

Kyrgyzstan Fights Over Gold at Top of the World

By [The Moscow Times](#)

April 03, 2013



A dump truck driving past workers at the Kumtor open-pit gold mine some 350 kilometers southeast of Bishkek. **Shamil Zhumatov**

KUMTOR, Kyrgyzstan — In an impoverished young nation with a habit of overthrowing its rulers, the future now balances on a mountain of gold at the top of the world, where the air is so thin that collapsing visitors may be rushed to a pressure chamber for oxygen.

After two revolutions in eight years, nationalists in Kyrgyzstan are threatening to return to the streets to topple another government unless it expropriates the Kumtor goldmine, a treasure they say was sold off too cheaply to foreigners.

The parliament in the Central Asian state has set a deadline of June 1 for the government to renegotiate — or repudiate — a deal struck in 2009 with Canadian firm Centerra Gold to operate the mine.

A state commission said the Canadian firm had been paying too little to run the mine, and accused it of inflicting environmental damage leading to \$457 million in fines.

Three lawmakers were convicted last week of trying to seize power in the country by force after leading demonstrations late last year demanding that the mine be renationalized.

Prime Minister Zhantoro Satybaldiyev, who took his job last September as a technocrat pledging to alleviate poverty in the country of 5.5 million, says compromise is vital and banishing Centerra would dash hopes of winning more foreign investment.

"Our investment climate will directly depend on how successfully we resolve the Kumtor issue," the 57-year-old said in an interview.

Golden Crucible

A landlocked country halfway between Moscow and Beijing, Kyrgyzstan holds its national treasure at the mine 4,000 meters up in the Tien Shan mountains, near one of the world's remotest borders, the old Soviet frontier with China.

Trucks the size of three-story houses chug in a gigantic open pit to deliver rocks to a gold-extracting mill, which runs 365 days a year.

Inside a guarded room, two workers move slowly in silver heat-proof overalls, pouring bright-orange molten gold from a crucible into moulds. Minutes later, four shiny bars worth \$2.6 million are stamped and sealed in vaults.

Under the deal reached with ousted President Kurmanbek Bakiyev before he was toppled in a 2010 revolution, the mine's operating company pays 14 percent of its gross revenue to the Kyrgyz state.

The state commission that investigated the deal concluded that the royalty is far too low, leading to parliament's call for the deal to be revised or repudiated.

The dispute has reached the streets. Last October, three nationalist lawmakers led a crowd of supporters trying to storm the government headquarters, demanding Kumtor's nationalization. The trio, two of whom hail from Kyrgyzstan's poor, volatile and ethnically mixed south, were jailed last week for up to 18 months.

"We only voiced the will of the people to return Kumtor to our nation," their leader, Kamchibek Tashiyev, parliamentary head of the nationalist Ata Zhurt party, said before he was sentenced.

Supporters, who rallied in the southern city of Jalalabad last month, have demanded they be freed by April 7 — the third anniversary of Bakiyev's fall — or they will launch nationwide protests.

No Switzerland

Kyrgyz leaders have long seen Kumtor as the country's ticket to stability and prosperity.

In 1995, independent Kyrgyzstan's first president, mathematician Askar Akayev, visited the mine and declared: "We are transferring gold from the mountains to the banks, and this will help us become the Switzerland of Central Asia."

Akayev was toppled in 2005, and his hopes of making his country into a new Switzerland have long since become a cruel joke. With its per capita GDP of \$1,100, Kyrgyzstan is 12 times poorer than its neighbor Kazakhstan, which has oil, gas, metals and grain-producing farms.

Kumtor, which means Sand Peak in the Turkic national tongue, accounted for 12 percent of Kyrgyzstan's gross domestic product in 2011, and more than half its total exports.

Last year, glacial ice flowed into its giant open mining pit, causing its output to collapse by 46 percent to 315,238 ounces of gold and revenues to fall by 43 percent to \$534 million, sending the entire country's economy into recession.

While the head of the Kumtor Operating Company (KOC), Michael Fischer, expects output to rebound to between 550,000 and 600,000 ounces this year, there is no sign of a recovery in its relations with some hostile politicians.

"We've gone through two revolutions, the first democratic parliament was elected, and we've managed with several governments," said the New Zealander, who since arriving in 2009 has overseen exploration work that has added enough reserves to extend the mine's expected lifespan by more than a decade.

"We believe that we are part of the fabric in Kyrgyzstan, and we'll still be here up to the mine's closure in 2026."

The mine, discovered in Soviet times, produced a total of 8.7 million ounces of gold from 1997 through 2012. According to its own data, the operating company expects to produce as much as 9.5 million more ounces of gold before the mine runs out.

Kyrgyzstan will become even more dependent on Kumtor from next year, when the United States is set to shut the country's other big Western venture, the Manas air base leased for \$60 million a year for the war now winding down in Afghanistan.

Russia, happy to see the Americans leave its ex-Soviet backyard, has promised to spend hundreds of millions of dollars on big hydroelectric power projects in Kyrgyzstan, but any work is years away and opposed by down-river neighbor Uzbekistan.

Lucky Ticket

For the 3,400 full-time and contract workers at Kumtor, monthly wages of \$2,000 — 10 times the national average — compensate for the physical hardships. After two-week shifts of labor at high altitude, they are given a rest to recuperate.

Nurdin Usenov, a 35-year-old mill superintendent who came to Kumtor as a trainee in 1997, knows he drew a lucky ticket.

"I support my family, my children receive education, and we help relatives," he said, standing in a control room packed with computers. "Such an enterprise should not be halted."

Operating company boss Fischer says the company has filed notice that it will appeal the huge environmental fines.

"We feel these claims are exaggerated or without merit," he said. "The Kumtor project complies with Kyrgyz laws, and meets or exceeds Kyrgyz and international environmental, safety and health standards."

The political pressure has hit Centerra's shares, which have fallen by nearly three-quarters since peaking in September 2011, reducing the firm's value to \$1.4 billion.

Kumtor is the main asset owned by Toronto-listed Centerra, in which the Kyrgyz state owns a stake of nearly 33 percent.

According to public filings, Centerra's other shareholders include U.S. hedge fund boss John Paulson — who made a killing in the subprime debt crisis but has struggled with bets on gold.

Satybaldiyev has pledged not to expropriate the mine and added that, despite pressure on his coalition government, he is determined to serve out the remaining two years before the next parliamentary elections are due to be held.

"To our great regret, investors are not lining up to come here. They are still waiting to see how March, April and summer pass in Kyrgyzstan. Then they will wait to see whether autumn is calm," he said at his state residence outside Bishkek.

"Any investment loves peace. But do we have it?" he said, sitting before a carved wooden mural that depicts a historical scene in which Kyrgyz khans are seated in a circle debating.

After overthrowing two presidents, Kyrgyzstan shifted from a presidential to a parliamentary system of government. But the reform has not brought stability: Satybaldiyev's government is the third in less than three years.

"Change of government through revolution appears to have become the norm rather than the exception," said Lilit Gevorgyan, who follows the region for consultancy IHS Global Insight. "This is the greatest weakness of Kyrgyz democracy."

Horseback Raiders

Salmurbek Daikanov's National Renaissance Party has no seats in parliament but makes up for its lack of numbers in the clamor it has caused in Kyrgyzstan's raucous public life.

Daikanov, who studied mathematics in Russia, led a crowd of supporters that broke into a TV studio last August, disrupting Kyrgyzstan's first attempt to auction a batch of mining licenses to international investors.

He spent 41 days in custody and is charged with hooliganism, but says his action has prevented worse conflict. In some cases, men on horseback have plundered prospectors' camps, setting them on fire and beating their workers.

"Why dig and cripple our land to extract gold and then hide it in the basement of a bank?" asked Daikanov. "The world must impose a moratorium on gold output."

His ideas get a hostile reception in the once bustling township of Kajy-Say, 300 kilometers east of Bishkek and just 90 kilometers from Kumtor.

The local uranium combine closed in 1968, replaced by a plant that produced diodes and semiconductors until it died in 1993. Finally, a factory extracting quartz was closed in 2005.

Kajy-Say's population has shrunk to about 2,500 from 15,000, and its abandoned apartment houses gape with broken windows. Jobless locals eke out a living by dismantling idle industrial buildings for construction materials.

Local resident Cholponbek Zhumadylov, 31, has never had a steady job. He, his wife and little son all survive on his mother's pension of 4,000 soms (\$85) a month.

He said foreign investors would be most welcome in Kajy-Say, which like most of Kyrgyzstan sits on vast natural resources, while the central government has no funds for their development.

"If they honestly work and invest here, if they employ local youths, everyone will be working," he said. "We now have no future, and I don't know whether any future will be seen later. I hope it won't remain as it is."

Giving people like Zhumadylov and his family a stake in Kyrgyzstan's future will be vital to stabilizing the country.

"Kyrgyz voters have shown in the past decade that they are unlikely to tolerate authoritarian corrupt regimes, where they remain economically disenfranchised," argues analyst Gevorgyan.

"The bad news is that it will take a few turbulent years to move away from wild political swings, of jumping from one revolution to another, for many voters to see value in political dialogue, compromise and stability."

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