

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

Global Forum on Competition

COMPETITION, STATE AIDS AND SUBSIDIES

Contribution from Mongolia

-- Session I --

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STATE AIDS AND SUBSIDIES

-- Mongolia --

1. Our country, Mongolia, has been implementing state intervention by providing aids and subsidies as other countries have, and these activities have been contributing to the economic and social aspects of our country. In regard to state aids and subsidies in 2008 and 2009, the largest proportions of state aids and subsidies were given to social, agriculture and education sectors. For instance, in 2008, 76% of total state aids and subsidies, namely about 273 billion tugrug were distributed to the social sector while 6%, approximately 17 billion tugrug, was provided to the agriculture sector. In 2009, 61% of total state aids and subsidies, namely about 167.25 billion tugrug, were distributed to social sector while 16%, approximately 43.6 billion tugrug, was provided to the agriculture sector. Please see the detailed information in Figure 1 and Figure 2.

Figure 1. State Aid and Subsidies by Sector 2008

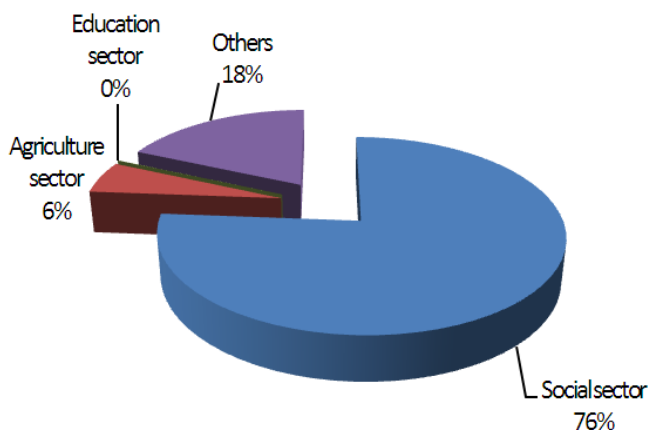
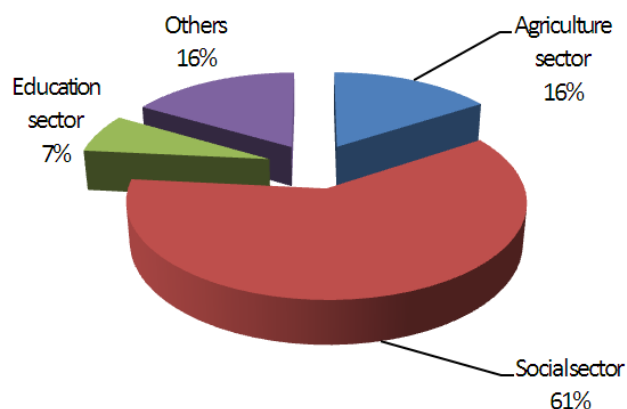


Figure 2. State Aid and Subsidies by Sector 2009



Remark: The amount of tax break and reduction is not included in the above mentioned state aids and subsidies.

2. The largest portion of the above mentioned state aids and subsidies consisted of aids, subsidies and interest rate reductions for overcoming the financial crisis and promoting small and medium sized enterprises. Moreover, as seen from the statistics, a large portion of state aids and subsidies was distributed into the agriculture sector.

1. The Agricultural Sector

3. In our country, as results of the successful implementation of “Campaigns for reclaiming the virgin lands under cultivation-1, 2” in 1959 and 1976, the independent husbandry sector was built and expanded. The area for cultivation reached 1.2 million hectares and the amount of production increased. It brought a range of important and valuable benefits, not only in public welfare, but also in the overall development of our country.

4. However, due to various reasons such as climate change in the world, the deterioration of the financial situation and also decrease in qualified, experienced specialists, just 30% of the area is harvested, only 24.9% of seeds are being harvested, 47.0% of vegetables and 86.0 percent of potatoes are harvested in the whole country.

5. Therefore, since 2008, “The 3rd Campaign for Reclaiming Virgin Lands” has been organised under Government resolution. In the framework of this campaign the Government is providing state aids and subsidies in this sector to a considerable degree. Particularly, in 2008 in order to support the floating capital for the business entities and individuals, Government provided a trust loan (a loan without a required deposit) in the amount of 1.0-2.0 billion tugrugs to some provinces. In addition, 10.2 billion tugrugs were distributed to the 103 projects which had applied for 30.2 billion tugrug to be involved in the credit on easy term from state.

6. Government imported 6.0 tons of seeds from outside by 6.4 billion tugrugs for the spring harvest and lowered the prices by 50 percent which costs 470 thousand tugrugs. Government has also sold the domestic seeds at 400 thousand tugrugs and granted 10758 ton seeds to the 300 entities and individuals at 20% prepayment for harvest.

7. In the scope of this campaign, Government invested petroleum to the 1044 entities and individuals. It cost 3.7 billion tugrugs to support them, and as result of this, 256.4 thousand hectares were harvested in 2009.

8. In 2008, when the National program of agriculture development ‘Campaign for Reclaiming Virgin Lands’ was launched, a total amount of 205.8 thousand tons of seeds, 142.1 thousand ton of potatoes, 80.6 thousand tons of vegetables and 15.7 thousand ton of hay were harvested in Mongolia.

9. Compared with same period of the 2007, the volume of seeds increased by 91.2 thousand tons, potatoes by 28.5 thousand tons and vegetable by 1.5 thousand tons. This satisfied 50% of the annual need seeds, 100% of the annual need of potatoes as well as 49% of the annual need of vegetables from domestic harvest.

10. In the scope of the ‘Campaign for Reclaiming Virgin Lands’ 32.7 billion tugrugs were spent in 2008.

11. In order to enhance the fruit production in Mongolia, 835 million tugrugs were lent to the selected projects of 30 entities and 13 individuals from 18 provinces.

12. In 2009, 30 billion tugrugs were allocated in budget amendment to provinces for promoting small and medium sized enterprises, 850 million tugrugs were also placed in funding for the development of small and medium sized enterprises.

2. The Petroleum Product Sector

13. Our country provides for the consumption of petroleum products totally by import and 90% of it has been providing by only a Russian company named “Rus-neft”. In other words, that company is a monopoly supplier for Mongolia. Increasing the petroleum product price year-by-year and month-by-month has had adverse effects on the normal activities of enterprises (importers) and also to the cost of living. Therefore, the Government of Mongolia has decided to provide custom tax and excise duty reductions for petroleum product importers in order to prevent price increase. This could be a good decision for preventing excessive price increase and stabilisation. This provides fair chances to private and state-owned companies, and international and domestic companies could not restrict competition and raised any unfair competition.

3. The Construction Sector, by the plan of 2010

14. In our construction sector, financial difficulties have been raised and some companies face the problem that they cannot pay the interest rate for banks. This would lead to difficulties for the construction sector and commercial banks. So, our government is planning to provide apartment mortgage loans for civil servants in a way of selling Government bonds of 180 billion tugrugs in order to solve financial difficulties in construction sector and to improve the liquidity of commercial banks.

15. In the competition law of Mongolia, which is called “The law on prohibiting unfair competition”, there are no specific regulations on state aids and subsidies. However, in chapter 11 of this law, there is a group of regulations which are focused on prohibiting the decision of state authorities on restricting competition. In the scope of this group of regulations, it is possible to prohibit distributing state aids and subsidies unfairly and restricting competition.

16. Nowadays, we, the Authority for Fair Competition and Consumer Protection, have no cases which are about state aids and subsidies leading to restricted competition.

17. We will focus on controlling on state aids and subsidies in view of competition.