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Mongolia Livestock Situation

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Report Highlights:

The global financial crisis that began in 2008 continues to have a negative impact on Mongolia's economy. Although inflation is down and the local currency is up, livestock herding, which provides a living for approximately 28 percent of the population, continues to be under stress. In recent months, the herding sector has been most severely affected by a sharp reduction in cashmere and meat prices. At the same time, low local meat prices and increasing poverty, have resulted in a sharp decrease in once rapidly growing exports of U.S. chicken meat that peaked at a record \$2.2 million in 2008. In the years ahead, as the economy recovers, Mongolia is expected to become a steady \$2-3 million market for U.S. chicken products, especially to Ulaanbaatar, the cities and the mining sector.

General Information:

Production:

Livestock Numbers

Mongolia has a long tradition of raising livestock. Its pastoral production system dates back at least 1,000 years. Mongolia is home to 43 million head of livestock, consisting mostly of goats, sheep, horses, cattle, and camels. This number has increased in recent years because Mongolia has not had a *dzud* for several years. (A *dzud* is a winter disaster that covers pastures with ice and causes mass livestock starvation.) The most recent *dzuds* affected Mongolia in 1996-1997, 1999-2000 and 2000-2001 – the last of which killed 13 percent of the country’s total livestock.

Livestock Numbers	
Year	Number
2004	28,027,900
2005	30,398,800
2006	34,802,900
2007	40,263,800
2008	43,288,400

Source: FAOSTAT

Livestock Herding and the Economy

In 2008, agriculture accounted for 36.0 percent of Mongolian employment and 18.8 percent of GDP. About 80 percent of agricultural production is animal-based while the remaining 20 percent mostly comes from field crops, mostly wheat. Only about 1 percent (1.35 million hectares) of total land is suitable for crops while more than 80 percent of Mongolia’s land area is used for livestock herding. At present, 60 percent of Mongolia's population lives in the cities and 40 percent are rural; 28 percent of the population still herds.

On the positive side, the relative decline in herding as a share of economic activity is a result of economic growth that includes retail services, such as banking, tourism, restaurants and hotels – both in Ulaanbaatar and the countryside. However, some of the reduction in herding came from the loss of Soviet support after 1990. Since this change, Mongolia’s economy has been undergoing a painful transformation with pastoral livestock production sometimes serving as a safety net for much of the rural population. This use of herding as a “last resort” for self-sufficiency has resulted in a sector where 68.5 percent of herders have less than 200 head. The resulting low productivity, combined with a weak veterinary infrastructure and marketing system, has resulted in low prices for

animal products and widespread poverty amongst herders.

As a result, incomes of the rural population have fallen behind the cities, creating a sharp divide between Mongolia's urban and rural residents. With 60 percent of Mongolia's 2.7 million people living in the countryside, the rural/urban income gap is a major concern for the government, especially since per capita rural incomes are still only a few hundred dollars per year. According to the 2007/8 Household Socio-Economic Survey, this has pushed up rural poverty from 43.4 percent to 49.7 percent over the past five years. Low incomes combined with unemployment and inflation have also fueled migration from the countryside to Ulaanbaatar. As a result, the city's population has swelled to a record one million, leaving just 1.7 million people living in an area one third the size of the United States.

Sector Performance

These and other problems have resulted in chronic underperformance in Mongolia's livestock sector. Mongolian herds are dominated by goats and sheep because other kinds of production are less profitable. In 2008, goats comprised 46.1 percent of the total herd, sheep accounted for 42.4 percent, horses 5.1 percent, and cattle 2.8 percent. There is very little swine and poultry production. Since 1991, cashmere sales have encouraged an increase in the goat population as the sheep population fell. During the Soviet period, the Mongolian goat population moved between to 4.5 to 5.5 million head. It has been growing since 1997, approaching a staggering 20 million head in 2008.

The current overdependence on cashmere as a cash crop has resulted in poverty because of low prices offered by traders, localized overgrazing and considerable environmental damage. Some local sources estimate that as much as 70 percent of pastureland is degraded. At the same time, Mongolia has not been able to invest in sectors where it could have a comparative advantage. For example, Mongolia imports 50-60 percent of its milk consumed in urban areas. Other problems affecting the livestock sector include drought, snow/ice, livestock disease, and pest infestations.

The livestock sector has also been severely affected by the 90 percent drop in exports since the breakup of the Soviet Union. In the 1980s, total meat exports averaged around 38,000 tons a year while in 2008 they only totaled 11,400 tons.

Meat Exports	
Year	Tons
2004	8,400
2005	7,800

2006	11,700
2007	10,900
2008	11,400

Source: Mongolian Official Data

Prospects

Although the worst is probably past, the current global financial crisis continues to have a negative impact on Mongolia's economy and livestock sector. Inflation fell from 20.7 percent to 16.3 percent from January to May. By June 2009, the local currency (the tugrik) had recovered to 1,430 to the dollar, up from a low of 1,700 in March. Despite these positive changes, the livestock sector continues to be under stress. Embassy and media sources both report that herder incomes have fallen sharply because of lower demand from Chinese traders for Mongolian cashmere. As a result, the Mongolian government even proposed suspending its existing duty on raw cashmere exports. At the same time, incomes have been further squeezed by a price drop in mutton and beef from \$4 to \$2 a kg.

Looking further into the future, Mongolia has a major opportunity from the rapidly growing Chinese market and other countries for Mongolian meat, hide and milk products. Mongolian products could be competitive in China – even with its low productivity, Mongolian prices for meat products generally are a fraction of those in China and Russia. At the same time, Russia could again provide a market for Mongolian products if it reduces its duties and liberalizes its veterinary regime.

In any case, long-term success of the Mongolian livestock sector will depend on the ability of herders to market higher quality products. In order for producers to respond, the market economy needs to create incentives to produce high quality livestock products through differential pricing. Most critically, Mongolia desperately needs investment in its veterinary and sanitary systems to increase the value of its meat products. Without this, it will face insurmountable problems exporting and will remain heavily dependent on the un-lucrative and environmentally destructive cashmere market.

Consumption:

Mongolia's diet is a result of its remote location and dependence on animal products. In general, the traditional Mongolian diet is made up of wheat flour-based noodles and dumplings, along with meat and dairy products from the major herding animals. A recent assessment of food security in Mongolian provincial centers found that these foods accounted for more than 60 percent of household food expenditures. Outside these centers, the traditional foods most likely amount for an even higher share of food expenditures. Mercy Corps, a PVO active in Mongolia, notes that low

incomes mean that price is the primary driver of consumption with other factors such as quality, brand loyalty, packaging and size being less important.

Although traditional foods are still extremely popular, the Mongolian diet has changed significantly since the transition from socialism in the early 1990's. These changes include an increase in the quantity of food consumed (caloric intake), which increased by 30 percent between 1993 and 2003 to an average of 2,250 kcal/capita/day. Diet composition has also shifted. Consumption of animal fats, rice, meat and sugar has fallen while intake of wheat, potatoes, fruits and vegetables has increased. Most notably, vegetable oil consumption skyrocketed by almost 2,000 percent as animal fat use fell.

Food Consumption Patterns, 1993-2003			
Food Items	% of caloric intake (1993)	% of caloric intake (2003)	% change
Wheat	36.28 %	39.60 %	9.2 %
Mutton & Goat Meat	17.51 %	15.38 %	-12.2 %
Milk – Excluding Butter	9.43 %	9.19 %	-2.5 %
Bovine Meat	9.14 %	7.08 %	-22.6 %
Sugar & Sweeteners	6.86 %	5.95 %	-13.3 %
Animal Fats	6.03 %	3.23 %	-46.5 %
Rice (Milled Equivalent)	5.66 %	2.49 %	-56.0 %
Meat, Other	3.14 %	2.04 %	-35.2 %
Alcoholic Beverages	1.30 %	1.91 %	47.3 %
Potatoes	0.91 %	2.61 %	187.7 %
Vegetables	0.39 %	0.62 %	58.3 %
Vegetable Oils	0.27 %	5.37 %	1,914.2 %
Fruit - Excluding Wine	0.11 %	0.68 %	530.2 %
Eggs	0.05 %	0.16 %	259.3 %

Source: FAOSTAT

Note: Most recent data

Marketing: Import Profile

While local production meets virtually all demand for most meat products, Mongolia depends on imports for many other food commodities. Although many dairy products are produced and consumed locally, imports are popular in Ulaanbaatar and other major cities because of problems with food security and the cold chain. In 2008, two-thirds of wheat, one third of potatoes and all

rice and vegetable oil were imported. Imports of donated U.S. wheat have played a major role in boosting local supplies. Mongolia has also been increasing its imports of poultry meat, especially from the United States.

Chicken Meat

In 2008, U.S. chicken meat exports reached a record \$2.2 million, up from zero in 2004. Despite high local meat production, U.S. poultry has been a popular item, especially in Ulaanbaatar where there is increasing familiarity with U.S. products. The strongest urban markets are in supermarkets, restaurants, and tourist-oriented venues such as bars. Mining settlements, which could eventually house thousands of workers, provide another potentially lucrative market for U.S. poultry. The most popular items are leg and hindquarters with retail prices averaging around 3,500 tugriks/kg (\$1.40/lb). Outside Ulaanbaatar, sales of U.S. chicken are limited by the undeveloped cold chain and low incomes.

In 2009, the rapid decline in local meat prices and discretionary incomes dented demand for U.S. chicken, lowering imports from January to March 2009 to just \$171,000. This shift toward less expensive animal proteins is expected to remain as long as the Mongolian economy remains under stress. However, as the country recovers, it is expected to become a \$2-3 million market for U.S. chicken meat.

Author Defined:

Poultry Import Requirements

Imports of chicken meat and chicken meat products into Mongolia are subject to sanitary requirements but do not require an import license. They must be from U.S. slaughter facilities approved by the U.S. Department of Agriculture's Food Safety Inspection Service (FSIS). The meat is inspected at the plant by an FSIS inspector and once its wholesomeness is determined, it is stamped. The seal means it has been inspected and passed.

Most chicken meat destined for Mongolia is transshipped through China, almost all entering through Tianjin. If product is sent to Mongolia by rail, there can be long delays – often at the China-Mongolia border where products often need to be offloaded because of a rail gauge discrepancy. In addition, the lack of temperature-controlled cars can make it difficult to move perishable goods. Since there are no sealed roads from the Chinese border to Ulaanbaatar, truck transport poses a high risk of loss or damage. While most shipments successfully transit China, it is important to work with importers and logistics companies that are capable of securing the necessary transport, sanitary documents and transit licenses.