



The AMERICAN CHAMBER of Commerce in Mongolia

The Critical Issues of the Auto Industry and Recommended Solutions



Ulaanbaatar
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AmCham Position Paper: The Critical Issues of the Auto Industry and Recommended Solutions

**AmCham Auto and Machinery Committee
November 12, 2019**

Through its Auto and Machinery Committee, AmCham Mongolia has developed a Position Paper titled "The Critical Issues of the Auto Industry and Recommended Solutions". The Position Paper outlines key challenges in promoting an environmentally friendly auto sector in Mongolia, and proposes certain policy recommendations based on local initiatives and international best practices in handling these issues.

The challenges and recommendations were developed with input from key stakeholders, raised and discussed during the Eco-friendly Auto Industry Policy workshop held on November 14, 2019. The workshop was organized by AmCham Mongolia and the Mongolian Automobile Distributors' Association (MADA), in cooperation with the Ministry of Road and Transport Development of Mongolia and the Ministry of Nature and Environment of Mongolia.

AmCham Mongolia, namely its Auto and Machinery Committee, stands ready to discuss the challenges and suggested solutions with the state's authorities to make sure that necessary actions are taken to minimize risks and avoid potential negative impact on the industry and the environment, and to improve progress toward developing an eco-friendly auto industry in Mongolia.

The paper was prepared by the Executive Team of AmCham Mongolia, under the leadership of the Chairman of AmCham Mongolia's Auto and Machinery Committee, Steve Potter. The Auto and Machinery Committee operates under the authority of the AmCham Board.

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Background

The American Chamber of Commerce in Mongolia has identified a few priority policy issues relevant to the auto and machinery industry in Mongolia and proposes short-and-medium term policy solutions based on emerging international experience.

Policy Issues

The automotive and machinery industry in Mongolia is diverse and rich in terms of the pool of vehicles and complexity of encountered issues. AmCham Mongolia and its members urge the responsible government agencies to address the following policy issues that AmCham Mongolia emphasizes as crucial to contributing to a publically safe and environmentally-friendly auto and machinery industry in Mongolia:

- Address safety on roads by limiting and eventually banning the import of **right-hand drive (RHD)** vehicles to Mongolia: It is in the interest of Mongolia's public safety to enforce a regulation to limit and gradually ban the import of RHD vehicles.
- Discourage the **import of used vehicles for public safety and environmental considerations**. To make cars in Mongolia more compliant with global standards and to protect public safety, Mongolia should not take measures that would encourage further import of old cars to Mongolia.
- Encourage the import of **plug-in hybrid electric vehicles (PHEVs)** and battery electric vehicles (BEVs) vs. internal combustion engine (ICE) vehicles, which consume petrol & diesel fuels.
- Improve road infrastructure with elevated highways, over-passes, and tunnels, implementing traffic restrictions of various types and improving public transportation.
- Advocate for the introduction of **universal emission standards** for vehicles. A thorough situational analysis of the existing standards and the development of required policy actions to amend this regulatory framework are essential.
- Address the **issue of low quality diesel fuel** in Mongolia, which is not compatible with modern Euro 5+ engines.

The issue of traffic legislation has to be looked at from a holistic point of view, with both a national policy and a policy specifically for the capital, Ulaanbaatar.

Since 1990, the overall number of vehicles in the country has increased 13 times, rising from 43,792 to 585,363, but the number of vehicles in the capital has increased 30 times, rising from 13,578 to 401,725 by the end of 2018 (Source: National Statistical Office of Mongolia)

1. Issue: Right-hand drive (RHD) vs. left-hand drive (LHD) vehicles

- Since the Mongolian road system is designed for left-hand drive (LHD) vehicles, it is necessary to address this issue, especially since right-hand drive (RHD) vehicles now out-number LHD vehicles and since 95 percent of all vehicles imported into Mongolia are used cars. Of these imports, approximately 90 percent come from Japan, which produces RHD vehicles for its domestic market, and this problem is only going to increase.
- In the capital, RHD vehicles are more prone to accidents (78 percent of all accidents in UB in 2018 involved a RHD vehicle) and also slow traffic flow.
- In the countryside, as the road infrastructure (mostly single lane, bi-directional paved roads) improves, the incidence of serious accidents is almost certain to increase.
- However, not all people can afford a new car, so there is a need to find a source of reasonably priced, used LHD cars

Solutions: Right-hand drive (RHD) vs. left-hand drive (LHD) vehicles

- Agree on a date after which the importation of RHD vehicles will be banned. The end of 2020 is one suggested timeframe.
- Agree on a period (5-10 years) after which it would be illegal to drive RHD vehicles.
- Find a source of used LHD vehicles. Explore options such as South Korea.
- Develop more flexible vehicle leasing programs so people can afford to own a new or newer vehicle without having to expend a large amount of capital.

2. Issue: Age of imported used vehicles

Many of the used cars imported into Mongolia are old (more than 8 years) and old cars, even hybrids, are less efficient than new vehicles in terms of emissions and fuel consumption.

Solutions: Age of imported used vehicles

- Limit the age of imported used cars to five years or use other economic measures to discourage continued import, such as increasing taxes for older, imported used cars.
- Carry out stringent emission tests before a vehicle is imported. If a vehicle fails the test, the vehicle cannot be imported and the importer will be fined.
- A facility that allows for the environmentally acceptable rebuilding and disposal of old batteries, both low voltage 12-volt starter batteries and the high voltage lithium-ion drive batteries used in PHEVs and BEVs, as well as the high voltage nickel metal hydride (NiMH) battery in the Toyota Prius.

3. Issue: Policy to encourage import of PHEVs and BEVs vs. ICE vehicles

- Both PHEVs and BEVs are more environmentally friendly in terms of their emissions than ICE vehicles.

Solutions: Encourage import of PHEVs & BEVs

- Create tax and duty incentives for PHEVs and BEVs. Eliminate duty and reduce VAT to 5 percent on PHEVs and BEVs.
- Install easily accessible battery charging infrastructure in garages, shopping malls, sports centers, apartment blocks in Ulaanbaatar and, later, in regional soum centers.

- Ban or restrict diesel engines in the capital. Many cities in Europe are already doing this and several manufacturers are dropping diesel engines from their product offerings.

4. Issue: Traffic congestion

- Mongolia is a country of large contrasts, from the heavily congested streets of the capital to the wide open spaces and generally very light traffic densities in most of the rest of the country.
- It also experiences extremely cold winters, so any solution has to address the fact that people do not want to be exposed to $> -20^{\circ}\text{C}$ temperatures during their daily commutes. Cities like Toronto and Chicago, which experience severe winters, have built whole city infrastructures underground (malls, restaurants, walk-ways) so people can avoid the extreme cold.
- Traffic congestion in UB is as bad as, or worse, than many cities which are significantly larger than UB. In fact, the size of the population in UB (approx. 1.6 million) complicates finding a cost-effective solution compared to cities that have much larger populations. A number of other factors have to be addressed:
 - i. Road infrastructure is inadequate for the volume of traffic, with too many traffic junctions that stop or interrupt the traffic flow.
 - ii. Driving standards are poor with significant disregard for the “rules of the road”.
 - iii. A predominance of RHD vehicles on a LHD road system complicates the situation and adds to the risk of accidents. In 2018, 78 percent of all accidents involved at least one RHD vehicle.

Solutions: Traffic congestion

- Improved road infrastructure with elevated highways, over-passes, and tunnels running N-S & E-W so through traffic can avoid the crowded intersections of the ground level city road system. Many cities use these solutions, but they are expensive and take time to build.
- Traffic restrictions of various types:
 - i. Number plate restrictions, like those in use in UB today, are proving inadequate for addressing the issue of congestion.
 - ii. Time restrictions or tolls in the central business district (CBD)
 - iii. Vehicle-specific restrictions or tolls in the CBD
 - iv. Single-driver restrictions or tolls in the CBD
- Public Transportation:
 - i. Efficient bus systems, ideally using electric buses (BEVs), not trolleys
 - ii. Efficient rail systems (ideally underground)
- Other:
 - i. Multi-function community clusters (accommodations, shopping outlets, entertainment complexes, and offices) located outside the CBD, so people do not have to commute to the center every day.
 - ii. Mandate that public and private schools provide school buses for their students and supply high quality, safe buses to schools as soon as possible. This will cut traffic congestion in the city by half.

Way Forward

Certainly, addressing the identified policy issues is a complex and time-consuming process that may face resistance from different stakeholders. There is also a high economic cost issue involved with implementing the initiatives.

Therefore, the process will require a comprehensive approach, including setting clear timelines to enforce a ban on old cars and cars with RHD; developing an incentive scheme for customers that shift from using old cars; a comprehensive review of the tax regime; enabling an inclusive process in the development of sector-specific policies and regulations; and addressing the issue of the quality of imported diesel fuel. Public agencies in charge of auto industry policy need to take long-term, practical, and bold measures to tackle these issues, rather than relying on short-term solutions.

AmCham Mongolia and its members are eager to support the government, to the extent possible, in addressing these challenging issues. Specifically, AmCham will be able to provide expert views and share international experiences in dealing with these issues; for example, by co-organizing a public-private dialogue to discuss solutions to the challenges of the auto industry.





*The **AMERICAN CHAMBER** of Commerce in Mongolia*
