



MARKETING AND TRADING

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1. Introduction: Purpose & Methods

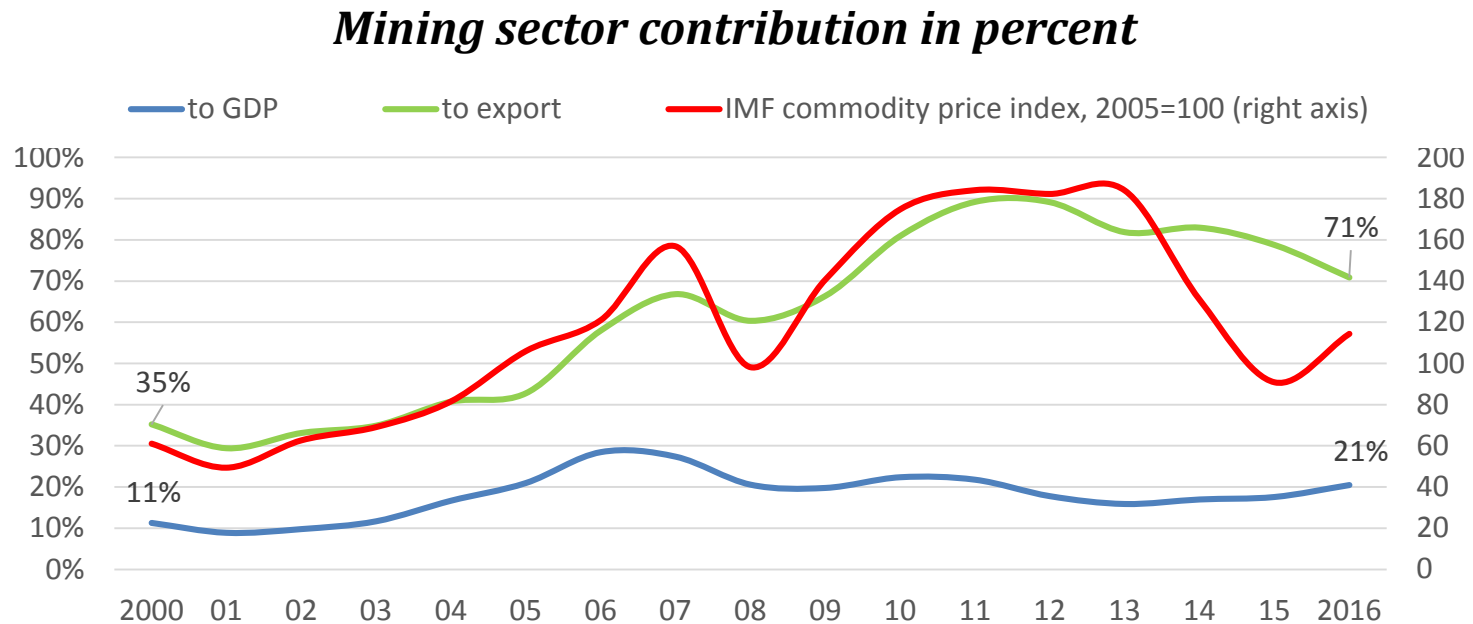
- Identify the processes through which Mongolia sells its commodities and the problems encountered by producers when exporting

Steps in mineral product exporting



- Semi-structured, face-to-face interview with:
 - Mining companies - 8
 - Sector experts, NGOs, and media representatives -9
- Desk review of cross country comparison in terms of how the commodity exports were marketed

1. Introduction: Motivation



Source: National Statistics Office and Bank of Mongolia

- Mongolia's mining sector (in particular, coal and iron ore) has not been able to fully take advantage of recent opportunities of commodity price hikes
- Marketing and trading activities of mining companies are not transparent

2. Coal trading

- Coking coal exporting activities are concentrated at the Tavan Tolgoi and Nariin Sukhait basins and the main destination is Northern China
- The Khushuut mine exports its coal to Northwestern China



Tavan Tolgoi basin:

- Erdenes Tavan Tolgoi - SOE
- Tavan Tolgoi JSC – majority share owned by local gov.t
- Energy Resources LLC – private company

Nariin Sukhait basin:

- Mongolian Alt Corporation (MAK)
- Chinhua MAK
- South Gobi Sands
- Usukh Zoos
- All of them are 100% private

2. Coal trading

Finding and contacting customers:

- Most companies sell their coal through small and medium Chinese traders such as Winsway Holdings
 - Traders are responsible for transport and logistics, and offer flexible conditions
- No problem to find and contact with buyers especially during growth periods

Contracting and pricing:

- Most trading contracts are one-off due to market risk and limited orders
- Contract prices are set to be equal to market prices

Contract prices	=	Chinese sea port prices	-	All transporting and border crossing costs back to the mine site	-	Washing costs
\$73 (ETT)		\$170		ship \$67+cross \$5+load 3\$+tax 17%		~\$3

- Small companies tend to sell at lower prices
- Erdenes Tavan Tolgoi (SOE) started open bid sales at their mining site

2. Coal trading

Transportation and logistics:

- All of the companies transport coal via road → high cost
- Tavan Tolgoi basin:
 - the distance to the border is 270 km → higher transportation cost
 - traffic is heavy and capacity of China's border control is limited → longer time to cross the border
 - The status of the border port is local, not international → Chinese local authorities arbitrarily put limitations or fees on border crossing and transportation
 - The railway project has been postponed
- Nariin Sukhait basin, Khushuut mine: close to border, no traffic, very little border crossing issues

2. Coal trading

Other issues:

Limited research capacity and business model of companies



No detailed market analysis

No coal exchange or trading platforms, no pricing board



Taxation issues

No export financing services



Up to 30% advance payment before transporting

There have been only a few cases of contract disputes in the coal sector

3. Other Minerals: Iron ore trading

- Bold Tumor Eruu Gol LLC (BTEG) is the largest exporter and ships via railroad (built a 70 km railroad from its mine site to the main railroad)
- Altain khuder LLC is the second largest exporter and ships via railroad but production has decreased in recent years
- The sales targets are the steel factories in Northern China



3. Other Minerals: Iron ore trading

Issue #1: Benchmark price definitions for the royalty tax

No iron ore trading platforms & no reliable, transparent trading contract

↳ Chinese price index is selected as benchmark & difficult to calculate

↳ Disputes and burden on tax compliance

	Additional rate on the basic rate, 5.00, depending on the level of processing		
Benchmark price, in USD per ton	Ore	Concentrate	Final product
0-60	0.00	0.00	0.00
60-70	1.00	0.70	0.40
70-80	2.00	1.40	0.80
80-90	3.00	2.10	1.20
90-100	4.00	2.80	1.60
above 100	5.00	3.50	2.00

Source: Law on Minerals, Article 47.5

3. Other Minerals: Iron ore trading

Issue #2: High tariffs for local railroad transport

- Distance from the mine to the border ~ 1100km & no discount for long distance
 - ↳ Higher transportation cost ~ \$17 per ton
- + Tariff rate for border crossing is set higher by the Ulaanbaatar Railway to cover its loss from passenger transport and other domestic freight
- + Roundabout railway from Chinese border to Bautou, the main consumer steel mill (908 km)
 - ↳ Alternative railroad project (~ 318 km shorter) is planned but the proposal has not been approved

3. Other Minerals: Copper and Zinc Concentrate

Copper and zinc are traded at global commodity exchanges:

- Copper concentrate from Oyu Tolgoi and Erdenet
- Zinc concentrate from Tsairt Mineral
- traded by standardized (but not transparent) contracts → Lower trading issues

Transportation:

- The main destination is China
- Erdenet and Tsairt Mineral ship their concentrate via railway
- Oyu Tolgoi ship via paved road

Zinc Concentrate:

- Must send a sample of the concentrate for examination to the Customs Central Laboratory and Central Geological Laboratory located in Ulaanbaatar → Extra idle time and cost at Sainshand station while waiting

4. Conclusions and Suggestions

- Coal and iron ore exporters are facing severe problems
 - The main impediment is the bottleneck in transportation and logistics.
 - Modern trading systems (commodity exchange, trading platforms) are needed
- Almost all Mongolian mining companies don't conduct in-depth market research
- Most coal exporters directly sell the raw material to buyers at the mining site
- Export financing services including payment and insurance is not well developed

4. Conclusions and Suggestions

- **A commodity exchange or trading platform** should be established. Exploratory studies and preparations were already done to some extent.
- At the policy level, **traders' activities** should be supported. A Law on Trade may be needed to regulate and support trading activities.
- Companies in the mining sector, in particular state-owned companies, should make all contracts including sales **contracts transparent**.
- **Export financing mechanisms** should be developed. Establishing a Mongolian Export Import Bank could be a potential solution. Detailed policy research is needed.
- **Capacity strengthening projects** like regular training on contracting, trading, taxation and mining governance issues for mining companies, government agencies and sector specialists should be implemented.

Thank you for your attention