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A LOOK AT 2015'S MONGOLIA ECONOMIC FORUM

2015 March N° 06 (085)

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MINING MUST GO FORWARD



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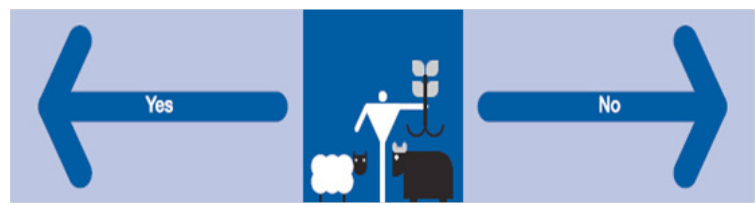
MONGOLIA ECONOMIC FORUM 2015

You are cordially invited to the Mongolia Economic Forum 2015 that will be held on April 2-3 at the State Palace. The forum is one of the largest and most prestigious in the country, an annual, politically independent event. During the 6th annual forum, the participants will discuss a wide range of topics as a part of theme “Building credibility”. The aim of the forum is to provide the opportunity for nation-wide constructive debate and discussion on development policy options by engaging policy makers, researchers, business, public and international organizations.

Participants will have a unique opportunity to network with key industry contacts and to obtain vital information on legislation and policies on the economic and business environment.

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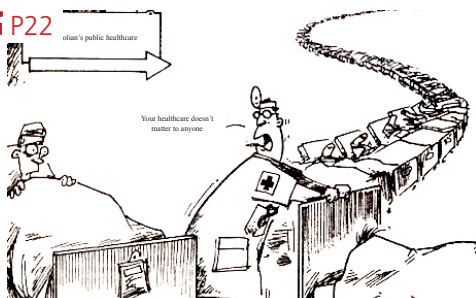
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 Even though the data from the National Statistics Office shows that the trade deficit in the first quarter has improved quite significantly, we maintain our cautious stance on the outlook of the

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Frantic Taxers
 Why must there be taxes? It's because it was decided that citizens were all to contribute to financing the government, whose primary role is to organize security to protect the three basic rights of

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Mongolia's economic outlook for 2015

The global economy sputtered to 2014's end with slightly less economic growth than predicted at the year's outset. Though the US economy has

revived and continues its trending rise, developing countries, Russia, China, and Europe. - en/p/7240

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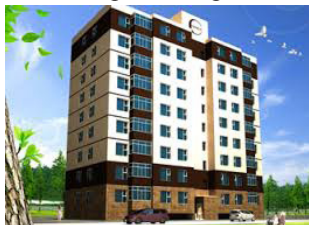
BY BURNEE

Green Energy

At a March cabinet meeting, cabinet members approved a proposal to move forward with development of a hydroelectric plant on the Eg River, to be built in Bulgan Aimag, about 450 km from Ulaanbaatar. During the meeting, members discussed funding for the 315 MW capacity Eg River Hydro Power Plant (EGHPP), ultimately agreeing to set up negotiations with China to pursue an intergovernmental soft loan. The facility would be a strategically important asset that could provide renewable and reliable energy to central Mongolia while helping reduce the country's energy dependence on Russia. The Ministry of Finance assigned the Ministry of Energy to begin immediate negotiations with China. USD 827 million out of USD 1.0 Billion Chinese loan would be spent on the development of the EGHPP, according to a project cost estimate from a feasibility study released August 2014.

Real Estate

New apartment prices



have declined 1.08 percent so far in the first quarter of 2015. According to a survey of 4,068 real estate properties sold by Tenkhleg Zuuch LLC, Ulaanbaatar's

real estate price index dropped steadily over the last seven months. Average real estate prices dropped 0.5 percent from January to February, and 5.1 percent compared to a year ago. According to the study, the price of old apartments has dipped considerably. The average square metre price of new apartments fell to MNT 2.15 million, a 2.3 percent decrease from the same period the previous year. Apartment location affects the price greatly. The square metre price of an apartment in downtown's central Sukhbaatar district are worth MNT 3 million; the same apartment is worth half as much in Songinokhairkhan district.

USD exchange

The National Statistical



Office reported that the USD rate has increased by MNT 209 compared with the same period of last year. The USD rate averages MNT 1,996 among the seven local operating banks. One USD equals MNT 1988 at the Naiman Sharga Stock Exchange. Experts explain that the USD rate increase directly relates to the foreign direct investment decrease. According to December 2014 central bank statistics, FDI fell to USD 644.3 million, a decrease of 3.3 times compared to 2013. The global commodity price decline has been a major added factor.

Commodities

During the Mineral

Resources 2025 forum, Minister of State M.Enkhsaikhan delivered a speech entitled 'Mineral resources sector, super cycle and strategies', in which he said: "Mining commodity price was at its highest in 2011, but Mongolia could not take advantage of this super cycle." Over the past 200 years, the commodity price cycle has had a 30 year to 50 year frequency. The Minister said that there will be no price increase in the immediate future, so the sector must analyse its work. Acting Director of the Economic Policy Department of the Ministry of Finance B.Batkhurel explained that the prices of Mongolia's main commodities are unlikely to increase anytime soon on the global marketplace.

Education

Under the Mongolian-Chinese government educational exchange and cooperation program, 128 students will receive Bachelor's, Master's and Doctoral degree scholarships for the 2015-2016 academic year. A total of 110 applicants will pursue degrees in fields of environment and green development, agriculture, health, mining, energy, infrastructure, transportation, urban

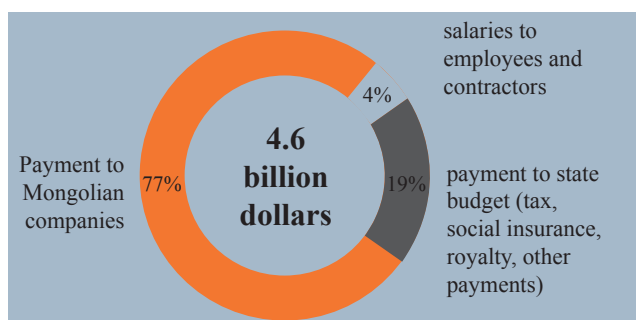
development, education and arts; 18 additional students will study public administration, business administration, economy, law and Chinese language. Scholarship registration is open until March 30; more information about the scholarship can be found on the Ministry of Education's website. Japan and Turkey have similar undergraduate and graduate scholarships that are open for registration until March 31.

Highway

The government reached a decision to begin construction on a 32 km stretch of highway between Ulaanbaatar and the city's new international airport under construction in Khoshig valley. A grant from China will fund a considerable part of the MNT 192 billion needed in financing this six-lane highway project; other loans from China will cover the rest. Entrepreneurs from Poland expressed their willingness to cooperate on the highway project during a meeting with the Deputy Speaker of Parliament L.Tsog. The Polish representatives said that it's possible construct the highway in accordance with European standards, using funding repayment terms. ■

Oyu Tolgoi

Oyu Tolgoi funds spent in Mongolia during 2010-2014:



WORLD NEWS

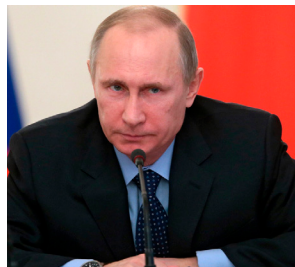
China's AIIB success



The Asian Infrastructure Investment Bank—launched in Beijing last year to spur investment in Asia in transportation, energy, telecommunications and other infrastructure—is China's answer to rival the World Bank, largely dominated by US influence. In March, despite US opposition to the AIIB, major US allies Britain, France, Germany and Italy have agreed to join the new Chinese bank as founding members, according to the Financial Times. The AIIB is seen as contributing to the spread of China's 'soft power' in the region, at the expense of the US. In recent months China has stressed its desire to build economic ties—including a new Silk Road of trade and infrastructure through Central Asia. The AIIB could play a big role in financing such initiatives, as it becomes a tool of China's growing economic power used in influencing the region. Although many countries have treaties with the US and rely on American military security, China is increasingly the largest trading partner for traditional US allies in the region: Australia, Japan, the Philippines and South Korea. Both Australia and South Korea are in ongoing discussions to join the AIIB, according to Reuters. Japan, China's

main regional rival, has the biggest shareholding in the Asian Development Bank, and is unlikely to join the AIIB. The deadline to join is 31 March. Mongolia signed a Memorandum of Understanding in October 2014 to become a co-founder of the AIIB.

Putin talks Crimea



Russian President Vladimir Putin personally directed his country's capture of Ukraine's Crimean Peninsula, according to comments he made in a government produced documentary that aired on Russian state television in March. Putin said that Russia flooded Crimea with special forces officers a year ago, in the days after former Ukrainian President Viktor Yanukovich fled Kiev. Last year, Putin initially denied that Russia had anything to do with the armed men who wore no identifying insignia as they seized key Crimean infrastructure. In the documentary, Putin said he had ordered special Russian military personnel to be deployed "under the guise of reinforcing our military facilities in Crimea." The planning for the seizure of Crimea began after an all-night meeting in the hours after Yanukovich fled Kiev, Putin said, confirming what many have suspected—that the idea for annexation originated more inside the Kremlin than with pro-Russia supporters within Crimea. Conflict continues

in the region, as more than 6,000 people have died in fighting in eastern Ukraine, where Kiev and its Western allies say that the Kremlin is fueling a pro-Russian rebellion. Putin denies it.

Rio Tinto update



Anglo-Australian mining giant Rio Tinto paid USD 7.1 billion in taxes globally in 2014, despite weaker commodity prices, according to the company's newly released annual tax report. Most of the company's earnings are generated from iron ore, and it has continued to increase production of the steel making ingredient in Western Australia despite weaker prices and an oversupply in China. A total of 80 percent of the company's USD 7.1 billion global tax and royalty contribution in 2014 went to Australian state and federal government coffers. Under the voluntary report, the company's global effective tax rate during the year stood at 43 percent. "The taxes paid report is important evidence of our commitment to taxation transparency. Rio Tinto continues to be a major contributor to the economies of its host nations, but most particularly in Australia," Rio chief financial officer Chris Lynch said. In 2014, the company paid USD 185 million to Mongolia

in taxes and royalties. Rio Tinto made a profit of USD 6.5 billion in 2014.

China, Japan and South Korea to meet



The foreign ministers of South Korea, China and Japan met in mid-March for the first time in nearly three years in a bid to restore cooperation between the three Asian economic powers, South Korea's foreign ministry said. Both South Korea and China have territorial disputes with Japan. Ties between China and Japan have shown signs of warming over recent months, and South Korea's foreign ministry said senior officials from the three countries had met recently and the foreign ministers aimed to put trilateral cooperation back on track at their talks in Seoul. South Korean President Park Geun-hye, who has yet to have a formal meeting with Japanese Prime Minister Shinzo Abe, said this month Japan was an important partner which shared the principles of free democracy and market economy. Japan's ties with China also remain frosty despite Abe meeting Chinese President Xi Jinping for the first time last November at an Asia-Pacific forum. Both China and Japan claim a tiny group of islets in the East China Sea, while South Korea and Japan have a separate dispute over tiny islands. ■

CHANGE

Mining must go forward

BY UURIINTUYA

There is very little difference between Mongolia's mining products offered to the global market and those of other countries. There's nothing that says the gold excavated in Mongolia is better or worse than African gold. And the same goes for mining technology. The difference is that other deposits around the world have investors, and Mongolia does not. We drove the investors away by ourselves because of our unwillingness to get help from others, our unwillingness to cooperate, and that fact that we didn't learn how to take responsibility in front of others. It wouldn't be an exaggeration to say that now we're begging the investors to come back. As a result, our mindset and development now trails other competitors that began the race with us from the same starting point. National Mining Association president N.Algaa said that we're lacking the necessary approach—we must use our opportunities and turn our weaknesses into advantages.

We must have a competitive tax environment and tax rate; and the level of bureaucratic interference must be as low as possible in order to develop businesses, especially in a mining sector that requires heavy foreign investment.

Is Mongolia a mining country?

Mongolia certainly is a country that must rely on mining to develop, if we consider the mining sector's contribution to the economy. During the sector's "golden age" (2011-2012), mining-related products were in worldwide demand, and mining accounted for 39 percent of Mongolia's state budget and 90 percent of total exports. Despite the global price decline, the mining sector is expected to account for 16 percent of the state budget in 2015. Even in harsh times, the mining sector remains our main source of income. But it's confusing when you consider the mining sector's ongoing policy, legal environment and scope. For example, a controversial

106 exploration licenses was suspended in 2013 when the global mining industry was acting as if there were no other resources other than Mongolian coal and Oyu Tolgoi copper and gold; the coal price exceeded USD 100 per tonne during that time. The reigning government in parliament then regarded their mineral law as too liberal, and thought it needed more state participation. The first version of the Mongolian Minerals Law in 1997 stated that exploration licenses would be granted for 44 percent of the total territory of Mongolia; later the government declared this to be an act that ostensibly sold off its own country, and subsequently reduced the exploration license area to only 7 percent of total territory. If we think of the Minerals Law as a car, it first began with four normal wheels. By now the law has been altered so many (four) times that its circular wheels have been replaced with squares and triangles. Industry representatives were all in agreement at a September 2014 Mongolian National Mining Association debate entitled 'Mineral exports and competitiveness: benchmark price'. How far can a square wheeled car travel, they asked? The policies of Mongolia's parliament have voluntarily frozen foreign investment, at a time when investors wanted to support our main sector of growth. Today, the economy that once had a yearly growth of 17 percent has declined to 7 percent per year, and foreign direct investment is in such decline that it's hard to tell if there's really investment or if we're already facing market volatility.

We know that commodity's boom and bust cycle is unpredictable, but Mongolia doesn't even have an ability or policy that can prevent the county from bankruptcy. Strictly speaking—we brought this misfortune on ourselves.

Don't cry over spilled milk

Mining sector issues are not Mongolia's only problems. National



Mining Association president N.Algaa remarked that the country talks about the mining sector so much only because its development was once a little ahead of other sectors. For example, crop farmers know that they produce a high quality crop; however, domestic manufacturers prefer to import crops from outside. Because of this, a group of crop farmers demonstrated at the central square, pouring wheat on the ground in protest of government policy that doesn't protect domestic agriculture. The key to understanding every issue is to know that Mongolia doesn't have a policy that regulates any of its sectors.

We have no way out but to endure this already begun decline. According to Minister of State M.Enkhsaikhan, the downward cycle of the mining industry is expected to trend lower and lower for many years. How do we overcome this dark period? Commodity prices are falling on the global markets and other mining countries are clinging to their share. Even our neighbor China, which is known as the world's second largest economy, is using a more flexible

policy and tax environment to support its local companies.

Our country has been supplying spar, copper and gold to the global market for a long time. Traditional export products like spar have barely kept their trade value by resorting to

as the quantity and price of exports declines—with a high benchmark price, which sets a commodity's price at an unrealistically high level. The government then uses that high price to base its percentage of taxed revenue for exports. The problem

on becoming a mining country? Is it to continue focusing on its livestock industry? Or will it look to develop its tourism sector? No one can tell. Ard Daatgal director Ch.Gankhuyag commented: "Everything is uncertain. What, when, where, how are we going to develop, and what and to whom are we going to sell?" Financial Market Association director U.Ganzorig said: "The most important factor measuring the economy is productivity. To that end, countries set their development goal." Our country lacks productivity, and we must set an ultimate goal. But we also lack qualified personnel. N.Algaa remarked: "There is a dearth of qualified professionals in government. We lack a standard system approved by the public. Having issues is not a bad thing, but we need our people to solve them in the best and fastest way possible. There's a lack of good specialists, which means we don't have smooth progress. We don't know how to learn from mistakes. So every level of organisation must develop the same purpose and mind."

If we continue to have unstable laws and regulations, mining will not develop to the extent Mongolia needs it to. We will continue arguing and remain in the exact same place where we are right now if the political instability and unsuitable taxation policies continue. It should be noted that journalists and the media have had their role in expanding a resource curse and resource nationalism within Mongolia. N.Algaa emphasized that today's media and press focuses more on reporting about rumors and sensation, rather than informing and providing the public with balanced, true information.

Populism is at its lowest when people mistake their misinformation for knowledge. This is the source of the problem that led to our country's situation today. The gateway to real knowledge will open when we start realising the truth, and become educated about reality. To do so, the government and the private sector, the media and everyone living under the banner of Mongolia, must undergo a major mindset change. If we citizens don't act like responsible citizens, how can we expect our government to behave like a responsible government? ■



bartering. The number of coal buyers has declined and coal is no longer considered black gold, now that it's a meager USD 25 per tonne. The copper price has also dropped. The economy is closing in on a recession as the price of its main exports declines. Our educated politicians, who once seemed to us so bright, and who didn't even calculate the possibility of losing investors, have been defeated not by knowledge, but by their self interest and greed. Short-sighted populist and nationalistic policies as well played their part in leading parliament astray.

According to N.Algaa, the stumbling government has a desire to support its wealth creators and reduce inappropriate legislation and regulation. The problem is they still don't know what measures to take. For example, their biggest mistake is that they regard the revenue earning sector only as a source to be taxed. The biggest example is mining's benchmark price. Mining sector experts explained that the government compensates their dwindling taxation revenue—

is compounded with the increasing frequency of property infringement and devaluation attempts in Mongolia. These are becoming a hindrance to every sectors' growth. And those 106 suspended exploration licenses? The suspensions only further damaged the mining sector—because suspending 106 exploration licenses is the same as canceling 106 investments. Of course investors wouldn't want to work in an uncertain environment that might—in an instant—make worthless many years of hard work. The government blames investors who have withdrawn their money from Mongolia. But in reality, it's their own fault—those in the Mongolian government somehow managed to stab themselves in the back.

The time for Mongolia to go forward with sustainable development has arrived.

Goals and a gateway

Economists, company executives and researchers are in agreement when they warn that Mongolia lacks an ultimate goal. Is Mongolia to focus

DIRT

Whiff of corruption hangs over Mongolia's mining license auctions

TERRENCE EDWARDS

“How fast can you type?” That was the question Baatar received in a phone call early one February morning. It was the first time in more than four years that Mongolia was accepting new applications for mineral exploration licenses, and his uncle headed one of dozens of mining outfits scrambling to get their application submitted online before everyone else.

Although Baatar – who did not want his real name printed over fears what might happen to his uncle's company – is technologically savvy and light on his fingers with the keyboard, his skills were of no help. The Mineral Resources Authority of Mongolia (MRAM) was no longer accepting applications by the time he made his first go at it. “There's many coordinates, but many overlap,

too,” says Baatar of the map locations the government is making available to exploration. “So even if I fill out the form fast, it's not enough.”

Baatar reckons he and his uncle were outclassed by companies that were armed with more capital, technological might and – crucially – political connections.

Mongolia had hoped to attract a



mass of new foreign investment when it announced last year that it was lifting a 2010 moratorium for new licenses to explore for minerals such as gold and copper. The country's economic growth slowed to just 7.8 percent last year – still relatively robust but a far below the world-beating 17.5 percent of three years ago – and a big factor has been the waning interest in the country's minerals and mining sector amid public disputes with investors.

But this latest attempt at generating interest in the mining sector with new exploration opportunities hasn't resulted in any sea change in investors' appetite for Mongolia's vast natural resources. The government's claims of open and transparent auctions to win licenses to explore 10.1 million hectares of land have been refuted by foreign investors, who claim the process has been unfair and opaque.

PROBLEMS FROM DAY ONE

Although the government boasted that the online platform for the auctions would prevent corruption, investors claim that the whole process has been hobbled by dodgy implementation and unfair advantages given to certain groups.

A former deputy mining minister, Oyun Erdenebulgan, told bne IntelliNews last September that Mongolia could attract up to USD 1.5 billion in 2015 from investments into exploration. But the more likely end result, investors say, is that the licenses will fall into the hands of speculators who will sit on them until they can be flipped for a tidy profit.

Mongolia had drawn up strict criteria for the kind of companies that could compete for the licenses in order to bar speculators and poor-quality investors from participating. That included clean criminal and tax records, no outstanding debts to government agencies such as the social insurance agency, and a bank statement showing that the company held enough funds to undertake a legitimate exploration operation.

However, the strict criteria were dropped just days before the applications process was launched. The requirements had “created quite an uproar [which] essentially pressured

MRAM to drop those requirements by Friday night,” read an internal memo of one of the mining companies involved that was shared with bne IntelliNews on condition that the firm's name would not be revealed.

MRAM has accepted applications on select days for a pre-selected set of coordinates since late January. But a disastrous launch of the website because of technical problems soured investors from the outset. Investors complained that the website was down for the first ten minutes on the morning of launch day, on January 26. And many foreign and local investors

“**The government's claims of open and transparent auctions to win licenses to explore 10.1 million hectares of land have been refuted by foreign investors, who claim the process has been unfair and opaque.**”

were enraged when they failed to even access the website before it closed out 19 minutes after its launch, when the first 30 applications had been received.

Shortly before MRAM began accepting applications, local software companies had begun touting offers that their software could guarantee that applications would reach MRAM within the window. An IT engineer working for a mining company that was applying for licenses said he knew of one piece of software that cost MNT 4 million to buy, plus an additional MNT 500,000 per application that was submitted to MRAM. “I don't think it's illegal, but I don't know how much of a conflict of interest it is either for the software developer. Maybe they have contacts with MRAM,” he said, adding that the window has been expanded to accept the first 120 applications, but that takes less than a minute to happen.

Mongolia's Agency for Fair Competition and Consumer Protections confirmed that it was looking into the licensing process by MRAM, but declined to comment while the investigation was ongoing. MRAM

was contacted for comment but has not responded in time before publication.

REPUTATION ON THE LINE

For many investors, the license application process has been more of the same rather than the new start that they were promised.

Mongolia has struggled to rid itself of the whiff of corruption that swirls around its business environment. A report on corruption published in March 2014 by local pollster the Sant Maral Foundation reported that nearly 30 percent of respondents said that giving bribes would help an individual or company beat “unjust regulations,” while 38.2 percent said bribes were needed to overcome bureaucracy.

Mongolia's reputation as a place for doing business has also suffered from the numerous disputes with miners. The government is still deadlocked over the USD 127 million (later reduced to USD 30 million) in various taxes and penalties that it says it's owed for the country's largest project, Rio Tinto's Oyu Tolgoi copper-gold mine. Three foreign former employees of another Rio asset, SouthGobi Resources, received prison sentences for tax evasion. In both instances the charges have been denied.

Disputes in the mining sector are no doubt headaches for Mongolia's top government officials, who some investors believe genuinely seem interested in directing change. Mongolia's president pardoned the three SouthGobi employees a month into their sentences, each of which was for more than five years. And Prime Minister Chimed Saikhanbileg has been careful not to harp on about the tax dispute at Oyu Tolgoi, preferring to stick to the idea that Mongolia is willing to do whatever it takes to end the dispute and get work at the project started again.

Despite these efforts, the influence of government chiefs can only reach so far into the depths of Mongolia's byzantine bureaucracy. How well it responds to the corruption allegations will send a message as to the kind of investors it wants to see return to the country. ■

UPCOMING

A look at 2015's Mongolia Economic Forum

BY OTGONJARGAL

The Mongolia Economic Forum, an annual dialogue in its sixth year, brings together leading minds to shed light on topics related to the future of Mongolia's social and economic issues, adding colorful and new ideas to Mongolia's discussion sphere. This year's two-day Forum will take place at the Government House in Ulaanbaatar on April 1-2. The Forum welcomes 600 to 800 leaders and representatives from the public and private sectors, as well as academics, foreign investors and civil society organisations.

While the event is usually held in mid-March, Forum organisers postponed the event this year to ensure as many government representatives as possible would attend. This March, most parliament members are working in their affiliated jurisdictions during the break between the spring and fall parliamentary sessions. Mongolia's participation in March's ITB Berlin-2015 exhibition as an official partner added to the delay, as many potential Forum attendees were busy with ITB-related duties, including President Elbegdorj and several members of parliament who travelled to Berlin on a working visit.

During April's Mongolia Economic Forum, participants will discuss macro-economy issues associated with Mongolia's current economic troubles. One of the biggest problems is the dangerously low level of foreign investment, which according to the central bank dropped 74 percent in 2014—a result of the country's erratic legislation practices and government disputes with foreign companies that have severely damaged Mongolia's credibility with the world. Problems are compounded by the tugruk's skyrocketing USD exchange rate. Participants will look for answers from the increasingly questionable 'Solutions' government in control in parliament, after the Prime Minister's futile February text message referendum to push forward stalled megaprojects resulted in little more than zilch, the megaprojects remaining stuck in limbo.



“BUILDING CREDIBILITY”

With Mongolia in such dire straits, this year's Forum's theme is 'Building Credibility', to address the weakened trust and cooperation at every level of Mongolian society. Due to political instability, an ever-shifting investment environment, and legal cases that have made international headlines, foreign investors have lost their faith in Mongolia as an investment destination. Whether in business, politics or personal relationships, every partnership is built on credibility. Credibility is essential for any Mongolian development at all to continue into the future. Foreign guests and representatives will attend the Forum; including Asian Development Bank Vice President Stephen Groff, and Director General of the Global Green Growth Institute Yvo de Boer. Minister of State M.Enkhsaikhan, the man behind the currently stalled negotiations development of the Tavan Tolgoi deposit, will give a speech.

FIVE YEARS ON

What's the Mongolia Economic Forum accomplished since its launch in

2010? Five years is enough time to see the results of its new initiatives and methods. Although the Forum looked shaky at the start and not built to last, it has developed into a major event, and reputable both domestically and internationally. Many now look forward to the annual Forum, and its rising popularity has increased both its quality and exclusiveness.

The Forum has become a mechanism to criticise the government for not listening to the opinions of private and public sector actors, who are sick of the government's routine closed-door decision making. The Forum hopes that many government officials attend the two day event to listen to alternative voices. Attendees want the government to give definite answers about development policies, and for both sides to discuss how to advance sustainable development. As policymakers are openly criticised without restraint, many regard the Forum as a form of direct democracy. The Forum's unique advantage is that it gives a platform to individuals, private sector actors and foreign organisations to voice their opinions about the country's development.

The 'Mongolian Davos', as it's nicknamed, brings together voices from

around Mongolia and the world, so that they may learn from one another's development experiences during the two day sessions, and help Mongolia reach global standards. Past renowned guests include former Prime Minister of the Netherlands Wim Kok, who turned the Dutch Disease into the Dutch Miracle, and CNN International reporter Stan Grant, who caught the attention of participants when he labeled Mongolia as a 'Wolf Economy'.

The NGO organisers of the Forum introduce new ideas to society by creating a space of free and open discussion. Countless topics have been discussed in the past. In 2011, for example, 15 plenary sessions were held under four main topics: 'Human development', 'Development policy', 'Governance' and 'Infrastructure'. Every discussion focused on creating a better education, work and living environment

for Mongolians. During the opening of the 2011 Forum, President Ts.Elbegdorj stated: "Natural resources must leave their mark on human development, not only on the soil." Discussing the 2012 Forum, former Prime Minister S.Batbold remarked: "The government will reflect the solutions from the Forum in our decisions." We at Mongolian Economy magazine support the initiatives originating from the Forum in issues and articles that highlight Mongolia's ongoing development.

In 2013 during the 'Reform' government period, the Forum theme was 'Mongolian brand – Economic diversification'; in 2014, it was 'Let's create in Mongolia'. During last year's event, Reform Government Prime Minister N.Altankhuyag stated: "If we don't learn to produce, we will forever stay in a cage just like circus animals. Every nation has its brand. Mongolia

must be known to the world by its pure natural products." He promised that the government would be ready to give its support to private entrepreneurs in this sector, and later mostly delivered on the funding of 888 projects.

Today, governance, human development, infrastructure and mining revenue remain the major topics of discussion. How will new Prime Minister Ch.Saikhanbileg hear and receive the issues and solutions from this year's Forum? Will he reflect its initiatives in his policy? It would be wrong to say that previous prime ministers reflected and used the solutions from the forum in their decision-making, despite the best efforts of the Forum. Participants long for a future time when, after a Forum's close, the discussed issues and conclusions live on in echoes throughout the halls of government. ■

HEALTH INSURANCE

Welcome changes in new healthcare law

BY ELBEGSAIKHAN

Monthly state healthcare payments are obligatory for every Mongolian worker, but the benefits are not experienced equally by everyone. There are many who say that the Mongolian healthcare system is flawed. According to the State Social Security Insurance General Office, the office in charge of public healthcare, over 80 percent of the population makes use of the public insurance fund, which includes most of the population save for some rural communities.

But questions remain, both whether the tax must be paid by all, and if everyone is paying as required. According to data provide by the General Office, around 1.3 million citizens—those under 18, the elderly, military personnel, mothers with infants, and other vulnerable groups of society—obtain healthcare from the state budget without contributing to the tax. This amounts to MNT 12.1 billion per year. That means business owners, workers, and university students and unemployed volunteers pay almost 100 percent of the total healthcare cost.

Income taxes make up about 80 percent of the state budget.

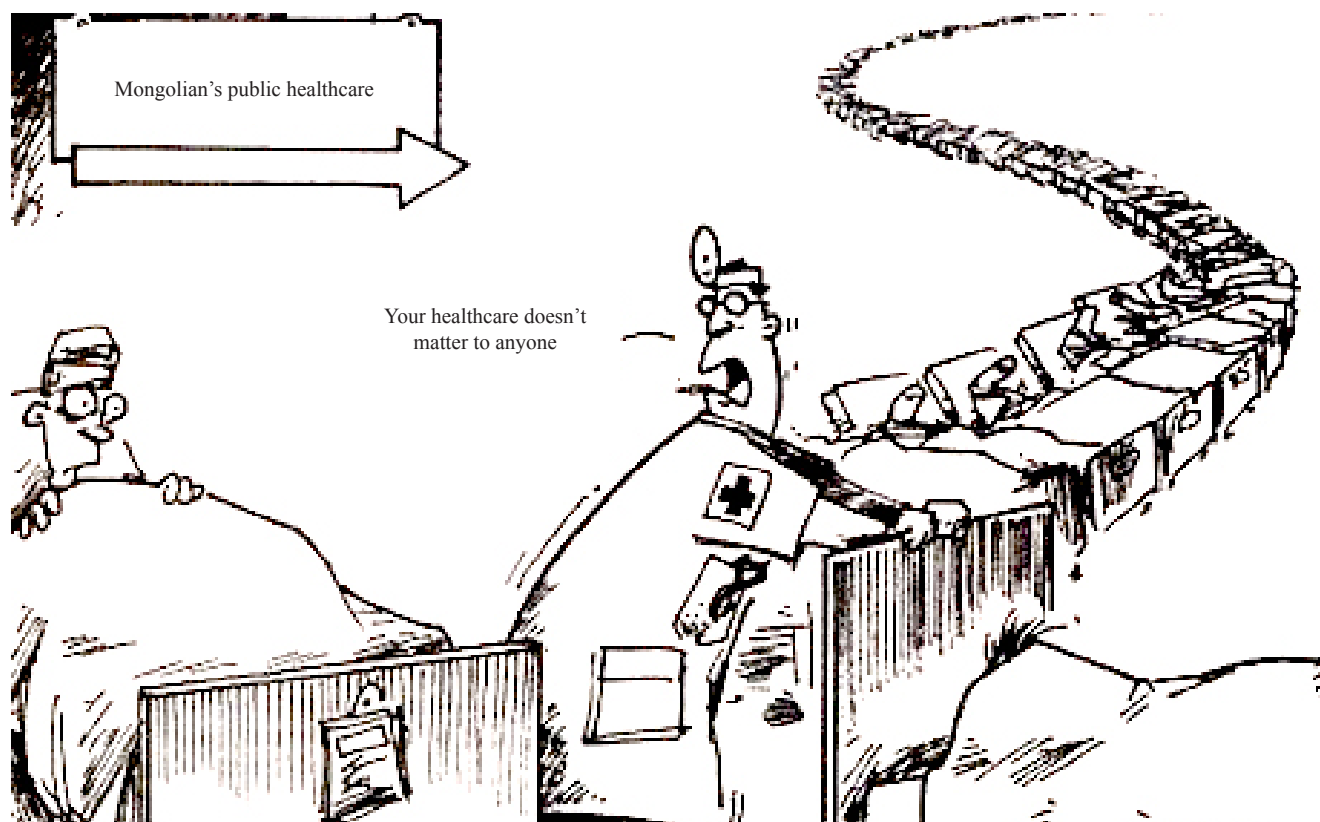
The lingering questions—Who contributes what? How much?—may be answered this year. Parliament passed new version of the citizen's healthcare law on 29 January 2015, after two years of debate. Lawmakers and experts say that the new version of the law creates a substantial possibility to solve the issues criticised by the public. For example, since the end of socialism in the 1990s, many citizens have criticised the principle of solidarity that defines Mongolia's healthcare system. Solidarity stipulates that every citizen is entitled to MNT 1.8 million in healthcare services per year, whether they pay the tax or not. Criticism arises from the facts that 80 percent of the public insurance fund is taken from the salaries and wages of business owners, employees and entrepreneurs, while 56 percent of the insurance fund is spent on those who contribute no taxes to the state.

The new law answers some questions

According to the new law, state healthcare payments of citizens under 18 (who didn't have to pay under the previous law) and university students must be no less than 1 percent of the state minimum wage per month. The health insurance tax must be no less than 2 percent of minimum wage if an adult individual is self-employed, according to the law reform. The tax contribution for workers remained the same at 4 percent.

The increase in contributors to the healthcare fund enhances the discounts health service seekers receive for medicine and treatment. The new law expands discounts for six previously ineligible services:

- Cancer and other diseases' palliative care service
- High cost health care and necessary medical tools
- Some types of artificial valves, orthopedic rehabilitation prostheses
- Some rehabilitation services in healthcare centers of soums and villages; home care, outpatient care
- Cancer chemotherapy and



radiation treatments

- 37 days prior to pregnancy and postpartum period disorder treatments.

The insurance discount rate is to be same for both public and private hospitals and healthcare organisations. (In the past, few a private organisations provided healthcare at unregulated higher rates). In addition, one important sentence in the law stands above the rest: "a citizen can buy supplemental private health insurance in order to obtain additional healthcare and services not included in public healthcare fund coverage." People can acquire supplemental health insurance, to better prepare for unexpected diseases with expensive treatment. Although citizens must still pay the tax to the public insurance fund, they can receive additional insurance through private companies, if they find the capabilities and discounts of compulsory insurance are too limited. Competition among private insurance companies will increase the quality of supplemental services.

HEALTHCARE DISCOUNTS, NOW TRANSFERRABLE

The new law gives a household the right to transfer their discount among

the family members, in situations where one of the family doesn't need to use medical services and the discount of others in the family are maxed out. This addition is a small resolution to today's insubstantial healthcare discounts.

The newly approved law will come into effect on July 1, 2015. Before that day, a new agency in charge of healthcare matters is to be created. Estimates show that MNT 3 billion is required to build this organisation.

Director of the Policy and Planning Division of the Social Insurance General Office Ts.Gantsetseg explained the importance of this new agency. According to her, there are number of reasons why this agency must be established. The most common reason is that only 120 health insurance officers are now be responsible for Mongolia's 3 million citizens. With the new agency's subsidiaries established in every city, province and soum, it will be much easier for the state's healthcare to serve the people. Even though people criticise state healthcare for not providing real relief, health services record almost 4.4 million visits per year.

In the past, the state's healthcare insurance fund management was too convoluted. For example, the Ministry

of Health were in charge of the fund's spending, such as the types of services to be provided to the insured, discounts and the selection of hospitals, while the Social Insurance General Office was only responsible for the revenue. In addition, the Ministry of Population Development and Social Welfare, Health Insurance subcommittees and Social Insurance subcommittees each had their own obligations and regulations. It was nearly impossible to figure out where to go to address institutional issues, as no one had the right to take responsibility. The situation existed for decades.

With the new law, policymakers expect several positive changes for society. People's overall health, social and economic benefits and poverty rates will improve with the impact of the new law. And unnecessary admissions and expenses will become reduced. A door is opened to finance additional coverage, and the number of beneficiaries will grow. The citizen's health insurance law passed on July 8, 1993 and was enforced beginning Jan 1, 1994. Parliament amended it nine times in the past, but no major change was made since 2002; only two small modifications in clauses were made since then. ■

ASEM SUMMIT

Mongolia prepares to welcome ASEM

BY ORKHON

In 2016, the political and economic leaders of 51 countries from Europe and Asia will meet in Ulaanbaatar to enhance cooperation between the regions. On October 17, 2014, at the conclusion of the 10th Asia-Europe Meeting in Milan, the assembled leaders unanimously agreed to convene the 11th ASEM Summit in Ulaanbaatar, in the last week of July 2016. In preparation for next year's event, President Ts.Elbgedorj issued a decree to establish a National Council to deal with the specific duties of organising the ASEM summit in Ulaanbaatar. The current forecast expects 5,000 guests and representatives will visit the summit.

According to the Presidential Decree, the Prime Minister will serve as the Chairman of the National Council; the Minister of Foreign Affairs and Chief of Staff of the President's Office as the Vice-Chairman. The Minister of Finance, Minister of Road and Transport, Minister of Mongolia, Minister of the Cabinet Office of the Government, Governor of Capital City

and Mayor of Ulaanbaatar, National Security and Foreign Policy Advisor to the President, Public Relations Policy Advisor to the President, Senior Advisor to the Speaker of the Parliament, Senior Advisor to the Prime Minister, Public Relations Policy Advisor to the Prime Minister, and the head of a working group of the National Security Council will become the Members of the National Council. The State Secretary of the Ministry of Foreign Affairs will work as the Secretary of the National Council.

The first meeting of National Council took place in January 2015. The Council discussed preparations and set up a working group. Minister of Foreign Affairs L.Purevsuren said that the 'Chair's Statement' and 'Ulaanbaatar Declaration' documents are planned for the 11th ASEM Summit. The Chair's Statement will assess the cooperation, relations, successes and failures of ASEM member states over the last 20 years. The Ulaanbaatar Declaration will reflect on the future oriented concepts and trends of government

heads and leaders. For a frontier economy like Mongolia, such high-level international exposure comes rarely and will represent an opportunity to boost the country's profile and attract investment and tourism. As the event will be the 20th anniversary of the first ASEM Summit, Mongolia's organisers bear a huge responsibility. The next National Council meeting is set to be within March. An ASEM logo design contest has been announced.

ASEM was conceived as a mechanism to strengthen links between Asia and Europe. ASEM's goal has been to strengthen Asia-Europe links in three main areas - political dialogue, economic cooperation, and social/cultural/people-to-people cooperation. The Asia-Europe Meeting (ASEM) is an informal process of dialogue and cooperation bringing together the 28 European Union member states, 2 other European countries, and the European Union with 21 Asian countries and the ASEAN Secretariat, with total of 53 members. ■



ENERGY

Thermal Power Plant 4's remarkable success

BY ELBEG

President Ts.Elbgdorj presented the National Development Award—called the State Gerege, for outstanding works that serve as a role model in social, economic and intellectual sectors—to three enterprises before February's Lunar New Year holiday. Two of the awardees were private companies; the third was state-owned joint stock company Thermal Power Plant 4 JSC, honored for its recent expansion. Thermal Power Plant 4 received praise for successfully finishing its project to supply 250,000 households with electricity and 15,000 households with heating by 2015. The facility's new turbine commenced operating at its full capacity of 123 MW on March 6. The project is noted for its fast completion and very low expenses. The total cost of the project was USD 70 million, which means one MW of electricity cost USD 570,000; four times lower than international rates. The project accomplished in two years what most similar projects take four years to complete.

Thermal Power Plant 4's (TPP4) quick completion is a result of their time spent in preparation and research before laying the first stone, and doesn't reflect a rushed job of subpar quality. After power plant testing and adjustments that went off without a hitch, operation began on March 1. Before the expansion, TPP4 provided 71 percent of electricity in Mongolia's central region, in and around Ulaanbaatar, with six 80-100 MW turbines producing 3.5 billion KW per year. The expansion allows for the generation of 500 million KW more than before.

The project's history

Mongolia's electricity consumption grows every year. In recent years it has grown by 8 to 10 percent, making it ever difficult to provide the country's central region with energy ever since 2012. TPP4 exceeded its initial generating capacity: for example, while it generated 582 MW electricity



per hour at the end of 2011, it was generating 602 MW electricity by January 2014. Although it exceeded its capacity, TPP4 was in danger of losing 80-110 MW power because of it.

TPP4 needed the update. In 2012 it was apparent that the plant would have to reschedule electricity distribution in order to meet Mongolia's rapidly growing demand. There was a chance that power outages would be normal procedure for many, causing significant damage to the economy.

The best solution was to expand the power capacities of TPP3 and TPP4. In May 2012, researchers concluded that TPP4 could expand its capacity by 100 MW. Thus, the government enacted the plant's expansion by 100 MW, based on the research.

In order to finance the project, the government assigned USD 70 million from government bond funds—despite numbers in a pre-feasibility study that showed USD 75 million was required to execute the project. How could the project manage to expand the plant with less money than experts thought necessary?

Negotiating under budget

The government bond funds were

already deposited in the Development Bank of Mongolia, so the financing was not an issue. First, the project leaders needed to decide where to buy the necessary turbines. By research conducted among German, Japanese, Chinese and Russian plants, project leaders discovered that the products and pricing of Russia's Ural Turbine Plant were the ideal fit. A contract to order the newest T-100 turbine with 123 MW electricity capacity was signed with Ural Turbine Plant on November 13, 2012.

The next issue was the construction work. Moscow-based Soyuz Holding, which specializes in power plant construction, was selected for the job. Their experts and employees visited TPP4 in December 2012. However, an unexpected problem appeared.

After visiting TPP4, the experts of Soyuz proposed to do the work for three times more than the planned budget. As the government had cut USD 5 million from the pre-feasibility study amount, they faced an issue to renegotiate the contract terms. Negotiations continued for six months until a contract was signed on July 1, 2013. As a result of the long negotiations, the government

landed a very profitable deal that allowed the cost to fit the budget. Under the contract, Soyuz was responsible for turbine installment, test adjustment and handing it over to a commission. During negotiations, the Ural factory produced the order, and the first devices were received on December 26, 2013.

Finishing ahead of schedule

The construction began June 10, 2014. Workers had finished laying the groundwork for the giant turbine one month before. Nearly 150 Soyuz employees and 160 employees from 10 local companies participated to complete construction ahead of schedule. Workers completed the main work in a span of six months, surpassing the Russian average of 10 months for such a project. Construction ended on December 22, 2014, when the project shifted gears to testing and configuration, which continued for two months.

Project leader D.Batchuluun: “The turbine is working safe”

According to you, the project finished very fast. Did you face any major obstacles during the project?

Of course there were obstacles. It's a very difficult job to install a turbine among operating turbines. For example, we needed to carry generator stators over three operating turbines. To do that, it was necessary to increase the load capacity of two 55 tonne cranes to 70 tonnes. The contractor has worked on many large projects before and they're very experienced. They were monitoring every step they took, so there were very few re-performances. This was the key factor in finishing this large scale project in such a short time.

It's hard to imagine that this large project was finished nearly twice as fast as usual. There's a suspicion that the job was done inadequately, or that it's incomplete. How can you guarantee the safety and quality of the project?

The new turbine was attached to the network and began distributing power since 11:34 pm, March 1. At first it was operating on half power, and then starting from March 6 it ran on full power, working with 125 MW to 126 MW capacity continuously for 76 hours. The new turbine's standard power generation capacity is 123 MW, and the maximum capacity is 130 MW. It's considered safe once a turbine



operates continuously for 72 hours without any issues.

Outcome

This project will continue playing a key role in providing Mongolia's rapidly growing demand. As a result of TPP4 expansion, it's now possible to produce more energy at a lower cost; the project can recover its investment costs in 7.8 years at the most, with a possibility to recover the total in only 4 years.

There's also one more thing to be happy for. TPP4's new turbine has thermal heat capabilities. It will produce 4,000 Gcal per year, to supply 15,000 new residences with heating. Before the expansion, the plant produced 3 million Gcal of heat, and satisfied 65 percent of Ulaanbaatar's heat demand.

TPP4 JSC is the nation's largest plant. In 2010, Mongolia's total electricity consumption was 3.5 billion KW, and TPP4 provided 2.9 billion KW that year. TPP4 produced 3.53 billion KW in 2013, and 3.567 billion KW in 2014. This year, they're planning to

produce 3.641 billion KW of energy, alongside 3.5 million Gcal.

Last year's total revenue was MNT 173 million while expenditures were MNT 176 million. It means they lost MNT 0.20 in every MNT 1 income. Even though the expansion resulted in lower production costs, they're still working with a deficit. They will lose MNT 0.06 for every MNT 1 in income.

But decreasing the deficit by three times is still a big improvement. Also, the most important thing is that Mongolia could escape from an energy deficit for the time being. Project leader D.Batchuluun said that even though they don't know for how many years the TPP4 expansion can sustain the rapidly growing demands, Mongolia can be sure of its energy situation until 2017. Besides this project, TPP3's 50 MW expansion work has been completed successfully. After 30 years of coasting by on older power plants, both of these projects were completed in the last 2 years. ■

GREEN DEVELOPMENT

World Water Day: economising water

BY A.BURENJARGAL

It requires 3,500 litres of water to produce one kilogram of white rice. For one kilogram of beef? At least 15,000 litres of water. Producers rarely consider how much water they're using to make their goods. President of Mongolia Ts.Elbegdorj has made water a priority in his term in office. However, Mongolians' improper use of water and careless attitude toward the precious resource remains unchanged, even when environmental protection of water resources and management has become a big issue for Mongolia. The country's demand for water is increasing. Besides the demand of drinking and household water, power and heat production, manufacturing and mining industries require large amounts of water.

As in Mongolia, water is a problem that affects much of the globe. According to the United Nations, Today, 85 percent of the world population lives in the driest half of the planet—783 million people have no access to clean water, while nearly 2.5 billion have no access to adequate sanitation. According to the World Health Organisation, 3.4 million people, mostly children, die annually from water-related diseases. This reminds us that we must conserve water, use it properly, and avoid contamination, to save our lives, those of our children, and of humanity around the globe.

World Water Day has been observed every March 22 since 1993, when the UN General Assembly declared a 'World Day for Water'. On the occasion in 2014, Director-General of UNESCO Irina Bokova said: "Improving access to freshwater is about enabling millions of girls to go to school instead of walking kilometres to fetch water. It

is about improving maternal health, curbing child mortality, and preserving the environment. There is enough water in the world for everyone. What we continue to lack is better governance and the collective courage to craft fair compromise solutions. UNESCO will continue to commit its resources to this cause. The main objective of the World Water Day is to draw public attention on the importance of clean water and to support the sustainable management of water resources."

WATER AND MONGOLIA

With world population now over 7 billion, and expected to reach 9 billion within the next 10 years, the availability of water is deteriorating day by day in front of our eyes, and sooner or later it will become a very uncomfortable issue for us all. According to data compiled by the World Bank, Mongolia's total annual freshwater withdrawals, which includes household, agriculture and industry usage, is 600 million cubic metres per year.

Concentrated mining, industrial or residential activity in one region leads to water shortages and a need to find water elsewhere. In the Gobi Desert, one of the driest places in the world, the Tavan Tolgoi mine alone uses 76,000 cubic metres of water per day, according to a 2010 World Bank water resources report.

According to the 'Study on integrated management of water resources in Mongolia', one person will use one cubic metre of water per day by 2021. Integrated management of water resources project manager Ian Brown said that the increase of households and manufacturers increases the amount

of wastewater, thus impacting the natural water purification process. He added: "We need to take measures to prevent contamination before it reaches the extent that the environmental regeneration becomes impossible. Or else Mongolians will leave a huge burden to future generations."

As of 2012, each ger district household pays MNT 1 per one litre of water, while apartment and city residential households pay MNT 25 per one litre of water. In today's free market society, it's impossible to buy anything for MNT 25 other than water. Mongolia ranks 56th in the world in terms of water per capita per year, and is defined as a country with limited or little water resources.

In 2011, a survey by Global Water Intelligence said the average global price of water was USD 2.03 per cubic metre—the US average was USD 0.66, while Denmark and Germany were USD 2.25. Compared with these countries, Mongolia's water price is 15 to 100 times lower, because the country lacks the conscience to understand the price and importance of water. The 2011 average in 25 major Chinese cities was USD 0.46. In 2014, China initiated a new policy—an income-based three-tiered pricing structure on water use for households in all cities and some towns—that would see higher income households pay significantly more for water usage than the country's poor.

The entire world is encouraging water economisation, by conserving what we have and raising the usage cost. The extra money can be used to increase the quality of water resources and prevent future water shortages. ■



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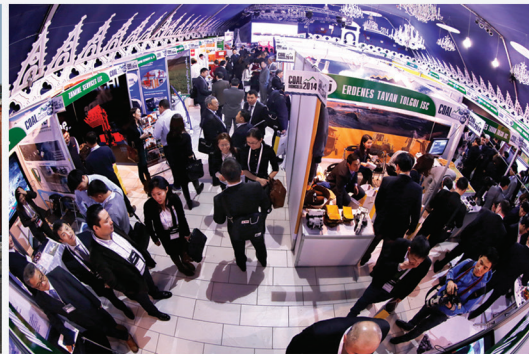
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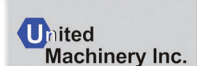
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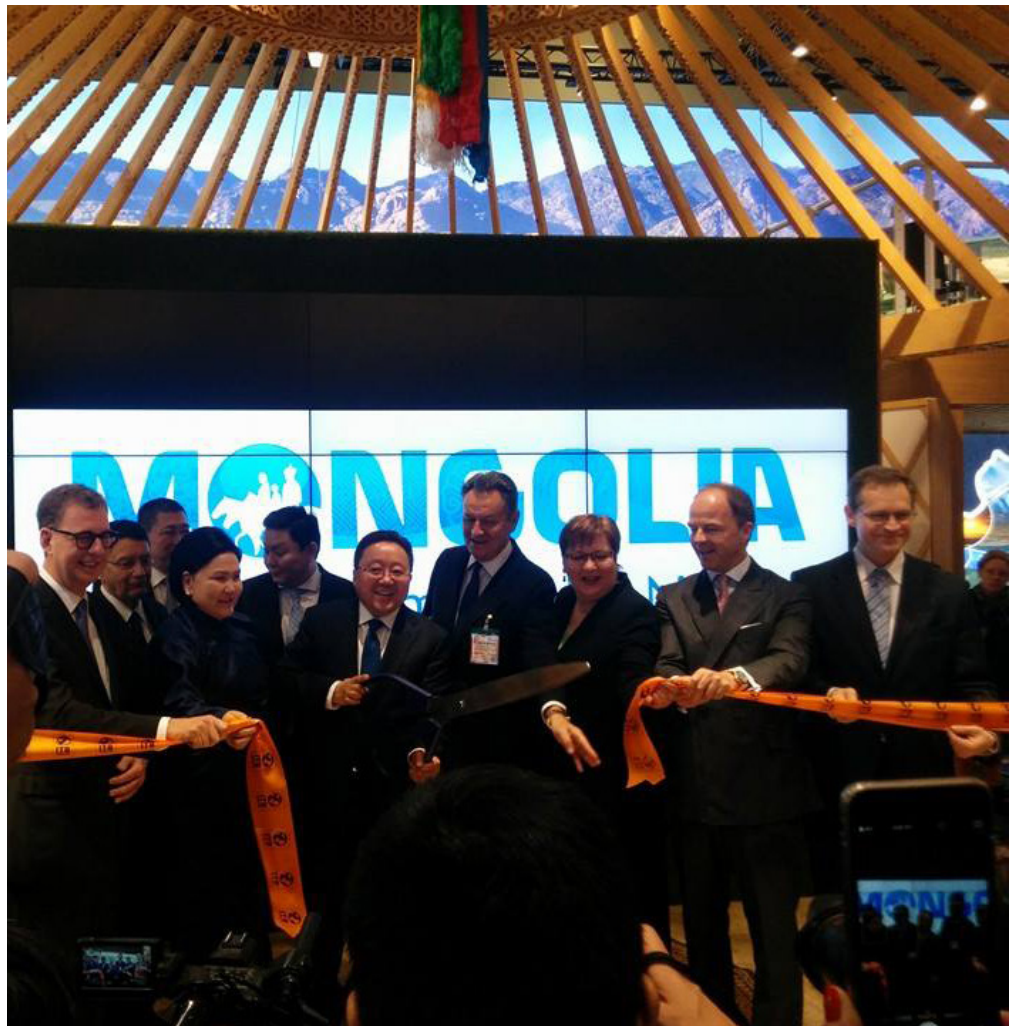
Private sector thoughts on ITB-Berlin

BY ENKHTSETSEG

This March, Mongolia participated as the official partner of the International Tourism Boerse-2015 in Berlin, the world's biggest international tourism expo. Nearly 300 representatives of the Mongolian tourism industry gathered in Berlin to promote Mongolia. Many more expat Mongolians who live in Berlin visited the ITB expo to admire their home country's participation. This led the Director of the ITB expo, Christian Goke, to say: "These days, Berlin has become the capital of nomads." Over 10,096 organizations from 186 countries came here to promote themselves and to meet with old and new partners. A total of 16 Mongolian tourism companies went to Berlin to meet and cooperate with business associates; each marveled at how much busier they were than in previous years. The participants shared their thoughts and experiences of the ITB expo with Mongolian Economy magazine.

Genco Tour Bureau JSC general manager B.Javkhaa:

We have participated in the ITB expo for five years. We get an average of 14,000 tourists per year. Participant companies, government and non-governmental organisations showed much more energy and devotion compared to the previous years. Also, Mongolia's promotional area's appearance, scenery, concerts and performances were very good. In previous years, much less people were visiting the Asian—especially the Mongolian—promotional area. Generally, we just met with scheduled partners during the ITB expo in the past; but this year, thanks to good advertising, many tourism companies and visitors came to us. Our company was scheduled to hold 50 meetings, but we were so busy that we could only afford to hold 30 of them. From these meetings, we agreed to cooperate with five companies, while the rest is at the negotiation stage for now. We mustn't lose the momentum we gained through the ITB expo, and must continue doing promotional campaigns at least once a quarter, so that we can remind the world about Mongolia. For example, we must hold onto our image and continue our campaign 'Mongolia, Nomadic by



Nature' in Germany throughout the next two years.

Director of Tsolmon Travel LLC M.Navchaa:

Individually I have participated for 25 years, while this was my 22nd year as a representative of Tsolmon Travel LLC. There are many tourism exhibitions in the world. But ITB is significant because it's the biggest and the most professional of all of them. The ITB expo gives us an opportunity to meet all our associates and partners at the same time, so that we can exchange experiences and talk about furthering our cooperation. We have foreign partners who we've met for 20 years at the ITB expo. Foreign companies observe companies at the beginning, and then after these companies start to participate in ITB every year,

they consider them stable and give offers to work with them. Every company including our company's objective is to establish relationships with new partners and to strengthen the old relationship. We may not feel the full benefit for participating as an official partner this year, but starting from next year we are going to get real results. We're going to feel the benefit even more the following years. This time, we have met with 17 companies; all of them cooperated with us at least 5-6 years. And we signed contracts with 3-4 companies who were observing us for the last 2-3 years, and starting from next year they're going to create a travel program and send tourists to us. These are the successful results we get from participating in ITB expo every year. Many new companies met and got

information about Mongolia from us. Tour companies begin their operation when they become confident after many years of market surveillance.

New Juulchin Tours sales manager D.Uyanga

Our company is participating for the 12th year. Participants showed much more energy and devotion compared to the previous years, because this year we're participating as an official partner. We cooperate with more than 100 foreign companies. This year, we have met with nearly 100 new partners, and came to an agreement to cooperate with one foreign company. Some markets, particularly the Russian tourism market, are in a downturn; so Mongolia-Russia-China travel package interest is decreasing, and tourists are becoming more interested in travel around Mongolia. I think the public is more interested in countries that participate in ITB each and every year. And we can feel that people's knowledge about Mongolia is getting better. Especially, people are more interested in active travels such as kayak, hiking and motorcycle tours. We won't get the benefit of participating as an official partner if we participate like the previous years. Both the government and private sector must work actively to materialise the things we got from ITB expo.

New Juulchin Tours German market manager G.Bolor-Erdene:

Our company is participating for the 22nd year. We host around 8,000 to 10,000 tourists per year. German tourists comprise 30-40 percent of

the total tourists coming to Mongolia. Our promotional area and other expo features were all unique; it seems like Mongolia really gave significance to this year's exhibition. Many people came to meet with us. For example, a few years ago we visited Austria and Switzerland to meet with companies, but it was not so successful back then; this year, however, they came to us themselves and talked on contractual levels, so this shows the scope of participating as an official partner. We met with 58 companies and associates during this year's ITB exhibition. Out of those, 21 were old associates and 37 were new companies. This number would be in the hundreds if we count the people who talked and received our promotional materials. Thirty-four percent of our partners and associates are from German speaking countries. We expect the number of tourists will increase after participating in the ITB expo. So Mongolia needs to increase and stabilize the frequency of international/domestic flights and train schedules. For instance, the April flight schedules are still not out. European tourists especially plan and book their travel a year ahead. But we still don't have set schedule and it's really hindering our job. We need to resolve this issue as quickly as possible. From our side, we are doing everything possible to improve our services to meet our partners and tourists wishes.

Selena Travel employee U.Zolzaya:

Our company is participating for the fifth year. Our company's objective is to establish a relationship with new partners and to solidify old relationships. We host

500 to 800 tourists per year. We offer more expensive tour packages, because we focus on quality over quantity. Although our company gets more tourists from English speaking countries, we participate in the ITB expo in order to get trips from German speaking countries. Whenever we come here, we discuss collaboration with usually 3 or 4 companies. This year we met with 10 old accomplices and 20 new partners. We have several agreements that reached contractual levels of discussion. Our old partners were very grateful for Mongolia's participation as an official partner, and they were expressing that their confidence in us has increased. As for new partners, they were coming to meet us after hearing that we're participating as an official partner. People's interest in us was ten times that of previous years. In the past, our promotional area was almost empty on the final two days of the exhibition. You can't expect results just after participating for the first time; you need to participate at least 2 to 3 times to get the attention of big tourism companies. Foreign companies put a big priority on a company's stable operation. Our new and old partners were saying that the most difficult issue is that it's very hard to make a flight to Mongolia. They say that the tickets are expensive and mostly not available. It's a priority to increase the frequency and destination of the flights. In order to increase the flow of tourists, the number of flights must be increased. ■



ANALYSIS

Will foreign direct investment increase in 2015?

BY G.MUNKH-ERDENE, investment analyst

OYU TOLGOI RESOLUTION IN THE SECOND HALF OF 2015

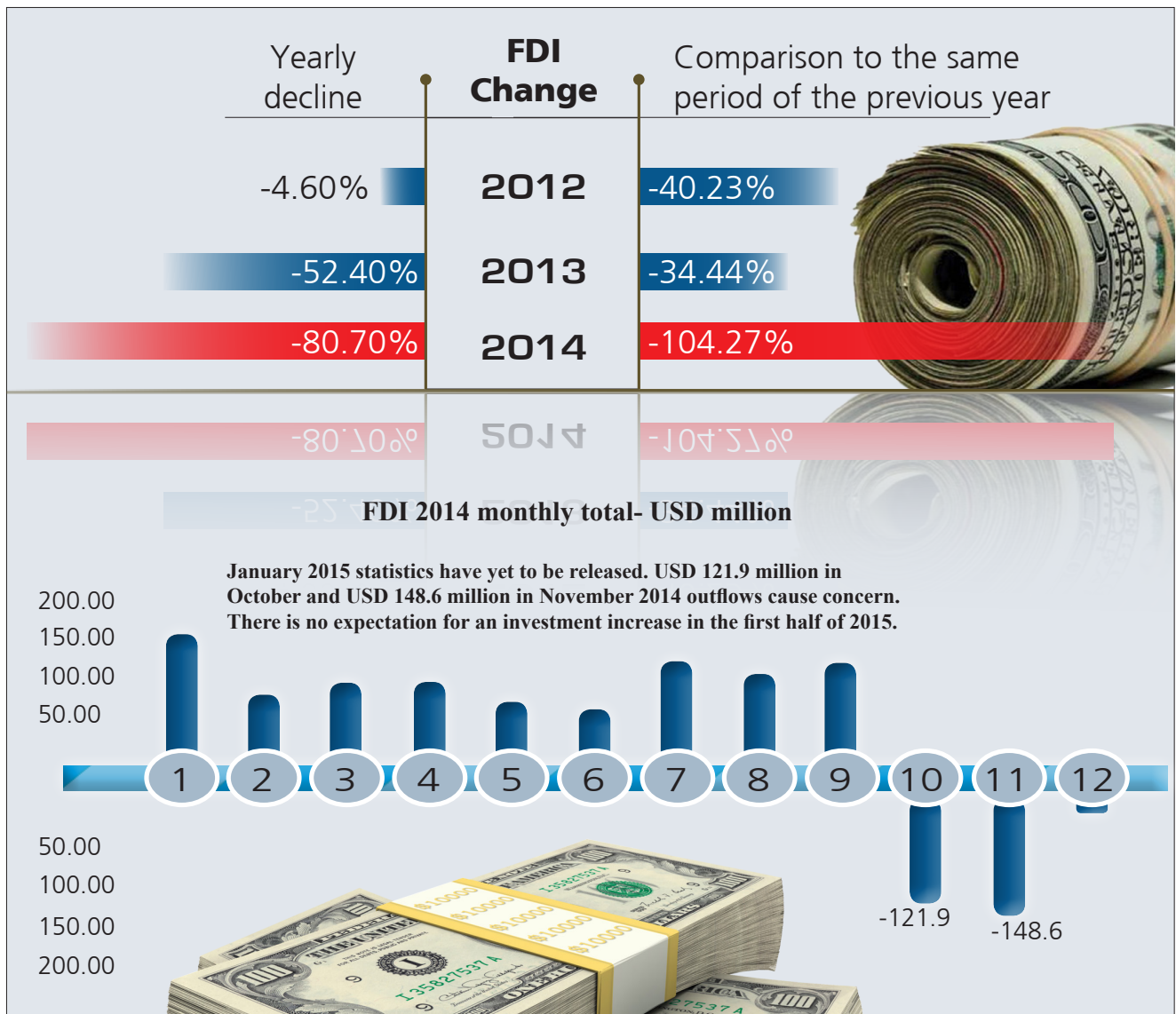
Ongoing cost disputes between Rio Tinto and the government led the country to suspend underground mining development in mid-2013. Rio Tinto put in a final underground mining investment offer to the government in November 2014. The Mongolian government responded with a counteroffer to exchange 34 percent of its shares with additional royalties in February of 2015. Rio Tinto expressed

their unwillingness to accept the offer. Rio Tinto would invest USD 5.4 billion over the next four years if underground development proceeds, which parliament says must happen in 2015.

TAVAN TOLGOI NEGOTIATIONS CONTINUE

According to Minister of Mongolia M.Enkhsaikhan, the government and the foreign-led Consortium enterprises (Shenhua, Energy Resources, and Sumitomo) have agreed on the basic

conditions of a contract. The contract includes favorable stipulations for the Mongolian side, yet Parliament insists that the contract must be discussed and approved by them before it's finalised. However, Erdenes Tavan Tolgoi JSC's contract obligations to Chalco must be discussed seriously, or it will continue to hold up the contract negotiations. If the contract gains approval, the Consortium will invest USD 4 billion over three years.



IMPROVED INVESTMENT ENVIRONMENT AND NEW LICENSES

The government annulled the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (SEFIL) in 2013, replacing it in 2014 with the Investment Law, which eases the regulatory approval requirements for foreign private investment and streamlines the registration process for foreign direct investment.

On 1 July 2014, parliament approved a revised version of the Petroleum Law, which creates opportunity to invest in the unconventional oil industry. Companies interested in extracting coal-bed methane gas and combustible shale have begun to ask for exploration licenses and to bring in investment. Mongolia's reserve of coal-bed methane gas is estimated at over 3.2 trillion cubic metres, with an additional 788 billion tonnes of combustible shale resources. Six oil, three coal-bed methane gas and two combustible shale exploration contracts were signed as of September 2014.

The government returned to circulation the 106 mining licenses revoked in late 2013, and new owners are buying them up through open bidding. From August 2014 to today, the government organised four successful bids for 37 fields. In order to recompense the previous owners of

the 106 licenses, licenses are granted to the previous owner if there is no competition in bidding; if a different company wins the bid, the company must compensate the previous owner. As of today, companies have a working budget to enter 42 fields. Of the complete tenders, 29 returned to the previous license holders, six were won by a new party, and two remain undecided.

The government is now granting exploration licenses. According to the statement, exploration licenses will be available for 19.8 percent of the total territory of Mongolia, or 31 million hectares, of which 13.4 percent (20.9 million ha) will be issued by accepting applications, and the remaining 6.5 percent (10.1 million ha) will be issued under government selection.

CONCLUSION

FDI reached USD 4.6 billion by the middle of 2012; then, in the span of two and a half years, it plunged by 91.6 percent to USD 400 million. The main factors were the unstable political and legal environment, the country's dependency on megaprojects, and the global commodity price decline.

Foreign investors were reinvesting their profits until the third quarter of 2012; ever since then, they've been pulling out their profits. The outflow of USD 121.9 million in October and USD 148.6 million in November 2014 draws attention. It indicates the investors' declining confidence in Mongolia's politics and economy.

The only hope for an FDI increase in 2015 is for the Oyu Tolgoi and Tavan Tolgoi megaprojects to move out of limbo. ■

Investment to increase in the near future?

Investment predictions for 2015

Investment	USD billions	Term by year	Start date	Available in 2015 (by USD)
Oyu Tolgoi	5.40	4.00	Second half of 2015	0.3-0.7 billion
Tavan tolgoi	4.00	3.00	First half of 2015	0.1-0.3 billion
106 licenses	1.00	1.00	2015	0.1 billion
Unconventional oil	Cannot be determined yet. But might be of large amounts	-	2015	Uncertain at the moment
Exploration licenses	Cannot be determined yet	-	2015	Uncertain at the moment
Prediction for 2015, based on previous years data				0.5 billion
Mentioned above projects investment				0.5-1.1 billion
TOTAL INVESTMENT FORECAST				1-1.6 billion

Source: According to experts

