

➤ COAL MONGOLIA 2018

➤ DISCOVER MONGOLIA FORUM 2018

➤ WRESTLING PALACE

V PAGE

*Jargalsaikhan Dambadarjaa,*  
*Mongolian political and economic observer, columnist*

# *A crisis of* **TRUST**

II PAGE

# The DeFacto Gazette

INFORMING | INSPIRING | EMPOWERING

Tuesday, 2018.09.11 №62

A WEEKLY INDEPENDENT, NONPARTISAN, ANALYTICAL NEWSPAPER COVERING THE POLITICS  
AND ECONOMICS OF MONGOLIA-IN ENGLISH, JAPANESE, AND MONGOLIAN

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№ 446

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# *A crisis of* **TRUST**

Today Mongolia is not only facing an economic crisis but also a crisis of trust.

The people have become used to going through economic crises and declines – seeing the tugrug weaken, prices rise, the public budget run larger deficits, and government officials borrow from abroad using the names of khans from the past. What usually happens next is that the government drowns in debt from those loans and eventually comes close to not even being able to make the interest payments. This where the International Monetary Fund (IMF) steps in with soft loans, allowing the city to survive the winter. Then comes the pathetic moment of politicians positioning the loans as a feat they have accomplished. When the prices of copper and coal go up in the cycle, the government starts raising the salaries of public servants with the additional revenue. As the private

sector cannot do the same, the workforce often prefers to go abroad to work, especially in Korea.

“ *Lately we have been strongly feeling the waves of another crisis – a crisis in trust.* ”

Experts consider that the development of a country depends on how much trust people put in their government, the private sector, media, and non-governmental organizations.

Mongolians increasingly have less trust in government organizations. The human resources of our government organizations are basically solely made up of members and supporters of either the Democratic Party or the Mongolian People's Party, who have been in power one after another almost for the last 30 years. The reality can be seen from these new, specific examples.

## **WHO IS TELLING THE TRUTH? IAAC OR MINISTER OF ENVIRONMENT AND TOURISM?**

The Independent Authority Against Corruption (IAAC) issued a statement on 27 August 2018, saying 'Two hundred million tugrugs were budgeted for renovations at the Ministry of Environment and Tourism building and supplying conference hall equipment. Part of this money may have been transferred to a company named Erdenezul and turned into cash using different cost accounts, including books and leaflets. Also, the renovation work may then have been completed by another company connected to the Minister of Environment and Tourism.'

N. Tserenbat, Minister of Environment and Tourism, responded on 30 August, saying 'I've seen what the IAAC

said. Their formal statement said that the renovation work may have been done by a company connected to the minister. I would like to formally say on the record that none of the 26 companies I included in my income statement were connected to any of these works.'

“ *What it tells us is that the IAAC uses language such as 'may have been' to accuse someone while the minister claims that it is false, politicized news because none of his 26 companies are connected to the case. This prompts us to sternly pose the question 'Who is telling the truth? A government institution or a government minister?'* ”

## ▶ WHO IS TELLING THE TRUTH? MEMBER OF PARLIAMENT OR THE COMPANY?

On 30 August, MP Enkhbold Luvsan made the following statements:

- It has been proven that 268,300 tonnes of coal was stolen from the wealth of the Mongolian people. A working group led by Finance Minister Ch. Khurelbaatar examined this case... 390,000 tonnes of coal was mined from the Tavantolgoi deposit and had no documentation at the General Customs Authority... It was decided that the case to be referred to law enforcement.
- The General Authority of Border Protection reported that a total of 849,121 trucks crossed the Mongolian border in 2013-2017, while this number stood at 814,000 by the calculations of the General Customs Authority. So there is a difference of 35,000 trucks... If the trucks were transporting coal, the amount in question may be around 3 million tonnes.
- The General Authority of State Inspection has concluded that 340,000 tonnes of coal were lost from Erdenes Tavan Tolgoi... This equals 25 million USD (60 billion MNT) in value. You could build 25-30 schools with a capacity of 1,000 students (schools for 60,000 children with two shifts) with those funds.
- ...Tavantolgoi Trans Company took 390,000 tonnes of coal across the border without any financial documentation as to where the coal was sourced.
- When you want to investigate, Tavantolgoi Trans Company claims that their documents were lost during a flood. The locally owned Tavantolgoi Company has not had a mine plan for six years and has never had a detailed environmental management plan approved. Didn't the minerals

authority notice this? What have the Ministry of Environment and Tourism and other organizations that are supposed to do the checks been doing?

To sum up, what MP Enkhbold is saying is that the Mongolian government is failing to do its job properly and has basically gone bankrupt, allowing companies to choose and mine coal from anywhere and take 360,000 tonnes of coal abroad without even putting their name on an official paper. The difference between the number of trucks calculated by the customs and the border protection authority stands at 35,000, not 35. The conveyed meaning is that anything can be carried across the border. Therefore, trust in government institutions has fallen to the floor.

On 3 September 2018, Tavantolgoi Trans Company, which is a subsidiary of Ajnai Corporation, released a statement saying 'MP Enkhbold has made serious allegations around 390,000 tonnes of coal being taken across the border without documentation and proof being found that coal was stolen... The honorable lawmaker has forfeited the basic principle of law – anyone is innocent until proven guilty in court.' The locally-owned Tavantolgoi Company is 51 per cent owned by Umnugovi aimag, 20 per cent by Ajnai Corporation, and the rest by the public.

“ *The statement released by the company did not comment on whether the coal in question crossed the border or not, but only said that the truth will be found in court. If they actually did carry coal across the border illegally, the trust in businesses would further weaken among the people. It is impossible to tell who is telling the truth – the MP or the company.* ” ▶▶

► **REFLECTION**

The weakest of our three branches of government is the judiciary. The Mongolian court is still failing to find the truth in dozens of sensational cases of corruption. Some get detained, and the coverage is loud. But then all cases become forgotten after some time. Mongolia's judiciary has turned into a performance theater, where law enforcement agencies play different roles in different cases, having abandoned their primary duties.

This is why the trust people put in the government is at crisis level. Today the legislative, executive, and judicial branches of our government are completely and thoroughly allocated to different political and business groups.

“ *The Mongolian state today is not able to establish the truth in both cases above. They cannot even provide a coherent, accurate update.* ”

The crisis of trust has not suddenly formed today. It is the sustained consequence of government entering a corruption network, with land and natural wealth

stolen under the name of political parties, and a lack of accountability when public property has been stolen over the years.

Civil participation is critical in improving the trust in government. In a democracy, people must be able to participate in free elections, but also provide oversight on their elected representatives. Civil society needs to move from quantity to quality, and, in order to do so, every person needs to demand transparency and accountability from the government. There is no other choice.

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## COAL MONGOLIA 2018

*The 8th annual Coal Mongolia conference was held last week at Shangri-la Hotel.*

**Presenter:** Could you elaborate on some of the topics discussed during this conference?

**Defacto:** Well, this is an annual conference where all stakeholders – government, foreign investors, local communities – discuss about the issues facing the industry. This year, the main themes of the conferences were more about transportation and logistics of the mining industry than business. We have lost about 10 billion USD over the years due to the incomplete railroad from Erdenes Tavan Tolgoi to the border. Also, another focus of the conference was improving the competitiveness of Mongolian coal.

A different feature at this year's conference was that it was jointly organized with the Chinese coal market research company, Fenwei Energy Information Services, with main speakers like Mr. Yang Xianfeng, General Director of the Economic Operation Department and President of China Coal Transportation and Distribution Association. Mr. Xianfeng spoke about some of the challenges the Chinese coal industry is facing today such as changes in consumption patterns.

Another topic discussed was about the impending IPO of 34 percent of Erdenes Tavan Tolgoi and repayment of all their debts. Furthermore, Russia is becoming a big player in supplying coal to China. Exporter to China are Australia, Mongolia, and used to be Canada (now being replaced by Russia) in terms of volume.

**Presenter:** Were there any discussions about infrastructure?

**Defacto:** Some positive news was that they will definitely make a parallel auto road to the border in order to assist in relieving the traffic congestion. This road will require an investment of 360 million USD, based on PPP. Two companies have already been selected for this project, one of which is a Chinese road construction company who has already made the new road to the airport and the other company



is a Mongolian company called Dardangobi. As for the railway, they are still planning on completing it; however, there is no secure financing for it. They are expecting the IPO of shares of Erdenes Tavan Tolgoi to raise some funds. A third topic is the railway construction by Erdenes Tavan Tolgoi from Zuunbayan to Bugat, a 360 or so kilometer railway, as well as the construction of an auto road.

**Presenter:** What are your thoughts about the coal industry within the short and long-term?

**Defacto:** In the short-term, we have to go ahead with the construction of the roads and extension of the border ports. The extension will allow us to export 50 million tonnes of coking coal in the near future, which is currently at a level of 30 million tonnes. As for thermal coal, more power stations need to be built to generate more electricity.

As for the 34 percent of Erdenes Tavan Tolgoi which will be traded on domestic and international exchange market will happen; however, an issue to consider is potential political instability with the upcoming elections which could change the government power.

**Presenter:** What should be the government's priority in improving the competitiveness of this sector?

**Defacto:** It's an issue of political stability, legal

environment for business, taxes, licensing, and transparency. One of the current issues is the differing gauges of railway, Russian gauges are wider than Chinese ones, which hinders Mongolia's ability to be the middleman between the two countries. If Mongolia could serve as a logistic bridge between the two countries, it would greatly benefit Mongolia.

Another way to increase our competitiveness is to further development the coal washing plants, which will allow us to produce and export higher qualities of coking coal. And most importantly, we should not politicize mineral related business as political parties in power are ever evolving.

## DISCOVER MONGOLIA FORUM 2018

*Another forum which occurred this past week, right after Coal Mongolia, was the 16th Discover Mongolia Forum.*



**Presenter:** What were some highlights from this forum? And what was the key message the government was trying to send to foreign investors?

**Defacto:** Both of these conferences were related to the mining sector. This event is important because not only is it a meeting between the government and mining companies but it also includes all foreign stock exchange-listed companies who are working in Mongolia. This allows for an exchange of information about Mongolia to ordinary investors in the west who many have invested their pension into these stocks. Thus, during the forum, a lot of discussions were about what needs to be improved.

Minister of Mining, Mr. Sumiyabazar, gave the opening remarks at the forum. During his remarks, he provided the latest statistics about the industry. The mining sector, at the end of 2017, made up 94 percent of our exports, 74 percent of industrial products 22 percent of GDP and 72 percent of foreign direct investment. He remarked that without

the mining industry, Mongolia's current situation and wealth would not be where it is now. And during the seven months of this year, 26 million tonnes of coal were exported [continued...]

**Presenter:** What are the advantages and disadvantages of the two conferences being held within the same week?

**Defacto:** An advantage would be if the two conferences were combined together so it's cheaper and more accessible. I understand that the two tried to organize it jointly; however, as Coal Mongolia had already agreed to partner with the Chinese Coal Industry Association, it was unable to do so. Hopefully, these two events will be combined into one next year.

**Presenter:** Will the competitiveness of the coal market increase with the establishment of a commodities exchange?

**Defacto:** Well, the establishment of a commodities exchange has been discussed for quite some time. In 2014, there was a mining policy which was approved by parliament and in there is a provision about creating a commodities exchange. They even discussed the law about a commodity exchange 2 years ago; however, they decided not to submit to the Parliament because there is currently an agricultural exchange, which has not been working as well as expected. There are also some provisions that need to be changed in our securities law so until these issues are solved, they've decided to wait until 2020. Commodity exchanges can be successful in countries where the infrastructure is well developed and futures are secure.

## WRESTLING PALACE

*President of Mongolia, Mr. Battulga, sent an official letter to the Prime Minister on Thursday proposing to transfer the Wrestling Palace to the state.*



**Presenter:** Could you elaborate more on this dispute?

**Defacto:** Well this is a very long story, which has been continuing on for the last 10 years. One association had been raising funds and borrowed money from the government, the people, and companies to complete construction of this Wrestling Palace. And another association started a dispute over who should have ownership of the Palace which eventually lead to legal actions. The courts granted the ownership to the second group, which lead to appeals over legality and so on. This dispute eventually led to the

involvement of the President, who was previously an Olympic wrestler. He plays an important role within the government but also in the history of Mongolian wrestling.

The President sent a letter to the Prime Minister proposing to transfer the ownership of the Wrestling Palace to the state. This was an interesting turn of events. What is the role of the state? The role of the state is to protect all these properties. I think the best way to resolve this issue is to turn the company which owns this Palace into a stock exchange listed company, a public company. [continued...]

*This review has been edited here for space and clarity. You can watch the full 30-minute review on the Defacto website [\[HERE\]](#).*



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✉ editor1@jargaldefacto.com  
☎ +976 94109342  
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