

Graft and Unrest Put Kyrgyz Gold Rush on Ice

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The Kumtor mine. With 100 sizable gold fields mapped but never tapped, Kyrgyzstan is ripe for a mining boom. **Vladimir Pirogov**

BISHKEK, Kyrgyzstan — The bus loaded with supporters of a planned \$100 million mine had just left its remote Kyrgyz village when a mob on horseback blocked the road.

What happened next was a warning to foreign mining companies who had hoped democracy in Kyrgyzstan would improve the investment climate in the Central Asian republic.

"The supporters were dragged out of the bus and warned in no uncertain terms they should not show any support for the project," said Hugh McKinnon, country manager for Kentor Gold, the Australian miner that holds the license for the deposit. "This group of horsemen went round every household which has shown support for the project and threatened physical violence unless people agreed to back off."

Four months on, Kentor Gold still hasn't started work on the copper and gold mine it says could transform a corner of the Talas province, cradle of the April 2010 uprising that overthrew the president.

The country has promised much since electing a new parliament last October, the first in Central Asia not beholden to a presidential strongman. But early hopes that Kyrgyzstan could become a model for a different way to do business in the region are fading.

"The last two governments didn't encourage any great confidence in their ability to create a level playing field. There's a hope that things might get better under the new government, but it's very much wait and see," said Nick Chalmers, mining analyst at Mirabaud Securities in London.

"There have been instances in the past of companies coming unstuck when trying to move from exploration to production, and finding that the goalposts have been moved," he said. "Until ... this transition is tested under the new administration, skepticism will remain."

Fighting Corruption

Kyrgyzstan's coalition government says it is committed to ditching the cronyism of previous regimes. Prime Minister Almazbek Atambayev says the Kyrgyz stake in the country's main mine was "plundered" by former regimes, and calls his main task "the battle against corruption." He has pledged transparent tenders for future projects so they won't "fall into the hands of swindlers."

With about 100 sizable gold fields mapped — but never tapped — by Soviet geologists, the country is ripe for a mining boom. Gold has doubled in value since 2007, and prices around \$1,500 an ounce could help resuscitate an economy that contracted 1.4 percent last year after the uprising and ethnic violence that killed hundreds.

"From now on, all of Kyrgyzstan's riches should not be used to line the pockets of certain families or leaders, but for the people of Kyrgyzstan," Atambayev said in an interview in a wood-paneled office deep inside the parliament building in the Kyrgyz capital, Bishkek.

The government plans to overhaul mining legislation and expects to make its recommendations in months.

Change won't be easy. Anti-corruption watchdog Transparency International ranked Kyrgyzstan joint 164th of 178 countries in its Corruption Perceptions Index for 2010, level with the Democratic Republic of Congo. That survey predates the current government, but unwinding years of graft is already proving tough. Members of parliament continue to argue over controversial jet fuel contracts for the U.S. military air base in the country that serves the NATO-led war in Afghanistan.

Then there's local opposition to new projects. Some of that is genuine — in Talas province, residents fear their valleys will become polluted and people will stop buying their vegetables, disrupting their traditional way of life.

But some seems to be whipped up by local elites backed by politicians in Bishkek with the goal

of extracting a bigger share of future proceeds. As one international mining industry financier, who declined to be identified because of his work in the country, said: "You need to have powerful sponsors."

McKinnon, of Kentor Gold, is convinced that's what happened with his mine. Before the horsemen stopped the bus, officials at the Australian company were sure most residents of Kupuro-Bazar village were supportive of plans to mine the Andash deposit just over two kilometers away.

Three-quarters of the 846 households in the village had signed documents in support of a development that also had the backing of the central government, said McKinnon, who chairs the International Business Council in Bishkek.

But within two weeks of Kentor opening an office in the village in January, parliament sent two deputies on what they called a fact-finding mission. "We got to the edge of town and there's a crowd waiting for us," McKinnon said. "This member of parliament got up, and said: 'Right! Let's go down and close the Kentor office.'"

Another firm, Talas Copper and Gold — a joint venture between South Africa's Gold Fields Ltd. and Britain's Orsu Metals Corp. — met a similar fate in March when a mob on horseback looted its geologists' camp and set buildings ablaze.

"The elite is very skilled in using the group mentality. They close ranks in the face of outsiders," McKinnon said. "They can draw it up as us versus them: 'There's a bunch of foreigners coming in here to steal our gold.'"

Dastanbek Jumabekov disagrees. A native of Talas province, he was the parliamentary lawmaker who stood up and called for Kentor's office to be closed. "I want the people in our country to live as they do in Germany or Switzerland. Where will we get the money for this? From our resources," he said by telephone. "But if an investor mines gold here, they should not harm the people of Kyrgyzstan and a fair proportion of the profits must stay within the state."

He said Kentor's plans for a tailings dam, where waste from the mine would be stored, would endanger the local population while blasting at the pit would disturb residents. "If your child is sleeping, who can guarantee they won't go deaf?" he said. "There are places in the mountains where you can mine and build your tailings dams."

Only Stable Enterprise

Over in the Issyk-Kul province near the border with China, Kumtor is the crown jewel in Kyrgyzstan's economy. Owned by Toronto-listed Centerra Gold Inc., the mine accounted for 9.4 percent of gross domestic product last year and almost half of industrial output. From its launch in May 1997 to the end of 2010, it yielded 7.8 million ounces, or 243 tons, of gold — more than Belgium's entire bullion reserves.

Centerra moved in early. The company is an offshoot of Canadian miner Cameco Corp., which was looking for uranium after the Soviet collapse. Instead, it was offered a stake in a prospective gold deposit hidden high in the Tien Shan Mountains.

Mine owners plan to raise annual output from the existing open pit to 620,000 ounces over the next six years, nearly 10 percent more than it produced last year. An underground mine will add to this total from 2013.

Some in Kyrgyzstan want more from their prize resource. A commission of members of parliament and local interest groups was created last year to re-examine a 2009 deal that gave the state a 33 percent stake in Centerra. Samat Aliyev, one of the commission's coordinators, said the current agreement — signed when President Kurmanbek Bakiyev was still in power — could have done more to share the profits from Kumtor and protect the environment and workers' rights.

"Nobody is talking about nationalization of the mine. We are just saying: 'Guys, let's play by the rules of honest business,'" Aliyev said.

It hurts that per capita GDP in Kyrgyzstan, population 5.3 million, is less than one-tenth of the level in Kazakhstan, its oil-rich neighbor to the north. "Kazakhstan is booming because you have a strong president who is committed to foreign business. There have been many bad examples in Kyrgyzstan, where people have invested lots of money and seen nothing," said Rodney Stuparyk, mine manager at Kumtor.

Perhaps pre-empting any attempt to revise the hard-fought agreement, Centerra put \$33 million back into state coffers in May, paying a special dividend to reflect high productivity and gold prices.

Jobs and More

Low gold prices at the mine's inception might also have contributed to past decisions to sell down the state's stake. It took five years of production before the price of gold nudged above \$350 an ounce, less than a quarter of its value today. "The country was saying: 'What are we getting out of this?'" recalled Stuparyk, in his 14th year at the mine.

Jobs, for one thing. In the past decade the mine has provided a steady living for the 2,700-member workforce at Kumtor, people like 44-year-old mechanic Muratkul Sulaimanov, who repairs the trucks that haul gold-bearing rocks from the pit.

"This is the only stable enterprise in the entire republic," said Sulaimanov, whose 17-year-old son is studying mechanics with a view to joining the mine.

Robert Wunder, president of the Centerra-owned Kumtor Operating Co., said the operation is "one of the most challenging mines I've ever been associated with."

The company mines up to 30,000 tons to 40,000 tons of extra material every day, at a cost of around \$45,000, simply to protect the pit walls from old waste material and ice from the Davydov glacier that creeps along one side of the pit.

"Last year we put capital investments of \$190 million back into the operation. This year, we will make another investment of \$200 million," said Wunder, whose 35-year career has taken him from Utah to the peaks of the Andes. "This is not operating expense. This is over and above the cost of running this operation."

Centerra pays 13 percent of Kumtor's annual revenues to the state in tax, plus a further 1 percent to a development fund for the region. It runs a successful micro-credit scheme for local villagers and funds a fruit-processing plant to buy up leftover apricots and apples and make puree for sale to juice makers.

Talantbek Zhaparov, who runs the micro-credit agency from a log cabin in the small town of Tamga, said he is tackling "one of the most serious problems in Kyrgyzstan" — access to finance. His agency charges 15 percent annual interest, half the rate of some private banks, and he said almost every loan has been repaid in full.

'Achilles Heel of Mining'

Still, not all locals are convinced. In 1998, 12 kilometers into the gorge that runs up to the mine, a truck carrying cyanide — an essential component in extracting gold from hard-rock mines — fell off a bridge and spilled its contents into the river.

Thirteen years on, residents still complain of problems; the accident is also cited by opponents of mining projects in other parts of Kyrgyzstan.

"We are ill. My liver, my heart, my legs are in pain," said Upol Kaptagayeva, 56, untangling a sack of yak's wool outside her yurt in the gorge. She scrapes a living selling fermented mare's milk to nearby villages and the occasional trekker.

Mine manager Stuparyk, a native of Canada whose first job at Kumtor was to install a cyanide destruction plant, said the spill "was a public perception nightmare" but insisted it left no lasting damage. Residual cyanide content in the tailings dam, at about 10 milligrams per liter, is a fifth of the maximum safe level in the industry's International Cyanide Management Code. By the time the solution has been treated, cyanide content averages 0.02 to 0.03 milligrams per liter, well below the 0.2 milligrams per liter allowed by the U.S. Safe Drinking Water Act.

At the Kentor development, McKinnon said opponents have spread "disinformation" about the environmental effects of the mine. Accusations that "cyanide is going to kill everybody" are baseless, he said; the process at Andash would not even use cyanide.

Kaptagayeva grumbled that her 40-year-old son, a Kumtor employee, is underpaid, but such complaints aren't echoed by many miners themselves. On average they earn 70,000 som (\$1,550) a month, almost 10 times what most people in the country make. When his shift ends, Sulaimanov, the mechanic, watches foreign television channels and plays pool with foreign miners to improve his English. Those who score well in a voluntary annual English-language exam can get up to 60 percent more wages.

Sulaimanov's son might one day join the mine, too. If Kyrgyzstan's new government agrees, his generation could have other mines in which to find work.

But those holding exploration licenses today have doubts. A parliamentary commission has just recommended that the Andash project should not go ahead.

"A lot of good words are said about how they desperately want the mining industry and how

it's going to lift the country into economic prosperity," said McKinnon, recalling the April 2010 uprising. "It would be very sad to see that spark that lit up after April 7 — the hope of going forward to a fairer, more equitable future here — extinguished."

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