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PRSENTATION ON TRANSIT TRANSPORT ISSUES OF MONGOLIA
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INTRODUCTION

With an area of 1,564,100 sq. kilometers, Mongolia is the 7th largest country in Asia and one of the largest landlocked countries in the world. Mongolia has a total borderline of 8,162 km, of which 3,485 km is shared with Russian Federation to the North and the remainder with China to the East, South and West. Adequate transport and communication facilities play a vital role in the country's economic development and efficient access to seaports or gateways is one of the key factors in increasing Mongolia's trade competitiveness.

SECTION I: 1. Overview of Mongolia land transport infrastructure and transit regulations

Mongolia' s Government expenditure related to transport and communication has been estimated for 2000 at US$ 8,650,000. Table 1 shows the relative importance of the respective transport modes for the latest available years.

Table 1: Freight movement (in 1 000 tons)

Transport	**1998**	**%**	**1999**	**%**	**2000**	**%**
Road	1,247	14	1,330	13.9	1,480.4	13.9
Railway	7,615.1	85.8	8,199.3	86	9,158.5	86
Inland waterway	1.3	0.01	1.5	0.01	1.6	0.01
Pipeline	-	-	-	-	-	-
Air	3.5	0.03	2.72	0.02	2.9	0.02
Ship	-	-	-	-	-	-
Total	8,866.9	100	9,533.5	100	10,643.4	100

Source: Ministry of Infrastructure (2002)

2. Road Transportation

The total road network in Mongolia is 49,250 km; of which 11,063 km are state roads and 38,187 km are local roads. Table 2 provides some basic road development indicators for the latest available years.

Table 2:Road development indicators

Classification	1998	1999	2000
Population (1000s)	2,349	2,382	2,407.5
Population density (person/sq.km)	1.5	1.5	1.5

Road density (km/sq.km)	0.034	0.034	0.034
Number of vehicles	73,122	82,225	84,554

The relatively poor road network limits road transport within Mongolia. The road and rail transport network is currently being refurbished with external assistance and with the construction of an east-west arterial road that began in 2001. This east-west arterial road and five other vertical arterial roads are part of the "Millennium Road Project" approved by the Mongolian Parliament on January 25, 2001. The purpose of this project is to improve road transport in Mongolia and the promotion of road links with the Russian Federation and China.

3. Railway Transportation

The majority of Mongolian imports and exports are carried by rail, both within the country and in the neighbouring countries. The main railway section of the Mongolian Railway is a trunk line between Sukhbaatar on the Russian border through Ulaan Baatar to Zamiin Uud on the Chinese border, a distance of around 1,400 km. It is in reasonably good condition and it is also a transit route for cargo moving between China and the Russian Federation via Mongolia. The railway also serves the three largest agglomerations, namely Ulaan Baatar, Darkhan and Erdenet. Rail carries the bulk of Mongolian cargo tonnage, due to spur rail lines that connect to the major coalmines and the Erdenet copper mine. The rail system is run by a Mongolian-Russian joint venture.

4. Air Transportation

Because of vast distances and poor roads, the domestic and international air transportation system of Mongolia is relatively well developed. Traditionally, airfreight did not play an important role in Mongolia's transit traffic. Today, however, it is growing and has far greater potential for the near to intermediate future. Mongolia has direct flights to Moscow (Russian Federation), Beijing (China), Berlin and Frankfurt (Germany), Tokyo (Japan), Seoul (Korea), lrkutsk (Russian Federation) and Hot Hot (China).

SECTION II: 1. Analysis of selected Mongolian transit corridors

The transport costs in our case study are based on offers that were obtained by interviewing Mongolian service providers, which operate in Ulaan Baatar. Prices quoted concern the shipment of 1 TEU (Twenty Foot Equivalent Unit) on a Freight All Kind (FAK) basis. Depending on the quantity of goods transported, lower quotes may be possible.

2. Mongolian transport corridors

The only Chinese seaport currently used for Mongolian transit traffic is Tianjin port. This is a large, well-equipped and well run port with plans for phased expansion through 2010. By contrast, Mongolia can use at least six Russian seaports: Vladivostok, Nahodka, Vanino and Vostochny, all on the Sea of Japan; St.Petersburg on the Baltic Sea and Novorossisk on the Black Sea. All these ports have adequate facilities and rail connections with the ports are also adequate. The main analysis of this presentation is focused on the transit corridor via Tianjin in China (all rail and road-rail combination).

Due to the limited time frame of the study, the transit routes via the port of St Petersburg and Novorossik in the Russian Federation have not been included. The majority of the data will be related to import transit routes; however, references to export transit routes are also made within the selected transit corridors.

Route No.1: The Tianjin (China) to Ulaan Baatar Corridor (All rail)

The majority of Mongolian transit traffic is carried by rail through this corridor . Tianjin port is the designated seaport for Mongolian transit goods in the 1991 transit agreement between China and Mongolia. The total distance from Ulaan Baatar to the port of Tianjin is estimated at around 1,700 krn. This transit corridor has been in operation since September 11, 1989 and the mode of transport for this corridor is rail transport from Tianjin to Ulaan Baatar.

Table 3:Road development indicators

Route	Length in km
Tianjin to Erenhot	990
Erenhot to Zamiin Uud	14
Zamiin Uud to Ulaanbaatar	710
Total	1700

Source: Adapted from ESCAP (2002)

Table 4: Cost, time & Reliability for import to Ulaanbaatar via Tianjin (all rail)

	Cost per TEU (US$)	**Cycle (minimum)**	**Time (maximum)**	**Reliability**
Port charges in Tianjin	80			+
Rail transport (Tianjin-Erenhot)	500	1 day	3 days	+
Document charges	13	-	-	-
Transit charges	30	-	-	+
Border crossing (Erenhot-Zamiin Uud)	250	1 day	1-5 days	-
Rail transport (Zamiin Uud-Ulaanbaatar)	150	1 day	3 days	+
Road transport (Ulaanbaatar-warehouse within 10 km radius)	20	½ day	1 day	+
Road transport (warehouse-Ulaanbaatar)	20	½ day	1 day	+
Return of empty container from Ulaanbaatar to Zamiin Uud	70	1 day	3 days	+
Border crossing (Zamiin Uud- Erenhot) charges	117	1 day	1-5 days	-
Return of empty container				

Erenhot -Tianjin	230	1 day	3 days	+
Total	1,400	7 days	16-22 days	

The import transit cost for one TEU has been quoted at USD 1,400 from Tianjin to Ulaan Baatar for a carrier-own-container (coc), If the container was a shipper-own-container (soc) then the price quoted would be around USD 1,100. In the case of a FEU (soc) the quoted price is around USD 1,600. These prices are just for one TEU only and can be negotiated in the case of larger volume. The price quoted also include the price of empty return to Tianjin port. The cost of empty return represents 31% of the total transport costs of moving a container into Mongolia. This would mean that if there was sufficient export volume, import transit cost could become more competitive. The Local road transport cost within Mongolia are quite reasonable at USD 20 per container within a 10 km radius of Ulaanbaatar' railway station.

Border crossing charges are quite significant at 30% of the total transport cost. These charges are composed of physical border crossing charges, document and transit charges. In any transit system, the capacity or the reliability of the system will be a reflection of its weakest link. The reliability indicator, which is a perceptual tool, clearly demonstrates that there is a positive level of confidence regarding the transport system along this corridor except during border crossin g where this perception becomes negative.

Route No.2: The Tianjin (China) to Ulaan Baatar transit Corridor (Road and rail)

It is also possible to use road transport to carry goods into Mongolia from Tianjin. The trucks stop at Zamiin Uud where the goods are moved by rail transport up to Ulaanbaatar. The road infrastructure from Zamiin Uud to Ulaanbaatar cannot, at the present moment, cater for the movement of containers by road. Rail transport is the sole effective link between Zamiin Uud to Ulaanbaatar but a number of infrastructure projects are currently being studied and implemented in order to pave roads in Mongolia and in particular on this route from Zamiin Uud to Ulaanbaatar, which is on Asian Highway route No.AH3. In the case of transit traffic from the port of Tianjin, only SINOTRANS is authorized to carry Mongolian cargo by road from Tianjin port up to Zamiin Uud. The crossing of the border is done with the help of a Mongolian truck driver that drives the Chinese truck from Erenhot to Zamiin Uud. Chinese trucks are allowed into Mongolia up to Zamiin Uud while Mongolian trucks are forbidden to cross the bor.der. This means that goods for export are being transshipped in Zamiin f Uud onto Chmese trucks.

Table 5: Cost,Ttime & Reliability for Import to Ulaanbaatar via Tianjin (Road- rail)

	Cost per TEU (US$)	**Cycle (minimum)**	**Time (maximum)**	**Reliability**
Port charges in Tianjin	80			+
Road transport (Tianjin-Erenhot)	655	1 day	1.5 days	+
Document charges	13	-	-	-
Transit charges	30	-	-	+
Border crossing (Erenhot-Zamiin Uud)	250	1 day	1-5 days	-

Rail transport (Zamiin Uud-Ulaanbaatar)	150	1 day	3 days	+
Road transport (Ulaanbaatar-warehouse within 10 km radius)	20	½ day	1 day	+
Road transport (warehouse-Ulaanbaatar)	20	½ day	1 day	+
Return of empty container from Ulaanbaatar to Zamiin Uud	70	1 day	3 days	+
Border crossing (Zamiin Uud- Erenhot) charges	117	1 day	1-5 days	-
Return of empty container Erenhot -Tianjin	307	1 day	3 days	-
Total	1,712	7 days	14-22 days	

While the price quoted here are on the same level as for rail transport, road transport is slightly more expansive than rail between Tianjin and Erenhot. Road transport charges have been quoted at US$ 655/TEU in contrast to US$ 500/TEU for rail transport. This quote is only valid up to Erenhot on the Chinese border. The price of transport per TEU per km for this leg is around US$0.66.

Transit time when combining road and rail from Tianjin port is usually faster than the all rail route, especially for inland transport within China. Only the twice-weekly block train express can compete with the road and rail transit corridor in terms of transit time and reliability but there is less flexibility with respect to departure times. Transit time to Erenhot is on average within 24 hours (with 2 drivers), which is slightly better than the express block train service, with an average speed of 40 km/h. The border crossing itself can be done within a couple of hours.

SECTION III: Existing legal framework relating to Mongolian Transit transport

1. Bilateral Agreements

1. *Transit agreement with the Russian Federation (1991)*
2. *Transit agreement with China (1991)*
3. *Road transport agreement with China (June, 1991)* but in practice Mongolian trucks are still prohibited from entering China, while Chinese trucks can enter into Mongolia (at least up to the border town)
4. *Road transport agreement with the Russian Federation (February, 1996)*, where Russian and Mongolian trucks can transport goods into each other countries.

2. Related International Conventions

1. *The* 1965 *New York Transit Convention.* Mongolia is a party to the Convention on Transit Trade of Land-locked States, New York 1965, relating to the transit trade of land-locked states, signed on 8 July 1965 in New York. This Convention recognizes that the transit trade of landlocked countries, comprising one fifth of the nations of the world, is

of the utmost importance to economic co-operation and the expansion of international trade. The difficulty for Mongolia is that China has not acceded to this convention and is therefore not bound by its principles.

2. *The TIR Convention.* Mongolia has acceded to the Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention, 1975) on October 1, 2002. The TIR Convention will enter into force for Mongolia on I Apri1 2003. The International Road Transport Union (IRU) is in the process of authorizing the National Road Transport Association in Mongolia (NARTAM) as an issuing association and the process of authorizing NARTAM as a guaranteeing association *vis-a-vis* the Mongolian Customs authorities is underway as well according to information provided by IRU. Subsequently, if the authorization process is not delayed, it can be expected that the TIR procedure can be used in Mongolia as from June 2003 according to IRU.

3. Trilateral Agreement

Mongolia is currently negotiating a proposed draft transit framework agreement between China, Mongolia and the Russia Federation with UNCTAD acting as facilitator. The agreement will provide a legal framework for efficient transit systems to and through Mongolia. In particular, it will guarantee freedom of transit by all modes of transport and promote simplification, harmonization and standardization of customs, administrative procedures and documentations.

The Mongolian Ministry of Foreign Affair is very keen for the successful outcome of the draft framework agreement for transit traffic between China, Mongolia and the Russian Federation. We hope that this framework agreement will be finalized soon. Even though the Mongolian Ministry of Foreign Affairs is taking the lead for the negotiation of this draft framework agreement, the involvement of the Ministry of Road, Transpotration and Tourism is considered critical to the success of the negotiation as there are numerous difficulties regarding the interpretation of some clauses.

The draft framework in itself is not problematic with most major issues having been settled during the negotiating meetings held in November 2004 at Geneva. It is feared that the biggest difficulty will come with the negotiation of the annexes.

CONCLUSION:

- The geographical remoteness of Mongolia which results in high costs of transport causes handicaps for our trade relations with the rest of the world to grow.
- Moreover, Mongolia also need to comply with differing transit formalities for imports and exports including additional controls and checks as well as excessive security measures applied on goods in transit with the two neighboring countries- Russia and China. The traders are faced with unreasonably high transit charges in neighboring countries. Finally, lack of effective internal coordination among Mongolian authorities makes it difficult to introduce more streamlined transit procedures.

- We believe that solving these problems and streamlining the transit procedures, would contribute to accelerate Mongolia's economic development through the expansion of trade. To this end, we propose the introduction of the following measures by making proposals to the draft transit framework agreement between China, Mongolia and the Russia Federation.

    - Non-discrimination between modes of transport, origin and destination, carriers, routes and goods;

    - Officials in charge must exhibit the legal instrument by which these fees and charges are imposed, when requested by a user;

    - To encourage a permanent review mechanism, such as a commission formed by representatives of the sectors;

    - To meet periodically with the relevant authorities of the neighboring countries to discuss new fees and charges imposed in connection with transit as well as their modification, prior to their entering into force;

    - Maintain reasonable transit formalities, with a view to minimizing unnecessary delays or restrictions on traffic in transit. Introduction of a simplified and preferential treatment for perishable goods to be transited;

    - Maintain reasonable transit documentation requirements. Coordination of documentation requirements among all the authorities involved in traffic in transit;

    - Establishment of a cross border cooperation scheme that would enable to consult and cooperate on the issue of traffic in transit.