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A WEEKLY GLOBAL, NATIONAL, INDEPENDENT, ANALYTICAL NEWSPAPER COVERING THE POLITICS AND ECONOMICS OF MONGOLIA
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WEEKLY



DeFacto **ARTICLE**

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COUNTLESS OPPORTUNITIES AT BUYANT UKHAA

DeFacto **REVIEW**

➤ PRIME MINISTER'S VISIT TO THE RUSSIAN FEDERATION

A delegation of Mongolian officials and representatives of the private sector paid an official visit to the Russian Federation. This marks the first official visit of a Mongolian Prime Minister to Russia since Su.Batbold's visit in 2010. In turn, this visit reinforces the strategic comprehensive partnership that Mongolia entered into with Russia during the visit of President Putin to Mongolia. It was the intention of the visit to establish closer economic ties between our two countries.

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COUNTLESS OPPORTUNITIES AT **BUYANT UKHAA**



Mongolians haven't been paying adequate attention to an important business opportunity that is not dependent on commodity prices or permits from neighboring countries, has much less environmental implications, creates hundreds of jobs, attracts tens of millions of dollars' investment, and diversifies the economy.

The Buyant Ukhua airport has an opportunity to generate even more revenue than the mining industry if it successfully expands its operations in a disciplined way, ensuring its workforce is well prepared and relevant standards and regulations are complied with. This business opportunity is aircraft maintenance. Even though Mongolians have been in this business for many years and have recently entered the international market, we aren't seeing the bigger picture and have neither set out a long term vision nor paid enough attention. Also, this business hasn't been allowed enough freedom.

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However, as our international aviation services are going to be moved to the new airport at Khushig, a historic opportunity has come up for the aircraft maintenance business.
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As the aviation industry grows at an aggressive pace globally and in the Asia-Pacific, there is increasingly a strong demand for all types of maintenance work for aircrafts. This means Mongolia now has a rare opportunity to take good advantage of our geographical location and vast territory.



MAINTAINING AN AIRCRAFT COSTS MORE THAN BUYING ONE

► The International Monetary Fund projects that global economic growth will be at an annual 2.8 percent in the long term. Randy Tinseth, Vice President at Boeing, suggests that the global passenger traffic will increase by an annual average of 4.7 percent, and freight turnover by 2 percent over the next twenty years. He also commented that there are about 24,000 aircraft in the global aviation industry today, and 18,500 of them are likely to be replaced over the next 20 years with 42,700 brand new ones expected to come in as well. It is expected that the new aircraft will cost 6.3 trillion USD while their maintenance costs will be at around 8.8 trillion USD. The fastest growth is expected in the Asia-Pacific, with China and India topping the list.

Over time, the purchase price of an aircraft is dwarfed by maintenance

costs. Internationally, the supply for flight crews and maintenance capability has always struggled to keep up with demand, creating a shortage in the market.

THE INTERNATIONAL AIR TRANSPORT ASSOCIATION (IATA) HAS DETERMINED THAT 10-15 PERCENT OF THE OPERATIONAL COSTS OF INTERNATIONAL AVIATION COMPANIES GO TO MAINTENANCE. IN 2015 ALONE, THE ASIA-PACIFIC COUNTRIES SPENT 18 BILLION USD ON MAINTENANCE, AND THIS IS EXPECTED TO INCREASE BY 71 PERCENT IN THE REGION IN 2015-2025, AND BY 93 PERCENT IN CHINA.

The Asia-Pacific region has several maintenance hubs in Taiwan, Shanghai, Singapore, Indonesia, the Philippines, Malaysia, Vietnam, and Thailand. Aviation companies with big fleets such as Korean Air and Asiana Air usually have their own maintenance units while companies that offer low cost, budget aviation services such as Easter Jet, Jeju air, T'Way, and Air Asia outsource

maintenance units from third parties. Globally, 45 percent of aviation companies are outsourcing their aircraft overhaul services.

In order to be able to fly, aircraft must undergo frequent inspections, maintenance, and repair work (A-check happens every 45-70 days, C-check every 24 months, and D-check every 5-10 years). These services, including MRO maintenance, repair, and overhaul, are provided by a maintenance unit that meets all relevant requirements and certified by manufacturers.

NOT TOO LATE TO SEIZE THE OPPORTUNITY

Aircraft maintenance services have been provided in Mongolia for many years. MIAT's aircraft maintenance unit provides inspection, maintenance, and repair services to their Boeing B737 and B767 aircraft. This unit currently has a team of 170 engineers and technicians, who have been in charge of technical services and maintenance work for all aircraft that were ever used in Mongolia. Since 2005, this team has implemented the international ISO 9001:2008 standard, having been certified in safety and technical services by countries such as the European Union, South Korea, Thailand, and Turkey.

Mongolia's aircraft maintenance unit works in two hangars that comprise 3,600 and 2,000 square meters, and provides daily maintenance services

as well as complete overhaul. There are 14 workstations equipped with modern technology and toolsets. Given it is already approved by Boeing, this unit has been providing maintenance services not only to MIAT's aircraft but also aircraft that belong to international companies.

SO FAR, OUR MAINTENANCE UNIT HAS WORKED WITH NINE COMPANIES (INCLUDING THAILAND'S ORIENT THAI, JET ASIA AIRWAYS, AND ASIAN ATLANTIC AIRWAYS, SOUTH KOREA'S EASTAR JET, JEJU AIR, AND T'WAY, RUSSIA'S UT AIR AND ALROSA AIR, AND BLUE STAR AVIATION FROM THE UNITED STATES) FROM FOUR COUNTRIES AND COMPLETED HEAVY MAINTENANCE SERVICES ON FIVE B737 AND B767 AIRCRAFT AS OF 2017. A REVENUE OF 11

BILLION MNT WAS GENERATED FROM MAINTENANCE SERVICES IN 2017 ALONE.

.....

The target market of our maintenance unit comprises aviation companies who reside in locations within three hours flying time from Mongolia and who currently outsource their maintenance services. If you look at this customized region, there are about 258 of the same two Boeing aircraft, and the overall fleet size is increasing by 4-5 percent every year. The relatively low cost offered by our engineers and technicians positions us favorably in the market and gives us a competitive edge. The team is now working to acquire certification for maintenance and repair works for Airbus aircraft.

SMART STEP FORWARD

We have opportunity to develop aircraft maintenance services into a major export industry. The first step is to build on our existing capabilities, provide more freedom to operate, and encourage turning the business into a public company going forward. In order to diversify their economy, Chile, which was overly dependent on mining, first made state investments in fruits, wine, meat, fishing, and forestry, and then carried out the task of making those companies public. These experiences have been widely studied by most of the Mongolian authorities who visited there.

We need to pursue a policy aimed at building a new hangar at the Khushig Valley airport and add several to Buyant Ukhua, so that hangars can be allocated to specific aircraft models. In order to expand our capability, our top priority should be to provide services to Airbus aircraft, especially the A320 model, which would grow our market threefold. Also, we need to seek certification from China and the United States.

To offer comprehensive maintenance services, several approvals are needed, including Production Manufacturing Approval and Design Organization Approval. This also

means there needs to be a permanent team who looks after the non-technical side of things such as improving revenue streams, introducing new technologies, undertaking research and development activities, and carrying out economic valuations.

Therefore, the government needs to build on our existing aircraft maintenance capabilities, provide policy support, make plenty of investment into Buyant Ukhua, keep the existing infrastructure at the Chinggis Khaan airport and turn it into a proper maintenance complex. Also, there are countless other opportunities in creating a training center for pilots, engineers, and technicians, and assembling aircrafts.

If we develop Buyant Ukhua airport into a diverse complex (as in an industrial park), there is a bright future ahead as it could become a highly competitive industry that can generate annual sales of 50 million USD and create over 1,000 specialized jobs.

When trying to diversify the economy, building on existing capability yields better results than starting from scratch.

2018.08.01

COUNTLESS OPPORTUNITIES AT **BUYANT UKHAA II**



In my column titled '*Countless opportunities at Buyant Ukhua*' last week, I used aircraft maintenance services as an example of many opportunities opened up at the Buyant Ukhua airport as a new airport comes close to being commissioned in the Khushig Valley. This time I would like to elaborate on other opportunities.

Three years ago, a total of 20 billion MNT was invested into the Chinggis Khaan international airport (Buyant-Ukhua) as part of preparations for the Asia-Europe Meeting (ASEM). This investment went to building a transit hall, constructing nine aprons, expanding the total area, and reinforcing 500 metres of paved tarmac.



- **THE TOTAL VALUE OF THE BUYANT UKHAA AIRPORT STANDS AT NEARLY 300 MILLION USD (~750 BILLION MNT) TODAY. SO THIS CAPITAL MUST PRODUCE RETURNS.**

There is an opportunity to retain some of the civil aviation services and the existing infrastructure at the Buyant Ukhua airport, and work proactively to meet emerging demands. However, if we don't put some urgency into deciding what those services are going to be, the total cost of maintaining 480 hectares of facilities with all its infrastructure (heating, water, sewage...etc) would most definitely come from the

100 million USD centralised to the public budget each year from navigation services.

Besides aircraft maintenance, the Buyant Ukhua airport can be used for more general aviation purposes, as a facility where an aviation school could be based and as a place to assemble small aircraft. If we get organised without wasting time and implement it with a determined vision, we would be able to increase the revenue from the aviation industry. It can take the form of a state-owned company initially, but to be turned public later on.

OPPORTUNITY AROUND GENERAL AVIATION

Civil aviation has two major categories, one of which is scheduled air transport that includes all passenger and cargo flights operating on scheduled routes, and the other is general aviation. Mongolia can centralize scheduled passenger and cargo flights at the Khushig Valley, and general aviation at Buyant-Ukhua.

We are seeing increasing demand for general aviation, including small aircraft flights and helicopter charter services for various reasons such as agricultural and construction surveying, photography, weather and meteorological research, medical and rescue missions, advertisements, aviation sports and training, and even leisure.

In 2017, mining charter flights to Oyu Tolgoi and Ovoot had a total of 216,000 passengers, which doubled the number of total passengers on local flights. However, the availability is smaller for flights that provide medical emergency support or immediate protection of the environment. It also goes without saying that the Mongolian military and law enforcement would always need aircraft and an airport.

Furthermore, we are currently unable to meet the demand for private and commercial flights, let alone, tourism and air taxis.



It is time to acknowledge that people are becoming increasingly interested in the private use of aircraft, hence the demand is growing. The most sensible location to keep such aircraft and fly them close to the capital city is Buyant Ukhua. So we need to urgently determine standards and requirements for private aircraft and helicopters, develop relevant regulations, and install the required navigational systems that allows communication and tracking for short-distance flights.

AVIATION TRAINING CENTER

- **THE INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO) ESTIMATED THAT THERE WAS A TOTAL OF 62,000 NON-MILITARY AIRCRAFT GLOBALLY IN 2010, AND THE NUMBER WOULD GROW TO 152,000 BY 2030.**

What this means is that the growth will need to be fed by approximately 2 million aviation jobs, including pilots and maintenance workers. The existing training facilities are struggling to keep up with the ever increasing demand that continues growing year by year.

Forty-percent of this demand is accounted for by the Asia-Pacific region. By 2020, China's general aviation fleet is expected to increase to 5,000 with 500 airports newly built. This would take their general aviation flight hours to 1.75 million. China is also dramatically increasing the production of smaller aircraft.

When it comes to aviation training, Mongolia has a geographical advantage where there is a clear sky for two thirds of the year and nearly all flying conditions can be

simulated in between four seasons.

THEREFORE, WE HAVE BOTH THE OPPORTUNITY AND THE DEMAND FOR SETTING UP AN AVIATION TRAINING CENTER WHERE PILOTS FROM OUR NEIGHBORING COUNTRIES COULD COME AND PRACTICE.

China's Ministry of Defence controls its airspace and provides a permit for every single civil flight, which makes it complicated to do training flights. So there is some interest in developing a pilot training school in Mongolia. It is said that, even though China needs to prepare thousands of pilots, they struggle to get the visas to the United Kingdom and the United States for training purposes.

Mongolia is also seeing an increased demand for civil aviation workers. We train our professionals both in-country and abroad. In the last six years, the Civil Aviation Authority of Mongolia spent 1.7 million USD sending 56

aviation trainees to countries such as the United States, Canada, Ukraine, Thailand, Russia and Australia.

We need to start setting up an internationally accepted training center at Buyant Ukhua using its existing infrastructure and begin preparing pilots, engineers, and technicians in a methodical way. This center could be funded through an international project and initially operated by foreign experts, who we need to learn from. We could look into making it a branch school of an American or European school and bring their personnel to conduct training. We can start as a pilot practice facility and then morph into a fully equipped aviation school. Our vision should be setting up a facility that is accepted anywhere in the world.

Setting up an aviation training center would also have add-on effects, including the growth of the hospitality and service industry around the Buyant Ukhua airport. This could also mean thousands of new jobs.

ASSEMBLED IN MONGOLIA

Mongolia has an opportunity to set up a production and maintenance center for smaller aircraft. MIAT is working with Russia to trial assembly of older AN-2 aircraft in Mongolia. A newer model of this aircraft has been created in Novosibirsk.

This aircraft, which can take off from and land in many different conditions including water, snow, and soil, can fly 1,400 kilometers without making a stop and accommodates 12 people on board. It has been used in Mongolia for many years. Russia received an order of nearly 300 of these aircraft from Southeast Asian countries, but cannot currently supply them because of Western sanctions. Therefore, they offered that Mongolia co-assemble these aircrafts. So it is time for us to actively seek to start assembling the AN-2 or a similar Western competitor model.

Smaller aircraft are usually in high demand for countries like Mongolia that has a large territorial area, which makes paving roads less effective. We cannot sit idly by while the rest of the world sets the rules in making and operating aircrafts.

THE AUTHORITIES HAVE BOTH THE DUTY AND THE RESPONSIBILITY TO MAKE SMART DECISIONS BENEFICIAL TO THE COUNTRY IN THE LONGER TERM AND TO USE THESE OPPORTUNITIES THAT BUYANT UKHAA OFFERS, RATHER THAN SEEKING SHORT TERM GAINS FROM BUILDING APARTMENT BLOCKS.

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PRIME MINISTER'S VISIT TO THE RUSSIAN FEDERATION

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The Mongolian government signed an agreement with the Eurasian Economic Commission outlining paths for cooperation over the next two years. This commission serves as a customs union consisting of Belarus, Russia, Kazakhstan, Kyrgyzstan and Armenia. If we become a member of the union, there will be a significant shift in the management of small and medium enterprises in the country. Therefore, it is prudent for us to consider a two-year plan of work prior to considering accession to the union.

It was expected that a 100-billion-ruble loan from Russia to revitalize the operations of power plants 3 and 4 but this was not touched on during the visit. Likewise, no agreement was reached regarding the railway, a joint venture with Russia despite expectations that the parties would commit to raising their equity capital to 250 million USD. One of the most pressing issues is that bilateral trade between Mongolia and Russia is 1.7 billion USD while the figure between Russia and China is approaching 200 billion USD.

Moreover, 1.4 billion USD of the bilateral trade with Russia involves the acquisition of petrol from them. This figure may change in 5 years as



Mongolia is currently constructing its own refinery with development assistance from India. A number of Memorandums of Understanding were signed during the visit but we would expect more contracts to be signed during the next high-level visit. This should serve as a lesson that contracts should be agreed in principle well before visits of such importance, allowing them to be signed during the visits.

The Prime Minister went to Moscow to meet Prime Minister Medvedev and to Sochi to meet President Putin to discuss a transit pipeline through Mongolia. President Putin remarked that an agreement was reached and that it is time to move onto the feasibility study. Looking at the bigger picture, the Japan Times stated that Russia owns 20% of the world's gas reserves, produces 17% of natural gas and is the biggest exporter of natural gas.

Moreover, during the visit, Russia and China connected their pipelines at the Blagoveshchensk border with China following 15 years of discussions. The 400 billion USD contract served as the largest contract that Russia has ever signed and encompasses

the supply of 38 billion cubic meters of gas annually for 25 years beginning in 2025. There is a significant demand for gas in China but Russia is also seeking other supply routes and destinations following sanctions on the Nord Stream 2 pipeline. This led to discussions of another potential pipeline to China through Kazakhstan but they were abandoned due to cost restrictions and the fact that the pipeline would enter China in Xinjiang, a considerable distance from the ultimate consumers. Mongolia is the most direct path to Beijing and a pipeline through Mongolia has finally been agreed upon.

Based on an extrapolation of the Ukrainian gas transit fee which constitute 4 billion USD per year for a pipeline travelling 1240 km within Ukraine with a capacity of 160 billion cubic meters per year, I estimate that the pipeline will travel 1060 km through Mongolia alongside the railway, that it will have a capacity of 30 billion cubic meters per year and that Mongolia will receive a transit fee of around 300 million USD annually. It is entirely possible that this fee will be paid through gas or in some other manner and shall serve as a

substantial contribution to the economy of Mongolia given that the current Mongolian economy is approximately 15 billion USD. Moreover, this pipeline may also allow Mongolia to gradually shift from the consumption of coal to gas, a cleaner source of energy. In terms of the route of the pipeline, constructing it alongside the railroad will be the simplest proposition as materials can simply be delivered through rail during its construction. It is estimated that the feasibility study will take 2 years and that the construction of the pipeline itself will take 4 years.

However, China has to agree to this pipeline and construct a pipeline on its own side of the border with Mongolia. It is worth noting that it took 10 years for China and Russia to agree on the price of gas for the recent pipeline at Blagoveshchensk.

FEASIBILITY OF DIGITAL MONGOLIA PROGRAM

The government is developing a long term development policy 2050 draft and the Digital Mongolia Forum was held in order to discuss the government policy on digital development. The Digital Mongolia program is an important one and the time has come to act on the ideas and discussions encompassed within it. Mongolia was ranked 62nd out of 63 countries across 51 indicators in the World Digital Competitiveness Report in 2019. This is simply unacceptable and Mongolia should pursue digital development alongside the rest of the world.

There are a number of government services that have been digitalized but in the case of car taxes, only around 24 out of 400 drivers paid the tax online. While many young people use online services provided by the government and banks, many individuals still frequent banks and government offices to handle their affairs. We are therefore lagging behind, particularly when looking at countries like Estonia. In Estonia, there are 3000 state services available online and even a number of elections have been organized through phones with a viable e-signature authentication system. I visited Estonia twice and met with the individuals that developed the program. A chip on the government ID much like the one we have in Mongolia allows them to sign their signature electronically. Therefore, your telephone number serves as your identity number. We must remember that Estonia is a small country with 1.3 million citizens and that its territory is smaller than our Selenge Province.

President Battulga criticized the 2.6 billion MNT that would be appropriated



towards the creation of a single website and we should definitely look into the website and the individuals responsible for developing it. Unfortunately, it is often the case that public money in tenders and large projects such as these go to the politicians themselves through companies related to them. This incites corruption and forces individuals to lose faith in their own government.

An e-government system would make our lives less bureaucratic and corrupt with all public services being made available online. The one concern is that all your personal data would need to be recorded in order to develop an e-signature system akin to the Estonian model which may raise concerns into the safety of personal data. Estonia solved this issue by allowing individuals to track who is accessing their personal information and the purpose for which it is used. In a way, the system makes one's personal data more secure than in a non-digital system. The world is becoming digitalized and we should follow suit but the government needs to implement consistent, transparent policies. In Mongolia, the government changes every 4 years, essentially putting an end to the policies of the previous government.

Vision, consistency, transparency and good governance where politicians do not misappropriate public funds are essential for us developing a comprehensive e-governance system. This is not currently the case as demonstrated by half of Parliament members directing Small and Medium Enterprise funds into their own coffers. The loans they acquired at 3% would then be resold at 30% interest rate through the non-banking financial sector. It was also recently brought to light that a number of Parliament members were misappropriating funds from the Employment Support fund. It is definitely an issue of the quality of the government.

PRIVATIZATION OF NATIONAL SPORTS STADIUM

The Ulaanbaatar City Council approved a list of properties to be privatized during their meeting on December 2nd. The National Sport Stadium, 49% of which is currently owned by the Ulaanbaatar City Authority was included in the list. When there is a government which is non-transparent as in Mongolia, properties are much better off in private hands. The stadium was built in 1959 and has a capacity of 10,000 people. It would be partially privatized in 1993 and Mr. T.Nyamdavaa currently owns 51% but a decision to privatize the remaining 49% was reached as Ulaanbaatar currently needs a stadium that is at least 3-4 times larger which is currently under construction in Yarmag and it will most likely be operational within 4 years.

The 49% of the current stadium which owns 12.7 hectares of its surrounding area shall be sold for 20 billion MNT. This comes at a time where the current market price for a hectare of land is 1.7 billion MNT. Therefore, the citizens, especially individuals in the immediate vicinity of the stadium need to be made aware of the plans for this land. Overall, entertainment and sports need to be administered by private entities and there is no need for the government to spend billions of tugriks on Naadam festival every year. The stadium will hold significantly more competitions and concerts in private hands and it is even possible that this is a stepping stone to hosting international competitions such as the Asian Games.



During the privatization push in the 90s, individuals bought factories and destroyed existing equipment, sending the scrap metal to China. Hopefully, this wave of privatization will not bring about the same results. The current owner of 51% of the stadium, Mr. T.Nyamdavaa has the right of first refusal to buy the remaining shares at the initial price. Should he refuse, it should be sold through an open public auction in accordance with the relevant procedures. The auction should however be carried out in a transparent manner and the bidders must not be connected to those administering the auction.

The Ulaanbaatar Authority is under new leadership and it seems that things are working well to this point. However, we are yet to find out who will purchase the 49% of the stadium and the public has the full right to demand the annulment of the sale should it be carried out in a non-transparent manner or if the buyer has ties to the city authority. There were also some other properties such as a number of repurposed school and kindergarten buildings are also up for privatization. This wave of privatization is an attempt to generate funds to keep up with a city expanding at a tremendous pace. However, we must keep the needs and wishes of local communities in the implementation of projects following the purchase of these lands.

*This review has been edited here for space and clarity.
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