



The AMERICAN CHAMBER of Commerce in Mongolia

Position Paper on the Export Potential of Mongolia's Agriculture Sector



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Through its Agriculture Committee, AmCham Mongolia is developing the position paper “Export Potential of Mongolia’s Agriculture Sector”. The paper presents an overview of the sector and its export potential by showcasing stories and identified opportunities. It will also suggest ways forward to unlock potential and provides some models for scaling up potential.

The paper was prepared by the AmCham Committee and valuable inputs from all members under the leadership of the Chairman of AmCham Mongolia’s Agriculture Committee Mr. Michael Morrow. The Agriculture Committee operates under the authority of the AmCham Board of Directors.

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Background

Mongolia's economy is largely dependent on commodity exports. However, with its geographical location, natural resources, and well-educated, young population, the country has huge potential to advance the development of other sectors of the economy, such as agriculture, tourism, financial services, renewable energy, and ICT.

Therefore, encouraging economic diversification and the growth of non-mining business is one of the priorities of AmCham's policy and advocacy initiatives. To promote the potential of Mongolia's agriculture sector, namely its export opportunities, through its Agriculture Committee, AmCham Mongolia is developing the position paper "Export Potential of Mongolia's Agriculture Sector".

The paper presents an overview of the sector and its export potential by showcasing stories and identified opportunities. It will also suggest ways forward to unlock potential and provides some models for scaling up potential.

Agriculture Sector Analysis

Agriculture is a traditional economic sector in Mongolia, serving as the backbone for the population's food supply and domestic crop production. According to government statistics, in 2017, the sector directly accounted for nearly 10.3 percent¹ of the GDP, 6.3 percent² of export income, and 30 percent³ of the workforce.

Mongolian agriculture faces a few broad challenges. Weather remains a major challenge, particularly in the context of climate change, which is having a severe impact on Mongolia. The agriculture sector also encounters institutional, systemic and infrastructure challenges to developing into an internationally competitive sector. In addition, the agriculture sector is facing growing competition from the mining sector for resources – e.g., for financing, land and other resources. Mongolian agriculture has two main sub-sectors, namely animal husbandry and crop farming.

Animal husbandry

Animal husbandry is a main contributor to the sector, making up the majority of overall agricultural products. In 2017, Mongolia had a livestock population of 66 million, while the number of herder families stood at 169,740, illustrating that animal husbandry is directly connected to thousands of Mongolians' livelihoods.

Severe weather conditions, including extremely dry summers and harsh winters, can have dire consequences over pasture, resulting in the loss of thousands of livestock and having a devastating impact on the livelihoods of herder families.

Within the animal husbandry sector, meat for export has great potential; however, the continued presence of major diseases hinders development. A foot-and-mouth disease epidemic in 2017 that continued into this year, saw the disease enter provinces not previously affected. Foot-and-mouth disease, brucellosis and other diseases pose challenges to the sector. Notwithstanding, mutton exports to Iran and the export of processed meat to China are increasing. Chinese investment in the sector has also increased.

Cashmere

Cashmere is also a major contributor to animal husbandry income, with cashmere prices approaching 100,000 MNT per kilo this year. The major challenge is the overstocking of cashmere goats and the degradation of both pasture and cashmere quality as a result. Most cashmere goes to China in raw or semi-processed form. Much work remains for developing the domestic value chain and in making cashmere production sustainable. The government and the Sustainable Fiber Alliance are addressing these issues. Opportunities also exist for developing commercial activity around the fiber of other animals, including yak fiber for US markets, where tariff exemptions are being sought.

¹ GDP production, NSO data. www.1212.mn

² Mongolia's foreign trade review by the BoM. www.mongolbank.mn

³ Employee classification, NSO data. www.1212.mn

Crop Farming

The crop production in Mongolia faces a few challenges that are structured as follows:

Government legal environment: The current legal structure is such that farmers cannot use their land to secure needed improvements, they pay additional taxes when they finance equipment instead of buying it out right, and there is no certainty in the ability to export their products to neighboring countries like China. Generally speaking, farming land has no value when it comes to get lease or purchase equipment because they do not technically own the land. This also limits much needed foreign investment in the agricultural industry (Because of Mongolian Land Law).

Poor government decision-making: Mongolian Government made deal with Chinese government and Russian government in last couple of years which negatively impacts local dealers and service providers. Government deal has offered to farmer 5-7-year tenure financing and 0-5.6 percent interest annually for Chinese and Russian equipment. But this Russian and Chinese equipment government brings not really up to date equipment, is too small generally and is not efficient. It in truth is just dumping of equipment by the Russian and Chinese government.

Weather and Irrigation: Weather in Mongolia is a very big challenge of all with the uncertainty of rain although the ground is fine and productive similar to places in the US and Canada. Most of Mongolian farmer's common goal is obviously to get best out of during this unpredictable weather circumstances. The “bad year” cycle could be dropped significantly lowering farmer risk factor is access to proper irrigation equipment through financing was available. Irrigation system can give more crop and guaranteed output to farmer. As of today Mongolian agriculture farming with Irrigation counted for 54.1 thousand hectares.

But using only 40.4 thousand hectare by 2015

- 3.8 thousand hectare – Crop
- 10.2 thousand hectare- Potatoes
- 6.8 thousand hectare- Vegetable
- 4.9 thousand hectare-Fodder
- 5.6 thousand hectare- Fruits
- 8.6 thousand hectare- Hay
- 540 hectare- Other

There is a growing tendency in last couple years crop farmers are more interested in investing in Irrigation system.

Small, non-productive, poor-quality equipment and bad chemicals: Farmers using their old equipment and Chinese chemicals which do not have any productivity as well as inefficient on cost per hectare. The equipment and chemicals are out dated and with regard to the chemicals, dangerous. One farmer has successfully harvested 500 hectares and world standard productivity levels, but he has himself made the investments necessary to reach such productivity levels. Very few farmers can afford to follow his road map even though many want to because of financing. His model would be profitable and sustainable but government involvement, expertise and access to sustainable financing are necessary.

Improved technology with viable financing structures: We believe if farmers start using state of art technology they will have huge benefit and get really what they wanted from agriculture farming. Modern equipment has huge benefit on productivity and less operating cost. On the one hand, farmers knew capability of equipment, but on the other hand, they could not afford to purchase or lease because of that tenure is too short and interest rate is too high. The government needs to institute policies which allow farmers to modernize without bankrupting themselves with unreasonable financing structures.

Dairy production

Mongolia's dairy industry has grown in importance and can be a major contributor to the economy. In particular, organic cheese and camel milk products have great potential to be promoted as Mongolian-branded products. However, due to inattention to the development of government-to-government protocols for the export of these products, and inappropriate or underdeveloped processing facilities, the development of the sector is slow. Anecdotal evidence illustrates that, despite having such a large number of livestock, Mongolia uses very little of its own animals' milk and imports large quantities of powdered milk and more than 90 percent of its cheese.

Lack of pasture management, such as overgrazing, adds vulnerabilities to animal husbandry. The short growing season of 100 days results in low crop yield, and Mongolia faces infrastructure and logistical challenges in the processing and manufacturing of animal by-products. Only 2.3 percent of meat, 8 percent of milk, 25.5 percent of wool, 8.3 percent of cashmere, 35.3 percent of cow hides, 7.4 percent of sheep skins, and 10.4 percent of goat skins were processed in 2016.

Export Potential

AmCham Mongolia argues that cashmere, wool, skins and hides, meat and dairy are the areas that need to be addressed by the government as the top priority in export promotion policies. Without highlighting certain areas and focusing funding, expertise and other resources on few areas the efforts will be fruitless.

Export Opportunities

The abundance of raw agricultural products and Mongolia's strategic location present a lot of opportunities for the country's agricultural sector development. Meat export is one of the primary sectors with the great potential to diversify Mongolia's economy. It is estimated that Mongolia's annual meat production amounts to 400,000 tons. In addition, the animal husbandry industry produced 27,400 tons of sheep wool, 1,700 tons of camel wool, 9,400 tons of cashmere, 1,200 tons of camel wool, 891,500 liters of milk, and 14 million hides and skins in 2016. The sector has the potential to make hundreds of millions of dollars in profit from using by-products. Income will be multiplied if raw materials are processed and turned into finished products. Mongolia is strategically located to become a major supplier of a variety of quality animal products, including meat and dairy products.

Ways Forward

Policy messages and actions the government needs to take to promote exports in the agriculture sector

- Improving access to finance at the grassroots level remains a significant problem, especially for small and medium-sized companies involved in value chain development. The perennial problems of obtaining operating capital often mean that processing capacity is underdeveloped or, when developed, is underutilized. Long-term low interest financing should be focused and targeted on these few specific sectors and not across the agriculture sector.
- Progress has been made in the past year, but the government could be more engaged with exporters and potential exporters in the agriculture sector in overcoming tariff and non-tariff barriers to agricultural exports.
- Continued emphasis needs to be made in the development of value chains around branded products for high-end niche markets, especially with regard to processed meat, cashmere and other fiber products, cheese, and organic products.
- Given the increased number of livestock – especially cashmere goats – and the sector's increasing reliance on livestock for commercial success, efforts to improve pasture management and to address other issues that affect sustainability are critical.
- The new Animal Health Law enacted by the government in June is most welcome, but attention will need to be given to its implementation if it is to play a major role in establishing traceability for meat and milk products, and in eliminating major diseases.
- Opening foreign markets through Free Trade Agreements and other preferential access treaties/unilateral action; (such as EU GSP plus and a latest initiative – the Third Neighbor Trade Act. These initiatives must specifically focus on these sectors and seek to gain expertise from law firms specializing in trade negotiations, learn from experiences of other countries in other bilateral treaties, i.e. seek to bring in expertise from other sources.



- Joint marketing by government and private companies (market research, representative offices, exhibitions, conventions, events); regularization of industry-government discussion in these specific areas through regular meeting of sectoral and generic industry associations; addressing issues such as animal health system etc. through these regular industry-government mechanisms of cooperation and discussion. This initiative ideally, be preceded by the establishment of some proto-organization.
- New, innovative schemes of joint investments should be sought with the government investment along with the international development banks. For instance, the government-owned banks like the Development Bank can be mandated to undertake these actions.





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