

# The Defacto Gazette

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WEEKLY



DeFacto **ARTICLE**

№506

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## Path to GASOLINE INDEPENDENCY

DeFacto **REVIEW**

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## Path to GASOLINE INDEPENDENCY

For generations, Mongolia has been depending on Russian fuel and gasoline. As a country develops, the number of vehicles and equipment go up, and thereby, we are burning USD 1,5 billion at this moment which is one-fourth of revenues derived from foreign exchange. In 2015, the commodity price was set in accordance with the Singaporean market price in the contract with Russia, but until then, we had no choice but to pay the price Russia demands. The five-year contract has reached its maturity date; thus the contract extension will be reviewed in the following month. Gasoline is bought in dollars but sold in tugriks, which in return sways exchange rates, trade balance, raises the price of consumer goods and increases inflation rates.

Mongolians have been calling attention to oil refineries in order to become independent from Russian gasoline. The discussions over gasoline were further fueled by the discovery of natural oil reserves in the Dornod province. Narendra Modi, the Prime Minister of India, officially visited Mongolia in May 2015. Subsequently, India began providing discount loans amounting to USD 1 billion for the Mongolian economic development. The government of Mongolia made the decision to use the loan for building an oil refinery in February 2017. ➤➤





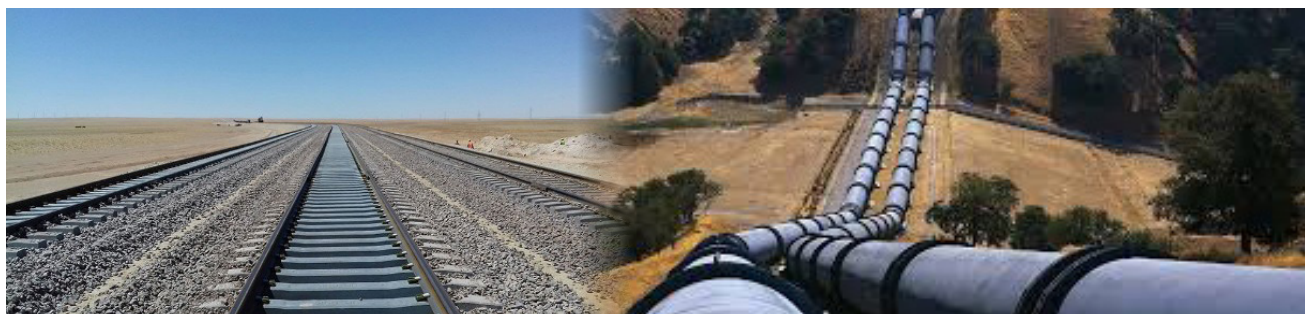
► Under consideration of several factors, such as the distance between supplier and buyer of gasoline, the plan is to build the oil refinery in the Altanshiree soum district which is located 18 km northeast of the capital of Dornogovi province Sainshand. This plant is expected to meet the domestic demand by producing in total 1.35 million tons of products: 43,000 tons of liquefied petroleum gas, 340,000 tons of gasoline, 824,000 tons of diesel fuel, 80,000 tons of jet fuel, and 47,000 tons of fuel oil. The crude oil will be transported from Toson Uul XIX and Tamsag XXI blocks in Dornod province.

## PROJECT STATUS UPDATE

An agency that is responsible for the state-owned oil refinery project was established in April 2017 ([www.mongolrefinery.mn](http://www.mongolrefinery.mn)). The agency selected a well-established "Engineers India Limited" ([www.engineersindia.com](http://www.engineersindia.com)) as a project management consultant to carry out a "Detailed Feasibility Study" in August 2017. Moreover, the project was initiated soon after the Italian company "Kinetics Technology" was chosen as an external auditor. The detailed "Feasibility Study" was completed and approved by the Mineral Resource's Professional Council of the Ministry of Mining and Heavy Industry in November 2018. From May 2019, they began developing an engineering design for the project.

By November 2019, an infrastructure around the oil refinery was built using the loan amounting to 246 billion tugriks from the Development Bank of Mongolia. Precisely, 17.5 km truck road from Sainshand, 27 km railroad, and 110 kWh electricity transmission lines were built. Currently, 1,5 square km of land is being flattened for the oil refinery, the fences are being installed, and the staff dormitory for 550 households are being built in Sainshand. The sewer pipes will be installed by the following spring. This massive industrial complex includes processing units, storage tanks, facilities for transporting crude oil, and power plants as well.



**TRANSPORTATION**

The issue that needs to be addressed immediately is the transportation of crude oil at distances longer than 550 km. The opinion of our authorities is divided between building railroads and installing a pipeline.

The proponents of the railroad construction pointed out the advantage of building a railroad considering Mongolia's intention to gain sea access through Russia. According to the supporters a solution will require several hundred millions of dollars and, in contrast to a pipeline, a railroad should and can be utilized to carry various types of commodities. On the contrary, the opponents argue with the speed and safety of a pipeline and its guarantee for an uninterrupted transmission of crude oil. A pipeline is the best and the most commonly method because the cost of pipeline construction is three times cheaper, requires less time, and solely used to transport crude oil.

The crude oil from Tamsag is relatively light (0.845 g/cm<sup>3</sup>), contains lower sulfuric acid (0.11 %), and has a lower fatty acid composition (TAN:0.052 mg KOH/g).

Thus, these characteristics could reduce the cost of construction materials for the facilities. However, the paraffin hydrocarbon intensity of crude oil is quite high, which means it freezes at or below 24 degrees, and hence requires either a tank car equipped with a heating system or pipelines with constant electrical heating.

Building facilities for the loading and discharge of 80 tank cars simultaneously is extremely costly. Companies, that have substantial experience in installing oil pipelines with electrical heating, are willing to self-finance an installation, operation, and to hand over the pipelines. According to the Detailed Feasibility Study, a pipeline installation requires approximately USD 350 million, and takes 2 to 3 years to build. On the other hand, a railroad construction requires USD 660 million, but the term is uncertain. With regard to transportation costs, the pipeline costs USD 7 per tons, but for the railroad it costs twice as much. The government needs to turn on the heat if they plan to complete the oil refinery construction by November 2024 and expect the manufacturing process to catch up within 6 months.

**OIL RESERVES**

The next issue which is repeatedly asked by the public is whether current oil reserves can meet the demand of the new oil refinery. As registered in the Mineral resource database, only Toson-Uul XIX and Tamsag-XXI blocks together had oil reserves of 332.6 million tons but with guaranteed reserves of 43.2 million tons in 2010. Currently, 8.2 million tons of oil are being extracted, but there is a big room for increasing reserves. A month ago, an oil reserve was discovered in Matad XX block, and in a preliminary stage, it is estimated to have 25 million tons of oil. An oil exploration needs to be intensified and expanded, but we are facing an energy and workforce shortage. Furthermore, natural resource exploration or extraction is halted due to serious objections of municipalities and locals.

Nowadays, under the separation agreement, the Chinese companies are extracting crude oil, and one

forth of oil sales belongs to the government of Mongolia. In addition, *the clause 7.1.6 of the Law of Mongolia on Petroleum stipulates* "in the event that a petroleum refinery is installed within the territory of Mongolia, enjoying the right to preemptively purchase at the market price the petroleum allotted to the contractor and the cost oil". In other words, a contractor bears an obligation to supply the petroleum allotted to him or her first to domestic oil refineries at the market price. Public authorities consider that Mongolia has the necessary legal environment for supplying crude oil to oil refineries.

Nevertheless, Mongolia has stepped on a path to gasoline independency. There is no turning back.

2019.11.28





## DeFacto **REVIEW**

Every Sunday live at 7pm on MNB World television: 1st December, 2019  
For weekly reviews, visit <http://jargaldefacto.com/category/12?lang=en>

**Host:**  
Namsrai Tsend

**Commentator:**  
Jargal Dambadarjaa

## MONGOLIAN ELECTORAL SYSTEM

The Democratic Party suggested a mixed electoral system during discussions on Constitutional amendments but the suggestion failed to garner support. A parliamentary working group led by MP Enkh-Amgalan stated its intention to look into electoral reform. Mongolia has developed an unfortunate tendency of changing the election law prior to every election. The same process took place prior to the last election to Parliament in 2015. Of the seven general elections organized in Mongolia, four took place under the majoritarian system, two under the larger majoritarian system with 26 constituencies sending approximately 3 members to Parliament and one under the mixed voting system.

Under the majoritarian system the individual with the most votes wins the election with remaining votes being disregarded. The proportional system on the other hand sees people vote for parties with them receiving the same proportion of seats in Parliament as its share of the vote. The MPs would then be selected according to a pre-determined list each party produces prior to the election. The mixed system appropriates a certain amount of seats through the majoritarian system and the remaining seats through the proportional system.

During the consultations on Constitutional amendments, the main point where the Mongolian People's Party (MPP) and the Democratic party diverged was the electoral system with the Democrats insisting on engraining a mixed system in the constitution and the MPP remaining steadfast in their refusal. This irreconcilable difference would see the Democrats eventually pull out of the process leading to the amendments being approved single-handedly by the MPP.

The working group headed by Mr. Enkh-Amgalan will most likely present its findings to Parliament next week and all indications suggest that they will pass comfortably. This would result in an electoral system whereby 50 seats are appropriated through the majoritarian system and the remaining 26 through a proportional system whereby



parties place members on the ballot to serve as proxies. Therefore, if the candidate receives 30% of the vote, the party will receive 30% of the 26 votes. The working group also hinted at potential regulations to be placed on social media and I am not sure how they will implement this. Hopefully, if implemented, the regulations would only concern the couple of days directly preceding the election.

Under a mixed system, a portion of the seats in Parliament would be appropriated through a party list, forcing political parties to serve as institutions. However, Mongolian parties don't operate with the transparency required for them to be considered as institutions. In some instances, party members, let alone the ordinary citizens are unaware of the source of their party financing. I would not be surprised if the head of a party, the only individual privy to accurate information on party financing themselves gets confused as to which money is their money and which money belongs to the party.

.....  
**As the election system was not added to the constitution, the ruling party will always change the electoral system prior to the election in a manner that gives them the best chance to retain their majority. I don't foresee this system changing for at least another decade.**  
.....

The Parliament approved a draft legislation on child allowance with 65% of the vote at its plenary session on November 28th. This legislation covers the allocation of 20,000 MNT to children under 18 whose parents or guardian apply for the allowance. About 80% of the 1 million children under 18 received a government allowance this year and the government added another 20 billion MNT from the budget for child allowances for 2020 in an attempt to encompass the remaining 20% of children.

It is the opinion of the government that it is contributing to the future generation of Mongolians through this allowance but it is hard to escape the fact that money is something that needs to be earned. If money is not earned through the creation of value, it loses its significance. For example, the US began introducing various subsidies and social care programs following the end of the WWII with the efforts being reinvigorated in the 70s. If 85% of the working age population was employed prior to the introduction of these measures, only 50-60% of Americans currently work. There are several generations of people who have never worked and are solely dependent on government assistance. It is possible that these consequences may manifest itself in Mongolia as a result of giving an allowance to every child.

Politicians claim that these allowances are an essential measure for supporting human development. However, the creation of more kindergartens and schools would be a much more effective for supporting human development. There are many schools that operate three shifts, chronic shortages of seats in classrooms and 20% of Mongolian children are not enrolled in pre-school education. Another pressing issue is the dire need to increase the salaries of instructors, especially primary school educators as interaction with students at this stage is essential to instilling values and developing their sense of identity.

Moreover, it is worth noting that on days when



the allowance is allocated, sales of alcohol, reports of domestic abuse and individuals sent to drunk tanks significantly increase. The fact that the policy is implemented in the immediate proximity of the election suggests that it is little more than a dysfunctional form of campaigning. The inherent irony in this, of course lies in the fact that the money that politicians are handing out belong to the public in the first place.

Voter education on taxes and public money is pivotal to putting an end to this debauchery. It is also a matter of raising the living standards as 30% of the country currently lives under the national poverty line. Developing the economy will allow those that are working for a living to enhance the quality of their lives.

**The 20,000 MNT in of itself makes little impact towards the development of a child as it is less than 10 USD. On the other hand, if the money was collectively utilized towards the establishment of kindergartens for example, it will provide a significant impact on child development. It can also be utilized to decrease poverty and to stimulate economic development. The poverty level in the country and its prevailing culture have created an environment whereby individuals fail to appreciate investment of public money in various projects and would rather receive a handout from the government. Ultimately, this creates complacency and diminishes the capacity to rely on oneself as well as the willingness to work.**

## DYSFUNCTIONAL MEDICAL SYSTEM

The Pharmaceutical Association announced that 170 medicinal drugs in the updated list of subsidized medicines shall no longer be available in pharmacies. The issue arose from the fact that the updated list of drugs to be subsidized by the medical insurance were released last week. This list significantly differed from its previous version, creating a significant conflict between Monos and Monfa, the two largest pharmaceutical companies in Mongolia.

This raises the question of who should set prices for medicine as currently, the Mongolian medical insurance owned by the Ministry of Health sets the price. This creates the situation whereby the provider of medical services sets the price for medicine while the standard across the world is for producers to set prices affordable to the public. If the prices



are to be set by the fund, it should be independent from the Ministry of Health which is not currently the case.

An interesting aspect in Mongolia is that pharmacies are run by pharmaceutical companies which defies all logic. Pharmacies are meant to compete against each other following the purchase of medicine from manufacturers but this is not the case in Mongolia. 20% of Mongolia's healthcare budget originates from medical insurance, 40% from the state budget and the remaining 40% from patients. This places a significant financial burden on the individual, increasing the risk of entire families going destitute due to medical expenses.

**While the percentage of the budget originating from medical insurance should undoubtedly be higher, only half of the working age population in Mongolia is employed while the number is 60% in Russia and 86% in China. Therefore, half of Mongolians pay for the medical insurance of the unemployed half. This is not a sustainable system and we first need to distance the medical insurance from the service providers, the Ministry. It should then be professionally managed on behalf of those who make contributions to the fund.**

Mongolia has public and private medical facilities with larger ones belonging to the state with smaller full service private establishments also existing. Both are covered under the social insurance system but not everyone receives the benefits that they are meant to receive. Moreover, state facilities are marred by inefficient management with the budget being widely

misused. Therefore, Mongolia is a poor country with minimal resources but we are also utilizing those resources ineffectively. There are large reforms that need to take place from the management of state hospitals to ensuring that the medical insurance system is independently administered to ensure that the money is appropriately utilized.

In 2014, there were 32 pharmaceutical companies manufacturing medicine in Mongolia with 1,300 different drugs and pills being imported from 120 countries through a questionable system. The lack of market regulation and the presence of an oligopoly leads to extortionate prices that the public have trouble affording. In theory, someone can buy a packet of pills for 20 USD in the US and sell them individually for 200 USD. The lack of regulatory oversight and a reluctance from the industry to establish an independent oversight system allows for this situation to be perpetuated. Close ties to officials within the Ministry of Health allows for those companies to operate without impunity and doctors often receive a kickback for prescribing certain medicine or simply prescribe medicine their company imports.

Therefore, there is a dire need for an independent consumer interest organization to ensure that the market is operating properly. However, it is not only about taking care of oneself after they become sick but the country should have a system for preventing people from getting sick. Affordable gyms and an understanding of the importance of taking care of oneself is essential. Moreover, accurate information campaigns are vital.

*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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