

# Mongolia's links to the world

## INTERVIEW WITH HE KHALTMAA BATTULGA

MINISTER OF ROADS, TRANSPORT, CONSTRUCTION AND URBAN DEVELOPMENT



**KHALTMAA BATTULGA** was appointed a minister after the Parliamentary elections in 2008, after being elected to his second term in the State Great Khural (Parliament). He is a painter by profession and started his career as a Sambo wrestler in the National Team, achieving the title of World Champion in 1986. Previously he was a successful businessman and is currently President of the Mongolian Judo Federation which brought Mongolia its first Olympic gold medal at the 2008 Beijing Olympics.

### Where are the opportunities for investors in the sectors under your portfolio?

The sectors that I am responsible for, namely roads, all modes of transportation, construction, housing and urban development, in essence infrastructure development, are of prime importance to Mongolia's economic growth at the current time.

Mongolia is rich in mineral resources with a number of world-class mineral deposits which can drive economic development. As you will know, the decision and initial investment has been made recently on the Oyu Tolgoi copper deposit. Others should follow in the near future. Thus the ministry has set itself the ambitious and challenging task to provide adequate, efficient and affordable transportation to these mineral deposit areas. It is clear that railways are the most suitable and environmentally-friendly means of transport for high volume mining output.

The existing Trans-Mongolian railway line connects our two neighbours, Russia in the north and China in the south. The most pressing priority for transportation infrastructure in the southern part of the country, where the big mineral deposits are located, is the construction of a new railway line from the Tavan Tolgoi coking coal mine and Oyu Tolgoi copper mine to the main cross country transit railway line. This will allow us to deliver mining products to neighbouring markets and via their sea ports to other regional markets such as South Korea and Japan. Railways are a strategically important sector and require special attention in terms of Mongolia's sovereignty, national security, stability, geopolitical factors and the safeguarding of the national interest. These must all be taken into account in considering the expansion of the railway network.

We certainly expect considerable investment to be made in the mining projects and wealth to be generated from mining extraction. In order to maximise the benefit to the country we have initiated several large scale investment projects in infrastructure that can enormously influence social well-being. The projects in housing, road and railway construction are of top priority and planned for implementation in the near future. Our message to investors is that we are ready to consider any possible ways of working together on these projects. Certainly, infrastructure projects are very capital-intensive propositions and thus may require long-term partnerships to achieve targeted results.

### What are the goals that you have outlined for the ministry in terms of foreign investment and how do you plan to go about attracting attention to infrastructure in order to achieve those goals?

Mongolia is constantly challenged by numerous factors in achieving its infrastructure development goals. We have a landlocked geographical location, a sparsely settled small population, a harsh continental climate and above all, suffer from a shortage of funds to carry out large scale works. For the past 20 years, Mongolia has been dependent mostly on foreign government's financial support and on loans and grants from various international financial organisations to overcome transitional difficulties in infrastructure development. I think we are now at the starting point of rapid economic growth based on the commercialisation of our large mineral deposits. Mongolia's mineral wealth is considered to be the wealth of the people, hence funds generated from its utilisation should work for the benefit of the people. The infrastructure investment projects initiated by the ministry are meant to compliment the mining projects as well as to address overall social needs in housing, roads and transportation. In order to attract and encourage foreign investment in infrastructure, the government is taking certain measures, for example creating the legal environment to support investment projects with relation to mining income by allowing the use of commodity off-take, collection of up-front fees for joint exploitation of state-owned mineral deposits, export credit financing and public-private partnership schemes.

### Could you please briefly discuss the infrastructure needs that will arise as a result of the new mining agreements and where you see the opportunities for investors to become involved?

The Oyu Tolgoi copper mine investment agreement has been signed recently. Oyu Tolgoi is just one of several big mining deposits in the area that will be exploited soon. We thus have plans to address the infrastructure needs for these mining sites in a synergetic way.

Due to lack of good infrastructure there is the necessity to construct paved roads for short distances and a railway line for the longer distances to transport the mineral products. Railways are the preferred mode of transport for mineral products within the country, as well as for their export. Railways are also the most environmentally friendly mode of transport for the

sector. The government's highest priority project is the construction of a railway line to connect the existing main line with the Gobi and eastern regions of Mongolia.

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**There has been much discussion of the need for Mongolia to develop production facilities to add value to the raw materials currently leaving the country. What projects are being initiated with this in mind and how can infrastructure investment and development support this goal?**

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Within the mining sector in Mongolia, we are certainly coming to the point of processing and adding value to the extractive industry. To date, Mongolia has been solely dependent on raw material exports which makes up the majority of government revenues in terms of GDP. Now at the onset of the major mining projects we must consider establishing secondary stage processing. We have the experience of suffering from a dependence on imports of petroleum products as well as from fluctuating commodity prices on the global markets. Therefore, the ministry has initiated a project to establish a heavy industry complex in Sainshand, a town located at the junction of the main railway line and the planned new line from the mining deposits in the Gobi region. The industrial park will consist of a coke plant, an iron pellets plant, an HBI/DRI plant, a copper smelter and a power plant. The basic idea is to develop second stage processing for Tavan Tolgoi coking coal and Oyu Tolgoi copper. We took into account the following principles in planning the industrial complex:

1. Competitiveness: The facilities have to be competitive with regard to regional production capacities and demand.
2. Feasibility: The project must be financially feasible and financeable.
3. Domestic Demand: The project must create domestic demand for the raw materials.
4. Country goals: The project must concord with the macro-economic goals of Mongolia.

In view of this industrial complex development, railway infrastructure becomes very important. The railway needs to connect the mines with the industrial complex and will have to be developed in parallel with the complex. Certainly one cannot exist without another.

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**The railway network in particular is seen to provide an opportunity for Mongolia to build links with its huge neighbours as well with regional markets. What developments are planned with the railway lines in the east, potentially to link to the markets of Japan and Korea, and what opportunities will be presented to investors?**

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The issue of the extension of the railway network and the policy document on the sector's development is currently being prepared by the Ministry and will be

submitted to the government in the near future.

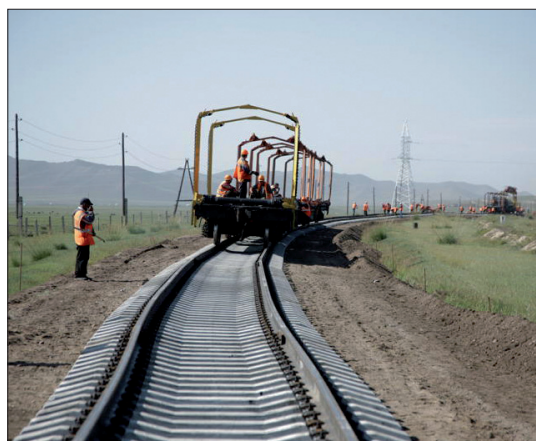
Top priority will be the construction of a new railway line from the Tavan Tolgoi coking coal mining to the existing railway line to connect with Zuunbayan-Shaishand stations, and then going to the north-eastern part of Mongolia, to Choibalsan and the existing branch line in the Dornod province. The length of this railway line is approximately 1000 kilometres. We expect access to the sea to be gained at, for instance, the Russian far eastern ports of Vladivostok, Vostochnyi and Nahodka, thus creating a new transit corridor to the north-east Asian market. The new line would allow transport of coking coal, as well as other mineral products to Russia, Japan, Korea and other customers.

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**Finally, you have been involved in a number of ambitious projects from the Chinggis Khan statue complex to the efforts to unite the entire country's production through railway lines. Which upcoming projects do you believe will transform the lives of the Mongolian people most while providing the best opportunities for international investors?**

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We have many other investment projects that can be of great interest to foreign investors. I would like to highlight the projects in the road construction and housing development areas. For example, 80 per cent of Ulan Bator's road network needs to be rehabilitated and about 4,500 kilometres of road need to be built from all major provincial centres to the capital city. In the housing sector there are approximately 1.2 million people living in Ulan Bator city but over 60 per cent of them live in the traditional nomadic tents lacking basic public services such as heating, water supply, sanitation etc. This situation requires us to take drastic measures as the air and soil pollution worsens every year. Therefore our ministry initiated a project to build 100,000 housing units. This is still not enough to meet all the needs of housing in Ulan Bator or country wide, but its successful completion will provide the expertise for further future projects. **F**



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Infrastructure is key to Mongolia's development