

MONGOLIA

REPORT ON

IMPLEMENTATION OF THE ALMATY PROGRAMME OF ACTION

1. Introduction

Mongolia is a land-locked country with vast territory of 1.5 million square kilometers and 2.8 million people of which almost half living in the capital city Ulaanbaatar and the rest of the population is sparsely settled throughout the country. Mongolia borders with only two countries, the People's Republic of China in the south with 4676 km border and the Russian Federation in the north with 3543 km border line.

Although land transport is not well developed in Mongolia, the central region of the country has a comparatively moderate railway and roads system. The whole roads network length is approximately 49250 km of which the state-owned roads length is around 13,000 km, while only 24 percent or 2990 km of the system is considered paved. Regarding the current roads sector, most of freight and passenger services are being done by private business entities. But state-owned public service companies that run buses and trolleybuses still operate in Ulaanbaatar. Mongolia's railroad network, of which the main trunk line links with Trans-Siberian railroad of the Russian Federation in the north and the railroad of PRC in the south, is approximately 1,908 km in total length. In addition to the fact that the railroad plays a vital role in export and import transportation of coal, minerals, timber, oil and animal husbandry related products, tanking up to 80 percent of all freight transport, it also serves as one of the important means of passenger transport.

For a land-locked country like Mongolia with its vast territory and poorly developed roads and railroad system, air transportation is another key important means of transportation. The MIAT-Mongolian airlines, national flag carrier is a state owned airline which operates regular flights to Moscow, Berlin, Seoul, Beijing, Tokyo and Hong Kong as well as charter flights to other popular tourist destinations in the region. Domestic air services are mainly provided by private airline companies.

Maritime transportation of Mongolia is expected to gain momentum in connection with the growing mining developments in the country. Although maritime sector has enjoyed favorable legal and legislative support from the government in the forms of accessions to key international conventions and laws, the actual activities are limited to ship registration and flag issuance. Inland water transport is almost non-existent in Mongolia except some recreational

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boat services at some tourist camping areas.

2. CHALLENGES FOR THE TRANSPORT SECTOR

2.1 Mongolia's Landlocked Location

Mongolia's geographical location, far from the seas and surrounded by two large neighbors China and Russia, makes external transport links via these countries very significant in terms of Mongolia's international trade. Mongolia currently uses the Chinese port of Tianjin for almost all of its overseas imports and exports. There is also some small movement by rail to/from Europe through Russia, and via Russian Pacific ports for freight traffic to and from North America. During the past decade, Mongolia's land-locked position between Russia and China has become a positive advantage as an important link between the two, with Mongolia benefiting from the rail transit traffic moving through it between Russia and China. To maximize Mongolia's benefits stemming from this geographic advantage, regional cooperation and integration of transport routes is a primary national objective.

Mongolia's mining sector has experienced some rapid growth in connection with exploitations of world-class coal and copper deposits in the country and the growing commodity prices on the global market. In order to meet the increasing demand for mining transport and supply of minerals to ever-increasing China's demand and other markets in the region like Japan, Korea, it has been recommended that Mongolia needs to have additional transport routes to both Russia and China which allow access to their sea ports. There are some challenges in connection with creating additional access to sea ports which includes multitude of physical and non-physical barriers. Firstly, appropriate transit agreements need to be concluded with both countries at government levels; secondly, domestic railroad and roads system needs to be expanded and improved; thirdly, border and port infrastructure and transshipment capacities need to be increased; transit tariffs to be negotiated and agreed for economic efficiency and favorable administrative regulations and regimes need to be set for effective turnover; and fifthly, to resolve financing and investment needed for infrastructure development.

2.2 Isolated Regions within the Country

Residents of some of Mongolia's remote rural areas lack reasonable access to markets and social services, and are isolated from the country's political and economic centers due to poor rural roads and domestic air services.

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Within Mongolia the far western aimags are the most distant from the capital city and the central spine of the country. Bayan Ulgii, Khovd and Uvs provinces are not connected with Ulaanbaatar city with paved roads and major sections of the roads are ordinary earth tracks. Ulgii, the most distant aimag capital, is 1,700 km from Ulaanbaatar. There is no scheduled bus service from Ulaanbaatar to these aimags; the closest town served is Altai, the capital of Gov-Altai aimag, itself just over 1,000 km from Ulaanbaatar. The conditions are better to the east, mainly because the distances from Ulaanbaatar are shorter - 660 km to Choibalsan - and in the east of Choibalsan population density is very low.

Domestic Air transport services to the remote regions have been halted by the MIAT-Mongolian Airlines, but offered by private airlines at significantly higher prices. There clearly is a problem in the isolation of aimags far from Ulaanbaatar, which will be addressed by the provision of improved transport services. Given the sparse and low density of the rural population, relatively low demand for transport services and large distances involved, the provision of new infrastructure to serve these isolated areas requires significant investment, high maintenance costs and economic inefficiency. These will take due account of social and economic justification, the availability of existing transport infrastructure or services requiring rehabilitation/upgrading or incentives, respectively, and the possibility of sufficient investment funds and likelihood of sustainable future maintenance of any new facilities.

2.3.1. Need for Appropriate Transport Policies and Regulations

Mongolia's transport system has evolved from a wholly state-owned and operated network with related institutional and policy frameworks, to one that reflects to some degree the recent political and economic liberalization which has resulted in more freely functioning markets for labor, capital, goods and services. While there have been some reforms affecting the transport sector in relation to institutional and public sector restructuring, transport laws and regulations, and private sector involvement in the provision of transport services (notably, road transport for passengers and freight, urban public transport, domestic air services, and waterway services), more needs to be done to ensure sustainability, efficiency, integration, safety and overall improvement of the sector.

The Government's transport sector strategy includes general policies to guide the development of an integrated transport system, together with mode-specific strategies and steps for the

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development of an appropriate institutional framework necessary to implement the action plans.

One of the main objectives of the government's transport policy is to ensure that the provision of infrastructure and transport services meet the demand of passengers and freight shippers in such a way that supports sustainable economic growth. Sustainable economic growth is the key factor adopted by the Government of Mongolia to address its poverty reduction objectives.

2.4. Transport Financing

Transport sector finance is one of the critical issues facing its transport sector. During the past two decades the majority of transport sector financing came from international donor aid and soft loans and played an important role in overcoming transitions difficulties. Actual funding between 1999 and 2003 accounted for only about 1.5% of GDP per annum. However, in 2004, this changed significantly and increased to an estimated 2.2% of GDP.

Required funds for transport sector development and maintenance could not be raised solely from public sources and potential private funding needs to be encouraged and promoted.

Different infrastructure management structures can impact on the cost and availability of funds. Availability of private sector funding depends on set of different factors, including project risks and uncertainty. Currently transport infrastructure financing is increasing drastically in relation to plans for major transport expansion projects in railroad and roads. The increasing economic growth of the country and favorable mining revenues allow for more private investments and state budget for better infrastructure and maintenance. International donor countries and financial agencies are willing to fund more projects that are economically viable.

2.5. Private Sector Involvement

There is an increasing involvement of private sector in Mongolia's transport sector, predominantly in providing services with very little direct investment in infrastructure although recently contractors have reputedly provided self-financing to undertake road works on a repayment basis. Private companies are providing services in the road sub-sector (for road construction and maintenance contracts); for road transport services (passengers and freight) which are wholly provided by the private sector; for civil aviation in both international and domestic airline services; for urban transport bus; microbus and taxi services in the major urban centers; and for the small waterways operations in the north where privately owned and

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operated vessels cater mostly tourist industry. The railroad sector has an emerging private sector involvement due to the new railroad laws. Except for road transport and aviation, no other transport sub-sector has taken advantage to efficiently adopt PSP (Private Sector Participation) or PPP ('public-private partnerships') options. Given the vast expenditures required to support Mongolia's transport system and its evident needs for expansion and sustainable maintenance, and the level of affordability of the Government, the private sector is an area of significant importance for future financing. There are many ways of to involve private sector participation (PSP) or partnership (PPP) and, with careful application, the opportunities provided by out-sourcing, leasing and concession, raising of bonds as well as variations of the BOT ('build-operate-transfer') concept are options which Government will be considering in the development and maintenance of Mongolia's transport system by means of a more commercial approach.

Furthermore, with regard to the limitations on Government financial resources, the participation of private enterprises is encouraged in areas previously considered as under public jurisdiction. These include, but may not be limited to, the construction and operation of toll roads; bridges and parking facilities in urban areas; and the ownership and operation of business units of the railway, public transport services and civil aviation sub-sector.

2.6 Capacity Building

Aligned with the need for a changing role for Government in transport is a consequential need for capacity building of the transport agencies involved from the public sector and the development of their human resources. With the re-orientation of the sector towards a more commercial approach, with Government taking on an oversight and regulatory role for transport, will require institutional changes affecting the present laws, regulations, coordination and procedures, together with an assessment of available and needed skills of existing staff.

3. FUTURE DEMAND FOR TRANSPORT

An assessment has been performed on previous forecasts for required numbers of vehicles and expected demands for transport services by mode, and therefore, some estimates were updated. The envisaged effects of the forecasts have also been updated, with respect to the requirements of the transport strategy to accommodate and/or manage the future traffic demands.

3.1 Road Transport Services

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The Government of Mongolia has joined the five International Conventions, two International Treaties and signed an agreement for transit and interstate transport with eight governments of other countries. But interstate freight and passenger transport do not reach beyond borders of neighboring countries due to inadequate roads network coverage and limited actual potential for transit transport through the territory of neighboring states, transport safety and limited access to sea ports.

3.2. Transit Freight Traffic

Russia to China. Crude oil was carried by rail through Mongolia from Russia to refineries in north-central China. The distances involved via Mongolia's railroad are much less than those of any alternative routes. Therefore Mongolia's railroad services benefited from this transit traffic. However stoppage of traffic for the supplier's side to China has significantly brought the revenues down. But the Mongolia's railroad route still holds potentially good and shortest transit route for trade between China and European market.

China to Russia. There has been a sudden surge in this traffic in 2005. Although coke remains the large single commodity, its dominance has been significantly reduced, with major recent growth in machinery and general goods. There seem to be considerable scope for further increases, in traffic both Russia and to Europe, which also has implications for future Mongolia's railroad business planning, notably in terms of actively marketing its services.

All freight traffic. Estimated rail freight traffic forecasts for the period 1997-2021 show that by 2015, it is estimated that about 33 million tons of freight would be transported by rail

Container Traffic. In March 2002, there was a significant development in container movements to Mongolia, when a container block train service (the "Mongolian Vektor") began operating between Brest, in Belarus and Ulaanbaatar. At present the service runs every two weeks, carrying 50 containers a month to Mongolia; it has not developed as rapidly as had been hoped, however. In March 2005, a trial was made of a container service between Hohhot and Frankfurt.

During the past 5 years, there were some problems in the operation of the rail link with the Port of Tianjin. China Railways had a shortage of wagons, transshipment delays creating a bottleneck at the Erlian-Zamiin Uud border crossing, which is the major gateway to Mongolia's exports and imports. The situation now appears to have improved, with few logistical constraints. In addition, the development of road container services between Tianjin

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and Zamiin-Uud appears to have helped considerably, which suggests that container traffic via railroad will develop as long as the railway can accommodate the demand.

3.3 Air Traffic

3.3.1 Domestic Services

Total number of projected passengers for the system, year-by-year to 2015, with current levels of passenger volumes using domestic air services being projected to grow at an average of 3.2 percent per annum. The future forecasts for Mongolia's domestic passenger market are seen as critical to industry policy. These passenger forecasts were assigned to individual domestic destination markets, by varying the system-wide average projected rate of growth of passengers up or down, depending upon special characteristics of individual markets. For example, Dalanzadgad and Muron, major tourism destinations, were assigned higher growth rates than the national average, while Choibalsan, a destination market with sharply declining traffic, was assigned a lower average growth rate. Based on the analysis of the domestic passenger forecasts for the period of 2005-2015, the future aircraft requirements for scheduled air services was identified to provide domestic, scheduled air services in 2015.

It is expected that large-scale future airport alignments of Ulgii, Uvs, Donoi and Altai would be paved, airport facilities in Altai and Ulaangom would be rebuilt and its capacity improvement would take place. As a result of passenger tariff raise stemming from petroleum price increase, a declining trend in the airline passenger numbers has been observed; especially number of flights to destinations (cities and towns) where road network is well developed and within 500 km has been decreased and even stopped.

Therefore, the government needs to support and manage the solution for issues such as adding more destinations to domestic airline services, stabilization, development, and providing required social services. The airport of Hovd has been prepared to accommodate international flights and also planned for regular international flights in the future.

3.3.2 International Services

Based on data estimates of the total number of international arrivals and departures through Ulaanbaatar International Airport, an analysis was undertaken relating Mongolia's GDP and total population. International passenger movements are expected to increase at least on average by 11-15 percent per annum over the next ten-year period, while international freight projections are expected to be static in the period 2005-2015.

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Liberalization of international flight management plays an important role in tourism development and passenger transport increase.

Further, a preparatory work needs to be assessed on accommodating the international trend liberalizing international flight markets, regarding the operational start of the new international airport from 2016.

3.3.3 Inland Waterways

Transport via inland waterways was fairly active up to 1990, but since then freight carried has consistently been less than 2,000 tons per annum according to official statistics, although it is understood there may be some additional 'informal' freight being moved via the waterways. Passengers carried on the waterways are currently mostly tourists, with the transport services operated wholly by the private sector.

Forecasts of possible future usage of the waterways system, both for freight and by passengers, was included as part of a road transport development plan. Based on population and GDP forecasts it is estimated that the waterways system would show a very slow development rate in the period from 2002 to 2015, with passengers carried increasing from 6,000 per annum in 2002 to 10,000 by 2015, and freight from 2,000 tons in 2002 to about 9,000 tons in 2015. There would appear to be the potential to stimulate and expand the waterways system, by the active participation of the private sector, with Government playing a key role in ensuring safety and formalizing cross-border trading opportunities with Russia.

4. THE NATIONAL DEVELOPMENT PLANNING PROCESS, ASSESSMENT OF KEY ECONOMIC, SOCIAL AND ENVIRONMENTAL DEVELOPMENT TRENDS.

An efficient transport system is vital to sustain and enhance economic growth and the quality of life. The provision of such transport facilities and services must, however meet the essential criteria of economic efficiency. Goods and passengers must move by the mode that is least costly as uneconomic services impose heavy burdens on the economy. The transport sector in Mongolia today is not fully able to respond effectively to increasing and diversified transport demand and services are provided at high cost.

4.1 Vision for the Transport Sector

A 'vision' for multi-modal transport within a Mongolian is to provide safe, dependable, effective, efficient, and fully integrated transport operations and infrastructure in order to best

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meet the needs of freight and passenger customers. This will be achieved by improving levels of service and minimizing costs in a manner which supports Government strategies for economic and social development. All improvement measures will be both environmentally and economically sustainable. In addition, the efficiency of the transport system will be enhanced in a regional context to allow Mongolia to exploit its unique geographical position.

4.2. Transport and Economic Development

The Government of Mongolia is committed to support external trade facilitation and industrial development. In recognition of the importance of external trade to Mongolia, the government joins in business-related regional and sub-regional associations and seeks beneficial agreements with existing and new trading partners and neighboring countries to enhance trading opportunities. More efficient cross-border procedures (including customs and immigration) and facilities are sought for transport modes (including intermodal, rail, road transport and waterways) at all international gateways, aimed at reducing delays and shipping costs.

Industry, particularly involving Mongolia's natural resources and minerals, has very good potential to support the economic and social development of Mongolia. Major new industrial operations, particularly mines, will require significant new infrastructure - including rail and road links. In relation to the new railway construction, railway network development, especially utilization of mineral deposits being explored near the border, policies are formulated and adopted to pursue new railway construction

Government will engage industrial partners in the development of innovative arrangements, of benefit to all parties to finance needed new infrastructure on the basis of its economic, financial and social justification, paying due regard to any environmental impacts and mitigation needs.

5. FUNDAMENTAL TRANSIT POLICY ISSUES

Growth Outlook

The Mongolian economy continues to grow at a robust pace, particularly amid weak global economic conditions. Even as most of its developing economy counterparts struggle, the Mongolian economy is expected to register solid rates of growth. Production relating to the country's natural resources continues to be a crucial driver behind overall economic growth. Mining production in world-class coking coal and copper deposits in Tavantolgoi and OyuTolgoi mines shall commence and boost exports. Additionally, private capital inflows

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remain buoyant and the country's overall underlying capital inflows remain at an elevated level. This includes foreign direct investment, long-term portfolio inflows and official reserves. Continued and rising foreign demand is likely given the unexplored natural resources in the economy.

Policy agenda

In connection with the growing demand for mining transport infrastructure and the Government of Mongolia has initiated a number of new infrastructure development projects that are designed to support sustained growth for Mongolia's economy that is expanding rapidly. Successful implementation of the government's comprehensive infrastructural policy agenda will enable the country to benefit from its vast natural resources and to enjoy equitable and sustained growth.

Recent developments have strengthened the legislative and institutional basis for further economic and infrastructural reforms, they include:

- **Concession Law:** the government passed a key concession law (in March 2010) to allow for Public Private Partnerships (PPP), which will facilitate effective implementation of major infrastructure works.
- **The Development Bank of Mongolia** was formally inaugurated in early 2010 to manage the financing of the government's infrastructural policy agenda. Among its responsibilities, it has started to issue policy loans and sovereign bonds.
- **New Development Program (NDP).** The Parliament of Mongolia approved the "New Development" medium-term target program in June 2010 sanctioning a raft of reforms to revamp Mongolia's infrastructural system including vast projects in roads and highway construction throughout Mongolia
- **State Policy on Railway Transportation** was approved in June 2010 to implement and start construction work of the national railway expansion focused on the support of mining output.
- **State Policy on Air Transport** was approved in March 2013 to guide development of large scale works in aviation sector including the construction of Ulaanbaatar New International Airport by 2016 as well as wide ranging policy and regulation reforms.

5.1 Infrastructure Development and Maintenance

The Government of Mongolia stays committed, as a priority, to the development of new infrastructure as well as rehabilitation and maintenance of the existing road and rail network.

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The priority over the past few years has been given to the development of the existing road and rail system. This is still far from complete but is receiving attention by bilateral donors and international organizations and foreign direct investments.

The maintenance of the State roads is seen as a priority because these roads are essential economic growth corridors both for domestic and international trade (including serving as part of the Trans-Asia network and providing direct access to international gateways), while providing mechanisms for achieving Government's regional development objectives via improved integration and communication within Mongolia.

5.2 Road Planning

The improvement and re-building of Mongolia's national roads system is a key policy priority to support the functioning of the mining sector and to aid in the development of the rural local economies.

The Trans-Mongolian Highway is to be upgraded and extended (5,572km). The national road system on the whole is to be extended to connect all of the provincial centers a unified road system. Alongside the extension of the railway, the improvement in the national road system will help fast-track regional development and promote economic and industrial innovation, particularly with improved access to remote rural provinces. As a part of the whole roads network a section of the AH-3 /Asian Highway Network/ which is a 990 km highway will be built from 2013-2016 to connect Russia in the north and China in the south, to allow greater regional trade between the two neighboring countries and to benefit to the development of local communities along the route.

5.3. Rail Expansion Plan

The Government of Mongolia, recognizing the advantages that the railway presents in terms of long haul transport costs and its contribution to sub-regional cooperation, is committed to preserve the existing assets and to provide the necessary environment for their expansion.

In order to organize a quick, rationale transportation service and to reduce its negative impact to the environment it is compulsory to connect the mineral resource deposits and mines and other industries to railway to the foreign market. First of all, the coal and copper deposit product transportation railroad of Gobi desert region will be connected initially to the Mongolia's main railway and further to the China's railway.

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In order to use the mineral resources and oil of Mongolia's eastern and Gobi region and improve the use of Dornod's dead-end railway, and furthermore to be connected to the transport routes of NorthEast Asia will be established a Eastern and Gobi Regional railway network which will be connected to the Mongolia's main railway line.

Therefore an unprecedented five-fold increase in Mongolia's railway system is underway. The expansion is set to dramatically change the country's economic and industrial landscape. The project has been divided into three phases of development with phase one in progress. The expansion of the national railway is set to boost the structural capacity of the economy multifold. GDP growth by 60%, and tourism inflows by 40%, in the 5 years following its construction. The strategic positioning of Mongolia's railway in relation to the TavanTolgoi and OyuTolgoi mines will heighten its economic benefit.

Strategic eastward expansion of the railway is cost effective. The expansion through Russian territory and into the ports of Vladivostok, Vostochny and Vanino will introduce new points of access into international export markets such as in Japan, Korea and South East Asia. A stronger export share will result in a resilient external position in the event of a protracted downturn in the global economy. Particularly as Mongolia's export share will broaden to economies where demand is rising rapidly.

Cost efficiency. The Mongolian government is in negotiations with Russia to renew a 65% discount on the railway's transport tariff for (at minimum) the next 30 years, bringing down the cost of the railway expansion and the subsequent freight transport significantly. Additionally, significant bottlenecks in transport and international trade will be eliminated. Importantly, in addition to the cost efficiency, the expansion of the railway will enhance both bilateral relations and cross-border trade with Russia and China.

Strategic support for the mining sector and particularly Mongolia's largest mineral deposits is a key aim in constructing and extending the national railway. The linkage with the TavanTolgoi and OyuTolgoi mines will generate sustained long-term economic benefits. For one, freight turnover of mining products and transit cargo will be boosted significantly. Total volume of cargo transported will increase by a factor of 3.5 by government calculations. Mineral goods exports are to top an average of 50mn tons per year as a result of the railway expansion.

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Greater productive potential. There are long-term and broad-based economic benefits which will accrue to the economy as a result of the railway construction. Not only will it lay the foundation for future passenger travel, but crucially, it will foster economic and industrial clustering and innovation across the entire country. An example of this is the economic synergy vis-à-vis the development of the Sainshand industrial complex. Its construction at the existing railway and to Tavantolgoi and Oyutolgoi mines– will shift the composition of Mongolia’s export production. The economy will transition from being a primary goods producer to higher value added output.

The plan also includes for vast range improvements of the Mongolian and Russian Joint Venture "Ulaanbaatar Railway" company performance, modernization of its infrastructure, rolling stock fleet and management.

Rehabilitation of Railway Infrastructure

The Government of Mongolia is committed to the rehabilitation of existing railway and to improve operating capacity.

- In order to attract private sector participation and launch sustainable expansion in railway operations, the existing rail infrastructure will be rehabilitated and upgraded to higher standards where required and justified. Studies will be undertaken to assess the viability of double-tracking (initially from the Russian border to Ulaanbaatar), for upgrading of the permanent way (rails, turnouts, passing loops, ballast and sleepers), to re-engine and/or to replace locomotives;
- The Government of Mongolia will go ahead with rehabilitation programs for the railway-subject to achieving acceptable economic viability assessments; and
- The Government of Mongolia will solicit the support of existing railways current international business partners (i.e. Russia and China), and the private sector (domestic or international) in the financing of the rehabilitation programs.

5.4 Civil Aviation

Government will support its primary goal of achieving safety and reliability in air transport access into and within Mongolia and to meet the needs of air travelers for safe, reliable, efficient and economical air transport. This approach will instill more efficiency into air transport services and, in turn, encourage air traffic to and from the country. The resulting

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increase in tourism will stimulate economic growth, providing development of local business and supporting poverty reduction.

In addition, as a consequence of the limitations of Mongolia's road and railway infrastructure (particularly in rural areas) the government will support the principle of facilitating the development of the air transport system for both domestic and international services.

Previous project has recommended a strategy of 'controlled liberalization' that aims to boost civil aviation's contributions to the national economy by promoting private sector participation in air transport. This strategy envisioned that the Government concentrates on regulating air transport safety, security, and competitive behavior instead of providing aviation services, which would be provided by private operators.

The aviation sector will support the economy through the provision of a safe, secure, efficient and reliable air transport system and to meet peoples' need to travel, while taking account of the need to improve the quality of life. This has implications for improvements of Mongolia's airports. The civil aviation sector will provide sustainable air transport infrastructure and services to remote and regional communities in Mongolia to ensure essential access to a range of business, educational, medical and social opportunities, and the provision of passenger and freight services.

The sector will also facilitate the continuation of the rapid expansion of the local industry and the establishment of Mongolia as an important aviation hub for the Asia-Pacific region. The domestic air services will be encouraged to support sustainable social, commercial, tourism and regional development in Mongolia by means of improved accessibility, regulatory and strategic policy, better research and analysis, the development of public private partnerships, efficient government leadership, and effective co-ordination of all stakeholders.

5.5 Development of Airport Infrastructure

The Government will ensure adequate airport infrastructure capacity in accordance with demand, ensuring maximum utilization of available capacity and efficiently managing the airport infrastructure by increasing the involvement of the private sector.

The timely development of airports, especially international and domestic hub airports, is essential in the short term for socio-economic development.

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Where economically justified, new runways and other facilities at each airport will be designed in relation to current and future needs, and with the operational and commercial requirements of the incumbent airlines in mind including safety considerations.

A new international airport and freight terminal will be established in Ulaanbaatar and Kharkhorin. Technical supplies will be added and the airspace regulations will be advanced in order to increase over-flights through Mongolia and improve flight safety operations. The feasibility on increasing the private sector participation in air navigation services in the near future will be studied. The aircraft fleet used for international and domestic flights will be renewed.

5.6. International Air Services

Government will ensure that international air services are encouraged within an appropriate regulatory framework. International air transport services will be considered on a case-by-case basis taking into account Mongolia's national interests.

Possibilities related to tourism, new air links or flight route and trade operations will be noted and considered. Technical supplies will be added, advanced technologies introduced and airspace regulations advanced in order to improve flight safety and increase over-flights through Mongolia. The aircraft fleet used for international and domestic flights will be renewed.

5.7. Waterways and Sea Transport

The government places a heavy emphasis on supporting tourism and regional social and economic development in remote parts of Mongolia renders the inclusion of strategies for waterways sub-sector appropriate. From evidence gained in the Khusvgul Region (part of the Hangay economic zone in Government's regional development concept), the private sector is actively engaged in providing waterways services during summer months mostly for tourists, while the government requires support to help with the fostering of the partnership with the private sector and with an appropriate level of regulation to ensure safety for waterway users.

5.8 Maritime Transportation

The government aims to comply with applicable laws, regulations and standards with respect to its obligations under international conventions for maritime transport management and operations.

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Regulations and contracts of the current joint-company will be improved to increase the number of national flag-carrying vessels, revenues and other benefits to Mongolia. Opportunities will be investigated for leasing arrangements for foreign vessels and for training of Mongolian crew members on Mongolian flag-carrying vessels.

A study will be undertaken to assess the value to the State of Mongolia's long-term participation in maritime transportation and to assess institutional, organizational and other requirements to strengthen or rationalize its continued involvement.

The study will focus on maritime transport and sea port operations, marine resource use, owning a ship and preparation of professional human resources.

6. TRANSIT POLICY INITIATIVES - CHALLENGES

An additional sector-wide priority concerns facilitation measures, focused on the improvement of regional transport agreements and border crossing procedures, primarily affecting the railway at present, but shortly to also affect road transport once agreements have been negotiated to permit Mongolian, Russian, Chinese trucks to operate in each others' territories.

Due to the UN assistance, 7 project-processing meetings were held on transit transportation agreement between the governments of Mongolia, Russia and China starting from 2000 (In Ulaanbaatar - 2005.05.15-17, in Tianjin-2001.01.16-18, in Irkutsk-2001.10.22-25, in Ulaanbaatar 2002.11.12-13, in Qingdao-2004.01.13-14, in Geneva - 2004.12.13-16, in Ulaanbaatar - 2005.11.14-18, in Beijing 2011.01.18-19). Although, the project-proposal was approved at the expert level on the latest meeting, and the sides were going to develop the agreement technical annexes in the near future and agreed to introduce to the governments, however issue is not being decided because of the Russia's position. As a result of this agreement, Mongolia would have a potential access to the seaport and tertiary countries via the neighbor's territory, and will have less problems related to the border crossing complications and breaches of the transit transportation and it will positively influence the trade expansion, transport congestion and the reduction of the expenses. In addition, due to this agreement we could possess income from current road that is getting ready for maintenance and improve the people's living and reduce unemployment by letting the neighbor countries carry the transport via our territory and applying services along the road.

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There is also a need to formalize border crossing agreements affecting the waterways in the north of Mongolia, where Mongolian and Russian vessels currently operate in each others' territories without any formal agreements or protocols.

Mongolia also needs to establish as a priority weight limits, vehicle standards (e.g. maximum axle loads linked to single and multi-axle trucks, operational condition, loading, etc) generally to appropriate international standards (TIR), and install weigh-stations as part of the border-crossing facilities and procedures. At the same time, customs and other border procedures require improvements so as not to introduce unnecessary delays in the two-way flow of vehicles at border crossings.

7. TRADE POLICIES AND PRACTICES

7.1 Introduction

1. Since acceding to the WTO in January 1997, Mongolia has substantially liberalized its trade regime. Liberalization has, *inter alia*, involved the reduction of tariff rates and elimination of a number of import licensing requirements.

2. Mongolia employs the "transaction value" method of customs valuation. It does not use pre-shipment inspection for customs valuation purposes. The tariff is Mongolia's main trade policy instrument. Most imports entering Mongolia are subject to an *ad valorem* duty rate of 5% (compared with a uniform rate of 15% in 1997). In 2004, the simple average applied MFN tariff was 5.0%. All tariff lines are bound; the average bound rate was 18.4% in 2004. Bound rates are higher than applied MFN rates for most lines, thereby according Mongolia considerable latitude to raise its tariffs within existing bindings. Due to a relatively uniform tariff structure, which simplifies customs procedures, reduces market distortions, and enhances transparency, there is no tariff escalation, and there are no tariff peaks. Some agricultural products (0.3% of total tariff lines) are protected by a seasonal rate of 15%. Mongolia has not used any anti-dumping, countervailing or safeguard measures.

3. Mongolia has a few non-tariff border measures, such as import prohibition and import licensing requirements. Since Mongolia's accession to the WTO, licensing requirements have been substantially reduced.

4. Certain exports from Mongolia are subject to export duties. Export prohibitions concern drugs, narcotics, and certain dangerous and poisonous chemicals. Export taxes apply to various products, including raw cashmere, with a view to increasing domestic processing. Imports of equipment for export-oriented businesses and for foreign businesses investing in "priority sectors" are free of import duties. Export-oriented companies are also exempt from VAT and excise tax; VAT on gold sales

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(including exports) was abolished in December 2001. The Government has adopted laws establishing free-trade and economic zones since 2002. Tax holidays are granted for export-oriented industries.

5. Preferences are granted to domestic suppliers with regard to government procurement. Mongolia is not a signatory to the WTO Agreement on Government Procurement.

6. About 30% of Mongolian industrial standards are harmonized with international standards. More than 40% of Mongolian standards are quoted as mandatory technical regulations. Mongolia has strengthened its legislation on intellectual property rights, with a view to assuring compatibility with international agreements. Different excise tax rates may apply between domestically produced and imported goods. Privatization has progressed since the early 1990s. Competition policy remains weak; there are no agencies authorized to enforce competition legislation.

7.2. Achievements made during 2001-2010

7.2.1. Simplification and harmonization of customs procedures and documents

Customs Law was amended in line with the revised Kyoto Convention and approved by the Parliament in 2008. Almost half of the recommendations were reflected into law out of 600 Kyoto Convention recommendations. The regulations were also amended, 70 regulations invalidated and 36 newly adopted. Hence 95% of the regulations were renewed. There is still a need to amend the regulations related to the cargo manifest, customs broker, self- assessment, etc.

7.2.2. ICT for customs modernization and data exchange

Mongolian Customs is at the last stage of implementation of Customs Modernization Project funded by the ADB loan. The main component of the project is the improvement of the customs information, communication and technology system. Mongolia developed Customs Automated Information System (CAIS) launched from 1st of July 2010. The new automated system has parallel funding from the Korean Government grant and was developed by the Korean Company KTNET specialized in customs automation and Single Electronic Window project. Hence, the Mongolian Customs is now equipped with the world standard IT tools and customs control instruments.

The application of the CAIS will enable information and data sharing with international community. The fact that 10gb fiber optic cable connecting Thailand to London passes through Mongolia makes data sharing more realistic. The implementation of customs control techniques such as risk management, self-assessment, supply chain management, AEO, UCR, coordinated border management, joint customs control has no obstacles from IT system side.

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7.2.3. Risk Management and Post Clearance Audit

Risk Management

In 2010 the Mongolian Customs took actions towards the implementation of the Risk Management in customs control. The tangible results are:

1. Risk management module developed in CAIS;
2. Risk Management division was set up with 6 officers working at the General Administration and 57 officers at the local branches. The implementation of Risk Management was supported by the USAID providing valuable contribution with international expert's advice and consultation.

Risk Management is at the beginning level in Mongolian Customs and further actions should be taken towards its implementation.

Post Clearance Audit

The Post Clearance Audit as a customs control mechanism started to be conducted in Mongolian Customs after its reflection in 1996 Customs Law. The importance of PCA has been increasing since the Risk Management enacted in revised 2008 Customs Law. The rights and obligations of the PCA officers were expanded as follows:

- a) Require the additional information from the customers, access to the data base;
- b) Access, examination and sealing of the premises and warehouses;
- c) Report on violation, re-conducting PCA, examination of goods in free circulation if necessary etc. A special unit consisting of about 20 officers is conducting PCA on 28% of export and 10% of import goods. The limited number of PCA is related to insufficient introduction of the RM. There is a need to further sophisticate capacity both on organizational and staff level.

7.2.4. Joint Customs Control

Harmonized cargo manifest between the Zamiin-Uud Customhouse of Mongolia and Erlian Customs Department of PRChina was launched on 15 December 2009. The Mongolian Customs filed 1780 manifests where 22118 manifests were filed by the China Customs for export goods respectively as of 1st August 2010.

The following actions were taken further to the regularly organized meetings between Mongolia-PRC:

1. Cargo manifest hand-writing was changed into typing since May 2010;

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2. Customs value on manifest is written according the value declared in export declaration;

3. Mutual introduction of the related customs regulations and procedures, etc. There are still issues to be attended, for example: difference in type and weight of the goods declared in manifest still occurs and the two side need to resolve this issue. The high level meeting between Mongolia-PRC held two times in 2010 and both sides agreed to further strengthen the existing cooperation.

7.2.5. Regional Transit Development

a/ The tripartite negotiations on regional transit development between Mongolia, China and Russia is under the dilatory process. The text of the agreement had been agreed in principle, while the appendix has not been discussed at the moment. Mongolia has proposed to hold the tripartite meeting near future and waiting for the response from other two sides.

b/ At present, road infrastructure development is planned and partially implemented in CAREC corridor 4a and 4b in Mongolia

7.2.6. Capacity Building

The Mongolian Customs realizes that the customs modernization is possible only with the trained professional staff. For past three years more than 900 officers attended in-country and overseas training financed by WCO, ADB, CAREC and other international organizations and donors as well as organized on a bilateral basis. The Mongolian Customs points out that the themes of the abovementioned trainings are very actual and useful for the national administrations (for example, CAREC Seminar on JCC held in collaboration with China Customs as well as the current seminar on TRS).

In 2010 the Government of Mongolia adopted a resolution on merging the state owned high education institutions. As a result of this, The Customs and Economic College was merged with the School of Economics of the Mongolian National University. The Mongolian Customs has now established Research and Development Center. Now this Center will be able to concentrate more on Customs research, enabling our customs to develop in more professional way. Also it will conduct training and re-training of customs staff.

7.2.7. National Single Electronic Window

The Customs Modernization Project renewed the Mongolian Customs Automated System (transition from GAMAS to CAIS). The Customs is ready technically for the National Single

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Electronic Window. The next step forward is the connection of the foreign trade stakeholders to the Customs System. The working group in charge of SEW has been set up jointly with the National Chamber of Commerce and Industry of Mongolia. The National SEW feasibility study will be carried out in 2010 with the Korean Government TA.

8. ACTIONS TO BE TAKEN NEAR FUTURE

8.1. Simplification and harmonization of customs procedures and documents

Continue to harmonize the national customs law to the Revised Kyoto Convention. Develop further the regional cooperation as well as bilateral ties with neighboring countries, enrich with different modalities of the Joint Customs Control, thus revise the legal framework (international treaties) to enable the usage of the above mentioned new customs control technique.

8.2. ICT for customs modernization and data exchange

Implement National Single Electronic Window program, start the data sharing with the neighboring countries efficiently.

8.3. Risk Management and Post Clearance Audit

a). Implement Risk Management in customs control. Introduce new initiatives in the customs control, make a full usage of risk management related information sharing at the regional level.

b). PCA scope will be expanded due to the implementation of the Risk Management in the customs control, therefore refusal from 100% physical examination. Introduce the self-assessment principle in customs valuation with further audit by the PCA.

8.4. Joint Customs Control

Continue the harmonization of cargo manifest, start talks with neighbors to expand it to other border points, enrich the bilateral cooperation with other modalities of the Joint Customs Control.

8.5. Regional Transit Development

To complete the building of 4a and 4b corridors. Start the construction of Altanbulag- Zamiin-Uud highway taking into account that it is important for regional transit development. The Mongolian Customs in its turn need to work out and coordinate with its neighbors how to develop the infrastructure of the above mentioned border crossing points to meet the requirements of the regional transit corridor.

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