THE INFLUENCE OF MARKET/VALUE CHAIN STRUCTURE, ORGANISATION AND OPERATION ON ANIMAL PRODUCTION IN THE MONGOLIAN CASHMERE INDUSTRY

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SUMMARY
Mongolia produces approx. twenty percent of the world's Cashmere fibre from approx. eight million goats. Industry measurements (1994 to 1996 harvests, inclusive), show the average fibre diameter of Mongolian Cashmere has increased from 15.5 microns to 16.0 microns (Yondonjamts, 1996). World Cashmere fibre specifications have an upper limit of 17.5 microns. Cashmere provides approximately eleven percent of Mongolia's export receipts. Many factors have caused the current Mongolian Cashmere Industry situation (van Gelder 1996, van Gelder & Watson 1996).

Keywords: Mongolia, cashmere, market/value chain.

INTRODUCTION
Animal production, at the level of the animal husband, is the first link in a complex market/value chain, transferring the results of animal technology to the final consumer. Animal husbands are dependent on animal production experts, offering advice in order to assist in achieving acceptable market specifications in the resultant animal product. The understanding of product "value" is dependant on communications and relationships between business entities along the value chain. Producers who do not receive (i) information (ii) rewards, related to quality of production will invariably opt for conservative business options, which may prove to be contrary to the interests of their industry. This is particularly applicable to producers in animal industries, where rewards are less than, or equal to, the pecuniary needs for their short term economic survival (Bizya & Edstrom, 1993).

This paper discusses the situation which has arisen in the Mongolian Cashmere industry during the past seven years and may indicate some salient points for the Australian animal industries.

RECENT HISTORY AND INDUSTRY SITUATION
In the late 1980's the Soviet system, in which Mongolia was an independent satellite state, ceased to exist. In the early 1990's, the Mongolian People's Revolutionary Party (MPRP), which had held political power for approximately seventy years, enacted legislation transferring Mongolia from a command economy, to a market based economy, (Asian Dev. Bank 1992 & 1994). During the previous forty years, the MPRP, under the influence of Russia developed policies encouraging human population growth and the confinement of nomadic herders to State Farms. Other policies
restricting movement of people throughout Mongolia and promoting growth of cities and development of industrial infrastructure and production were also legislated.

The demise of the Soviet system left Mongolia (i) without financial subsidies, (ii) without financially viable markets for its products, (iii) without knowledge and experience of world market trading procedures, (iv) without knowledge of international market specifications for its products.

In the early 1980’s, the Mongolian Government spent approximately USD$30 million on Japanese processing equipment for the Cashmere industry, giving it annual processing capability of approximately one thousand tonnes of Cashmere down.

In 1991 the Mongolian Government began privatisation of all infrastructure items throughout Mongolia, including factories, businesses, farm equipment and livestock, (Goldstein & Beall, 1994). Herders, who had been salaried employees of State farms, were now able to become independent livestock owners. The move from collectivisation to independence was readily accepted, but without regard to long term planning and future reality. The Mongolian Government is composed of seventy six members, seventy two of whom were members of the MPRP (1990-1996). The Mongolian Parliament adhered to the command economy ways, irrespective of a change of rhetoric, indicating that Mongolia was now a market oriented economy.

In 1991, the Mongolian Government restructured the Ministry of Food & Agriculture. The section of the Ministry responsible for monitoring and controlling agricultural/livestock production (the Negdel) was removed and converted to a “private” co-operative. This organisation was not provided with sufficient finance to function, nor with administrators who had training in world business procedures.

The Mongolian Government, in 1993, enacted Resolution No.63 which banned export of unprocessed Cashmere. The effects were, (i) to concentrate industry power in the hands of processors, (ii) to maintain employment in Ulaanbaatar, (iii) to encourage foreign joint ventures in Mongolia.

Nationally, a confused, uncontrolled trading system emerged. Confusion was exacerbated by the high interest rates Mongolian traders had to pay for business finance, compared with that paid by Chinese traders, (8% to 15% per month, compared with 4% to 6% per annum, respectively). The cost of finance means that individual traders cannot afford to purchase large quantities of Cashmere. Many Mongolian traders barter flour, sugar, clothing materials and farm requisites for Cashmere. Herders feel that they are always disadvantaged in these negotiations, (van Gelder 1995 industry surveys). An estimated forty percent of Mongolian Cashmere is smuggled over the border into China (Filmer,1995).

The method of trading is simple. Traders, or processor’s representatives visit the herders at their gers (moveable homes) and negotiate for the Cashmere. The price is determined by the knowledge
and negotiating ability of the herder and the trader. Cashmere is purchased as an unsorted commodity. Traders in Mongolia mostly act as the Principal in trading negotiations.

On 30th June 1996 national elections saw the removal of the MPRP from power. A new democratic coalition was elected, which, in September passed Resolution No.173, removing the ban on export of unprocessed Cashmere. This has apparently caused a flood of Cashmere from Mongolia to foreign countries, a drop in prices paid to herders and is leading to increased economic pressures on Mongolian processing factories, (Liebert 1996).

Elements in the market/value chain structure, leading to herder disinterest in breeding programmes for fibre quality.

- Traders purchase unsorted Cashmere from herders on a price per kilogramme.
- There is no price differentiation paid the herders, based on quality of Cashmere fibre.
- Herders are ignorant of values for Cashmere, of varying processing and marketing qualities.
- Payment is mostly through barter arrangements, which disadvantage herders.
- Wide geographical distribution, poor communications systems, poor transport infrastructure and lack of understanding have prevented herders from achieving cohesive industrial/political power.
- Herders do not appear to realise the value of political power, nor do not know how to achieve it.
- Herders do not understand the workings of modern market based economies.
- Herders feel a level of mistrust for traders and for the market based economy.
- Herders do not trust the Government to implement and apply the Mongolian Law of Contract.
- Traders and processors have not attempted to inform herders of market quality specifications.

Reaction of herders to the lack of rewards from the value chain.

note: Individual goat herd sizes mainly vary from fifty to five hundred animals.

Maximum fibre production per animal is approximately 300g to 350g. Therefore the largest herds only produce a total of 150kg to 175kg.

Processing mills would prefer single, uniform fibre consignments of approx. twenty tonnes.

- Options for the herders, (of which they seem to choose options 1, 2, or 3), are:
1. increase herd size.
2. increase animal size, to increase animal body mass for meat production.
3. increase fleece weights to produce more fibre for sale.
4. do nothing.
5. cease Cashmere production and produce other livestock commodities.
6. leave herding and live in the Sum centre (local town), or the cities.
- They are introducing large framed, heavy fleeced, bucks to achieve 2 & 3. (Liebert, 1995 & 1996).
- Genetic parameters based on Australian research (Pattie & Restall,1991) indicate that such breeding policies will lead to a quick increase in fibre diameter, i.e. loss of Cashmere fibre quality.
IDEAS FOR A POSSIBLE SOLUTION

- Any solution must try to achieve a “Win-Win” outcome for all stakeholders in the Value Chain.
- The requirements of herders, traders, handlers, processors and government must be considered.
- Herders must receive rewards related to the value of the Cashmere fibre they produce.
- Traders must have a greater chance to stabilise their incomes.
- Processors must see an increase in their efficiency (handling and processing capability) and a decrease in their costs of production, in order to compete with international processors.
- The Government must, (i) have the chance of receiving increased taxation, (ii) see development of increased employment opportunities, (iii) see a decrease in poverty in country and city localities.

The solution may possibly be achieved through:

- Increased information flows along the value chain, including national radio market data.
- Increased education of all stakeholders in industry in regard to product quality specifications.
- Changing industry culture through developing relationships and strategic alliances between stakeholders in the industry, based on trust and an understanding of the other’s requirements.
- Developing political/business power relationships, where there is relatively equal power held by industry sectors, such as (i) herders, (ii) traders, (iii) processors.
- Developing a co-operative industry culture based on Mongolia’s national interests.
- Changing trading methodology to that of traders acting as agents.
- Obtaining international donor finance to support changes in trading arrangements.
- Improving banking and financial services throughout Mongolia.
- Developing business trust and confidence, through enforcement of Laws and through accurate documentation relating to business transactions and contracts.
- Training herders to carry out an initial sorting of Cashmere at time of harvest
- Aggregating Cashmere into large commercial consignments of adequate mill lot size.
- Establish a centrally located auction market in Ulaanbaatar.
- Providing buyers at auctions with catalogues showing objective measurements of consignments.
- Giving herders the option of retaining ownership of their Cashmere until sale to processors.
- Ensuring herders receive payments reflecting their expertise in producing high quality Cashmere.

CONCLUSION

If the above is achieved, then the herders will be interested in, and welcome, the excellent work of the animal scientists. It is important to find solutions to the problems of the Mongolian Cashmere industry, but these solutions must be put into the right market context, to ensure long lasting beneficial effects.
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