds to a sum total loss of USD 50 million for 25 million tonnes of annual coal shipped to China – which is the maximum capacity allowed for current rail plans. Prime Minister Norovyn Altankhuyag paid an official visit to China last year where he signed a contract to provide 50 million

tonnes of coal a year. How Mongolia could possibly deliver on this promise with a capacity of only 25 million a year is anybody's guess. Mongolia's rails will also require more railway junctions, or at least another rail heading north. If these issues are ignored and Mongolia simply moves forward with the current plans, today's bad situation will likely grow worse – and more expensive. ■



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

TAVAN TOLGOI TO EXPAND COAL WASH PLANT

The Tavan Tolgoi East Tsankhi site will have a coal enrichment plant operational at full capacity by late 2015. The second of four modules is expected to commission this year. The added infrastructure will improve coal washing capacity for up to 10 million tons annual production. The plant is expected to produce 7.1 million tonnes of coking coal and 6.8 million ton of lignite, or brown coal.

Source: *Montsame*

MMC RECEIVES USD 90 MN FOR TRANSFER OF UHG-GS ROAD ASSETS

Mongolian Mining Corp. (MMC) has transferred rights to the Mongolia government of the Ukhaa Khudag-

Gashuun Sukhait (UHG-GS) paved road, which is used for coal transport to China.

MMC's subsidiary for the Ukhaa Khudag coal mine, Energy Resources LLC, 13 February received payment of MNT 157.85 billion (USD 90.32 million) from State owned Erdenes MGL LLC for the rights transfer. The UHG-GS road was constructed under the license awarded to Energy Resources wholly owned indirect subsidiary Gobi Road LLC. Thereafter it entered into a build-operate-transfer (BOT) agreement with the former Ministry of Road, Transportation and Urban Development (now the Ministry of Transportation and Roads) 9 June 2010. The agreement granted Gobi Road the right to build, operate and maintain the UHG-GS Road for a period of ten years after the roads commissioning. The BOT agreement required that Gobi Road transfer all of its rights and obligations with respect to the operation and maintenance of the UHG-GS road to the Mongolian government once the agreement expired or if the government made payment of compensation at any time beforehand. Upon completion of the transfer of the UHG-GS Road assets, MMC will continue to have unrestricted access to the UHG-GS road by paying tariff.

Source: *Mongolian Mining Corp.* ►

▶ GOLOMT AFFIRMS GOVERNANCE AFTER 'MISLEADING' REPORTS

Mongolia's Golomt Bank LLC does not have any shareholders seeking loan repayments, according to a press release from the bank.

In a response to "misleading and false allegations" in recent press articles, Golomt said its corporate governance is sound. The bank did say it is in a legal dispute with Stanhope Investments involving a USD 25 million loan, which represents about 1 percent of its assets and does not affect its financial health. Golomt said it is confident it can resolve the dispute "swiftly and amicably." Bloomberg News and Reuters have reported on disputes at the bank involving Credit Suisse Group AG (CSGN) and Abu Dhabi's sovereign wealth fund. In its release today, Golomt said it has "no obligation with Credit Suisse, whether in the form of loans or otherwise."

Credit Suisse and Stanhope, a unit of the Abu Dhabi fund, invested in Golomt in the past half decade. Both are seeking the return of loans and have engaged in arbitration proceedings over loans to the lender.

Source: Bloomberg

ECONOMY

BANK OF MONGOLIA MAINTAINS POLICY RATE AT 10.5%

The Bank of Mongolia announced 11 February that it had maintained its policy rate at 10.5 percent.

Separately the central bank decided to exempt foreign currency sourced from overseas via bonds to last three-year or longer bonds as well as loans from the mandatory reserve requirements.

Source: Cover Mongolia

2014 BUDGET SUMMARY

Revenue and grants allotted in the 2014 General Government Budget totalled MNT 348.4 billion, as of January 2014. Total expenditures and net lending totalled MNT 413.1 billion, representing a deficit of MNT 64.7 billion. Projected tax revenue increased 0.2

percent by MNT 600 million, year-on-year. The small growth is mostly attributed to a 42.6 percent projected decrease in the collection of some tax revenue and 20.9 percent in income tax revenue. Collected tax on domestic goods and services is expected to rise, however, by 11.8 percent projected to rise 18.6 percent.

Social Insurance payments are projected to rise 18.6 percent.

Total expenditures and net lending increased 54.6 percent to MNT 413.1 billion year-on-year. That includes MNT 65.5 billion in additional capital expenditures from last year and MNT 59.8 billion in additional subsidies and transfers. Non-repayable lending, however, fell by MNT 15.5 billion.

Source: Montsame

POLITICS

CABINET TO CONVENE EVERY FRIDAY

Cabinet of Ministers has changed the meeting day of the cabinet to Friday from Saturday, commencing from this Friday. The schedule change will be in force until the beginning of the spring plenary session of Parliament.

The Democratic Party rescheduled Cabinet meetings from each Wednesday to Saturday after forming its coalition government in 2012 Wednesday. As many of the Cabinet members are also seatholders in Parliament, the intent was to remove any conflicts in schedules.

Source: Montsame

MONGOLIAN IMMIGRATION AGENCY IMPLEMENTS REFORMS

The Mongolian Immigration Agency announced 10 February several changes to procedures for ports of entry in line with the recently passed Law on Border Checkpoints.

The technical reforms include online visas as well as invitation certificates and residence permission application forms. Immigration is also considering the introduction of fingerprint checks for

Mongolian citizens at borders with frequently high traffic, such as the Buyant-Ukhaa and Zamyn-Uud ports.

Officials said it now takes only 15 seconds per passenger at the border per each entry compared with two minutes beforehand. Introducing fingerprint checks at the larger border points would hasten the process even further, they said.

Source: News.mn

S. KOREA, MONGOLIA AGREE ON GREATER COOPERATION ON DPRK

The top diplomats of South Korea and Mongolia agreed Wednesday to broaden their cooperation in inducing change in North Korea, Seoul's foreign ministry said.

Mongolian Foreign Minister Luvsanvandan Bold also expressed his country's support for Seoul's push to build trustworthy ties with North Korea and to unify the two Koreas in his bilateral meeting with his counterpart Yun Byung-se in Seoul, the Ministry of Foreign Affairs said. Their cooperation on North Korea will include sharing intelligence on the communist country, it also said.

Mongolia has achieved advances in democratization and the economy since its economic reform and transition to a market economy in the early 1990s, and "Mongolia's efforts can hopefully set a good example to North Korea," Yun was quoted as saying in the talks. Since establishing diplomatic ties with Seoul in 1990, the countries have steadily increased their exchanges in the fields of human resources, trade and national security, the ministry said, adding that the ministers agreed to further upgrade such cooperation. The officials also agreed to expedite their efforts to establish channels of consultation for a closer relationship, it noted. In the bilateral talks, the Mongolian minister issued an invitation to President Park Geun-hye to the central Asian country next year while Yun also expressed hope for Mongolian President Tsakhia Elbegdorj to visit South Korea.

Source: Yonhap News Agency ■