

JOHN LANGTRY: GOVERNMENTS ARE NOT GOOD AT BUSINESS

2017 marks the 45th anniversary of the diplomatic relations between Australia and Mongolia. It has also been a year since the Australian Embassy in Mongolia was opened. E.Odjargal, MMJ Reporter sat down with Mr John Langtry, the first resident Australian Ambassador to Mongolia, and discussed a wide range of topics around bilateral economic cooperation.

Honorable Ambassador, thank you for your time. How did you start your career as a diplomat?

My father served in the army and I used to travel with him to many countries. I studied foreign languages, particularly Japanese, since I was young. Later, I did a linguistics degree at Tokyo University of Foreign Studies and when I graduated I worked as a research officer in the Japanese Embassy in Canberra. In 1981, I joined the Australian Department of Foreign Affairs and have been working mainly on issues related to North East Asia ever since. I have had overseas postings in Japan, China, Hong Kong and Germany.

Did you have any prior experience related to Mongolia before being posted here? What do you think the reason was for you to be appointed as the first Australian Ambassador to Mongolia?

Before being posted here, I was based in Canberra working for the Department of Foreign Affairs and Trade (DFAT). I was overseeing Japan, North and South Korea and Mongolia's foreign, trade and development assistance relations with Australia. I used to visit Mongolia at least once or twice a year and was involved in discussions regarding the second stage of Oyu Tolgoi's mine development. So I have been to Mongolia several times before being posted here.

What is it like to live and work in Mongolia?

A lot of things have developed differently in our two countries but, generally speaking, I think it is easy for

Australians to feel at home in Mongolia. Both are big countries with a small population. I think we really enjoy the open spaces, the blue sky, also the wide open countryside, so Australians do not feel the land is different.

Among other things that we have in common are our very small domestic markets and rich mineral resources, requiring both countries to rely on good-quality foreign investment to develop mining industries for export. As investors are pleased to see these similarities, we have a lot of Australian mining companies involved in mining projects, big and small, in Mongolia. Of course, Rio Tinto is the major foreign investor. It is a good Australian multinational company that I have known for many years. We are pleased to see them doing a good job at Oyu Tolgoi. A number of other Australian companies are involved in exploration, and some of them are looking at developing new mines.

So, we have the mining industry in common and we have a lot of Mongolians and Australians working together in that area in a comfortable way.

Another thing that I think we have in common in our societies is the great importance we place on good quality education. We have a fantastic relationship with Mongolia in the education sector.

Also, both Mongolia and Australia are committed to a high level of civil and political freedom. We believe in a liberal world order and both of us, I think, know that democracy might not be perfect -- no political system is -- but it is a belief in civil and political freedom that offers the best hope for the development of our societies to prosperity in a stable way.

“

We have a fantastic relationship with Mongolia in the education sector. Also, both Mongolia and Australia are committed to high a level of civil and political freedom.



Photo by B. Rentsendorj / GAMMA

“

You need a large labour force when you are building a mine, but once the mine is developed and you have to compete in the international market you can operate only with a considerably smaller work force. That is why it is important to avoid too much dependence on a single project and to look at how you develop sustainable societies and local economies.

This year we are celebrating the 45th anniversary of the establishment of diplomatic relations between Australia and Mongolia. How do you see and evaluate the current level of cooperation between our two countries?

Well, when I came here as the first Australian ambassador, I found that the relationship was already very strong and was a good base to build on. Recent highlights would include cooperation in the mining sector. We have been doing quite a lot through the development of an assistance program to contribute to better governance but also to a better understanding of mineral resources.

We are working very closely with Oyu Tolgoi, mainly because of Rio Tinto's involvement in it, and also with some other Australian mining companies to see if we can put even stronger efforts into ensuring sustainable economic and social development in the communities around major mine sites.

Our priorities in this area are education, agriculture, particularly water, culture, and public health. For example, when a company takes up a building or school project, we try to bring in other partners to show the importance of taking the soft way along with the hard.

So it is not just about the companies spending money on infrastructure. We can also bring in partners from the UN agencies, other donor countries, and NGOs to accelerate things like human resources development.

The benefits of a hospital, for example, can be complemented by developing a public health program or by developing resources and skills in areas like women's and children's health and remote area medicine. We are working to bring in more partners to show how quality foreign investment can be a catalyst for comprehensive and sustainable local economic development.

The same applies to agriculture. For instance, if you are putting money into greenhouses you would also want to have a look at the whole value chain. When you look at training for business entrepreneurs you also have to look at the markets for products and procurement, for example, to make sure that what is developed locally is not dependent on just what you see in the mining project but has a future beyond the mine.

This is something we know from Australia's own experience in building major mining projects in remote areas. You need a large labour force when you are building a mine, but once the mine is developed and you have to compete in the international market you can operate only with a considerably smaller work force. That is why it is important to avoid too much dependence on a single project and to look more broadly at how you develop sustainable societies and local economies.

Another highlight in Australia's relations with Mongolia has certainly been in the education relationship and there are two parts to this.

The Australian Government has been offering post-graduate scholarships to Mongolians since 1994, more or less from when Mongolia decided to take the path of democracy and the free market economy. Their number grew steadily but has fallen in the last three years because the Australian Government, like the Mongolian, had a few budget problems. We had to put a temporary freeze on offering new scholarships but we still have over 60 Mongolian students studying in Australia at the moment. This year we have been able to resume the program and have already invited applications for new scholarships. I can't give you an exact figure for how many now, as we won't know the actual budget provisions before the start of our financial year, which is in July. But we certainly will be offering a good number and intend to increase this further in the coming years. Incidentally, there are over 420 graduates of this program who have come back to Mongolia and are contributing in many ways to Mongolia's development -- in politics, business and civil society.

The other part of this cooperation in education is when Mongolian students travel to Australia even without a scholarship to get the high quality education offered at Australian universities.

Every September Austrade organises a major educational fair, the Australia Future Unlimited Education Exhibition (AFUEE). The last one in 2016 was once again a fantastic success and overall enrolment figures until November 2016 grew by 42 per cent. This did not happen because the embassy was set up. It has been going on for a long time and the relationship has been getting stronger. Mongolians seem to like living and studying in Australia. It is just fantastic to see so many of them there.

Talking about the education industry, it is actually bigger than the mining industry in Australia. We have the third largest number of foreign students in the world, after the United States and the UK. Last year their number in Australia grew about 17 per cent, but the number of Mongolian students rose by 42 per cent. It is just wonderful to see how Mongolian society places so much emphasis on education and as ambassador, I am happy to see how Mongolians are getting so much out of educational opportunities in Australia.

“

It is just wonderful to see how Mongolian society places so much emphasis on education and as ambassador, I am really happy to see how Mongolians are getting so much out of educational opportunities in Australia.

How do you plan to expand the current areas of economic collaboration between our two countries, not only during your term as ambassador here but also beyond that?

I think the mining sector offers the biggest opportunity and I think the important task for us is to increase public faith in the benefits of quality investment in mining.

What I would like to see is a general recognition within Mongolia that mining not only provides tax and royalty revenues but also benefits the national economy by boosting local procurement and generating local employment, and also that big mining projects contribute to sustainable local economic and social development. Foreign investment will increase if the popular attitude to mining shows this change. I know that Australian mining companies understand the importance of the benefits of the investment being recognised not only at the national level, but at the local level also. If we succeed in what we are doing about this with the development sector partners and also with the Mongolian Government at the national and local level, a lot more Australian companies will be encouraged to come here and invest -- that is what I would like to see.

In regard to the local communities' development, do you see any areas where the Australian experience will be of ready help? As you have similar issues in your country maybe some things here strike you immediately when you visit such communities.

I think big investment in both mining and agriculture projects can help kick-start the process.

I know, for example, that Rio Tinto in Australia used recycled water to irrigate an area around its iron ore mine sites to grow animal fodder and develop animal husbandry. That sort of approach could be tried here as well.

I think there is scope for growing vegetables also. It would be good to work together with local communities to set up greenhouses. At the same time we would need to make sure that we help them create a commercial market beyond just local consumption and supply to the mine. We would like to work with people in the UN agencies to train farmers here not only to farm better but also to become more skilled in doing business, by developing their distribution and marketing capacity. We want to bring in more partners to help them.

The other area where I think the Australian experience would be very useful is in health care in the remote areas. Our rural towns are small, as in Mongolia. About 80 per cent of our population lives in the larger cities along the coast. So if you are in a place near a remote mining project you could be a long way away from a public medical facility. We need good public health programs, not just for emergencies but also for general health care and to identify people who are at risk and then to manage these risks sensibly.

We have been talking to the Ministry of Health, the World Health Organisation and also to eight donors about making better use of volunteer programs, and have also been looking at remote-area health delivery systems to address this problem. This is a multi-faceted project and we think we can help build it around a commitment from mining projects to help local development. Their health care systems should serve not just their own workers, but also contribute to the health of their families living in communities nearby. This is very important for the sustainability of any investment in the remote



areas. We are bringing in a few more partners to show how a really big project can make a lasting difference to local people's lives.

Have any bilateral projects been agreed upon in mining, economic or any other area since the establishment of the Australian embassy in Mongolia?

These ideas and talks did not start with the embassy coming here; we have been working through the Australia-Mongolia Extractives Program (AMEP) for the development of Mongolia's mining sector for some time. I can mention some specific ongoing projects in that area.

You are probably aware that recently the Government approved a gold mining plan. We offered suggestions on the design of the plan through the AMEP.

We are also working with the Mongolian Mineral and Petroleum Resources Agency at the moment on the design of the data model for the national geological survey. We have at the moment an expert up here from Geoscience Australia, which is Australia's national geoscience institution, who is sharing Australia's experience on collecting and managing such data.

“

This is a multi-faceted project and we think we can build it around a commitment from mining projects to help local development...

This is very important for the sustainability of any investment in the remote areas. We are bringing in a few more partners to show how a really big project can make a lasting difference to people's lives.

We think this is a very important contribution to encouraging exploration and competition amongst explorers for Mongolia's benefit.

There are other projects that we are involved in. A key thing you need to understand in mining is the use of groundwater, and we are working with the World Bank on the groundwater monitoring program in South Gobi (Umnugovi).

We are also supporting technical education, training in particular, and are developing courses in the Dalanzadgad polytechnic school. This is a good example of where we have got several partners working together. An Australian polytechnic institute is providing teachers, and the German aid agency GIZ is preparing the textbooks and curriculum. Of course, Oyu Tolgoi LLC is also involved.

The training now caters to students up to the age of about 16. From this year we shall be putting more money together with Germany to go for a higher level of trade certificate for kids a bit older to make it easier for them to find jobs in the mining industry, as 16 is bit too young and the level of qualification too low at the moment.

What do you think of the steps taken by the Government to attract foreign investment?

We are very encouraged by the Government engaging with the IMF on the restructuring package. I think this will give foreign investors confidence that once a sustainable restructuring of your debts is arranged, sustainable reforms in

your economy will follow, allowing Mongolia to get back on to the path of its past economic growth.

We are also pleased to see that this Government has been quite prompt in taking a number of steps to give investors greater confidence in the administration of the economy and also in laws related to foreign investment. It is a good start but of course we have to wait for the actual results. We know from Australia's experience that you can have very good laws but you also need to be consistent, clear and coordinated in the delivery of your policies for the very expensive investments involved in mining to be successful.

And it will be very nice to see as time goes by that there are regular announcements of new investments and that the Government is able to implement the reforms it is talking about and to make these investments successful.

Foreign investors want to be sure that there is the right environment for them to get exploration permits and that once they find something the road to the development of the mine would be clear. And there also needs to be greater clarity about mine closure provisions and things like that. From exploration to closure is a long way, and my own experience is that the whole process should be as efficient and as transparent as possible.

What more is needed?

I would emphasise three things – coordination, clarity and consistency.

Clarity is to ensure that implementation of policies is transparent so investors know what they are dealing with. Consistency means that they can be reasonably confident that the systems, policies and institutions that regulate mining operations and the foreign investment environment are not going to change all of a sudden during the long term of the investment. Coordination comes down to ensuring that your environment policy is consistent with the mining policy and your social license policies are also consistent with both environmental and mining regulatory systems.

I'm saying this with great sympathy for Mongolia's situation. There is indeed much to learn from Australia not only from what we have got right but also from what we have got wrong. Everyone makes mistakes, and we have had our share of them, but we certainly have got several things right also.

For example, I think we have shown that the free availability of exploration information is best provided by our national geological survey organisation as a basic public service to encourage competition.

Can you point to any particular Government policy or step that has been responsible for the prosperity of the Australian economy, especially its mining sector?

We run an open economy with low import tariffs. Maybe our environmental regulatory regime is somewhat complicated. But it is risk-based, which means that we don't impose a blanket ban on certain things, but instead look at the risks as you go along, for instance, ground water use in a mining project. We think this is a sensible way to go.

Investors sometimes complain that the parallel regulatory regimes imposed by our federal and the state governments make things confusing and complicated. Creating the right taxation system in the mining sector is difficult for any country. Australia is still working on finding the best norms.

One most important thing we have learned is that Governments are not good at business, so we don't have state-owned enterprises. The Government doesn't directly invest in mining.

I think the best thing that we have done is running an open economy. That goes back to the 1970s when we floated the Australian dollar and allowed foreign banks to operate in Australia. And also, we have consistently reduced our level of protection for

“

From exploration to closure is a long way, and my own experience is that the whole process should be as efficient and as transparent as possible.

domestic industry by dropping tariff and quota protections. We have done this because we don't see exports as being superior to imports. In fact when you are developing the mining industry you want to get as cheaply as possible the equipment and other things that you can't necessarily manufacture yourself. So the overall benefit to the economy is in reducing tariff and quota protection. It is hard; it forces you to restructure your domestic economy but the effects are positive. Australia used to produce cars, but from this year we won't be doing it anymore. Our domestic market is still small and the cost to the overall economy of putting tariff barriers on motor vehicles is just too high. So we've got out of that.

We had to restructure our heavy industry sector. We manufactured steel, but once again the domestic market is still small, and we concluded that we would be better off importing it. Of course, as the economy has grown it has become largely services-based. And at the moment, 80 per cent of our economy is services. Mining is a big industry but it doesn't employ a large number of people, except when a big new project comes up. And mining is very cyclical. So when we had to decide on how we, with our small population, could make our economy internationally competitive, we chose to focus on services. For example, education is a most important pillar of our economy.

How do you maintain Australia's attractiveness for foreign investors?

By keeping the economy open and by letting private enterprises remain in private hands. So we try to keep the Government out of business affairs. We also try and keep our policies, as I said, clear, consistent and coordinated. In a federal system it is not always easy to be consistent, but every political system has its peculiarities.

Are Australian investors interested in anything other than mining in Mongolia? What kind of obstacles do they face?

I think the main focus is on mining at the moment. We would be very happy if that is fruitful. I think the main challenge once again comes down to the clarity, consistency and coordination of the regulations in the investment environment, particularly with regard to mining. These are the things that I think the Mongolian Government is going to have to demonstrate to the international community. Of course, working with the IMF to address your financial problems is important. That will give people faith in the stability of the economy. It is essential for people who want to make long-term investments here to be reassured that the regulatory environment and laws are going to be applied consistently.

How about areas other than mining?

Not particularly at the moment, though we are interested in things like education. I understand the Mongolian Government may be considering privatising technical education here. We have the experience and could be interested if it offers a commercial opportunity.

There are many large Australian supply companies. Do you see any of them coming to work in Mongolia?

Yes, sure. Trade in METS -- mining, equipment, technology and services -- is big business between Australia and Mongolia. The operational side of mining is not much noticed but it is no less important than the financing. Besides specialized and sophisticated equipment, a mine needs technological services, repairs and other kinds of services. We know that there are a number of areas where mines in Mongolia could have a greater local content. It is not enough just to have joint ventures with local companies to import equipment or services; these could also be actually building the mine. For instance, and I am giving a random example, there is not a single galvanizing plant in Mongolia to cover steel with zinc to prevent rusting. That is not a terribly sophisticated technology. That is the sort of interest you could encourage in foreign investors. There are a number of others I can think of -- servicing, repairing, and even manufacturing certain kinds of equipment.

We do know that Oyu Tolgoi is committed to increasing local manufacturing capacity and our companies would be very interested in working with Mongolian companies looking at that sort of thing. We get inquiries all the time from Australian companies to work with Mongolian partners in mining equipment, technology and services.

An Australian mining business delegation is coming to Mongolia in early April this year. We would be happy to keep you informed as the program develops.

What do you think of the Oyu Tolgoi project and its benefits for Mongolia?

Rio Tinto has projects all over the world. It is a good company, and that is why I'm very confident that Oyu Tolgoi will make a very positive contribution to Mongolia's development, not only nationally, but also locally. Australian mining companies understand that their work has to benefit the host country as well as themselves. We know from Australia's experience with foreign investment in mining that local communities have to see the tangible benefits of mining in a personal way.

The thing that most impresses me about Oyu Tolgoi is its commitment to safety, to training, to local community development, to local employment and to local procurement. I think it is very important for people to understand that the benefits of a big project like that lie not just in the dividends you get out of it but in how it helps you make investments of your own. ■