Gold Rush in Kyrgyzstan

The government of Kyrgyz has to submit a new agreement on the development of the Kumtor Gold Mine, where the republic would own 67%, to the members of the parliament, or to resign. For the republic, this means not only a collapse of state funding and a trial in the international court, with a claim of several billion dollars, but another “colour”, or rather “golden” revolution.

The controversies about the Kumtor deposit have stretched for several years already. In fact, the question of how to divide “fairly” the gold, mined by Canadian company Centerra Gold, has existed since the start of production – since 1999. During this time, there have been many myths about the fantastic profits earned by Canadian investors, about damage to nature and the population caused by the work. That is why, according to Kyrgyz deputies and, interestingly, criminal kingpins, the deposit must be nationalized. No one is paying any attention to duly concluded contracts with the Canadian company. On the contrary, Kyrgyzstan is trying to prove, including in courts, that the agreements have been concluded to the detriment of the state and they should be revised.

What is the purpose of this action? First of all, it should be noted that this is the largest high-altitude gold deposit, located in the north of the country in the Issyk Kul Province and is 100% owned by the Canadian gold mining company Centerra Gold Ltd. Currently, Kyrgyzstan holds a 33% stake. Current officials believe that the first agreement with the Canadian company, signed by Kyrgyz President Askar Akayev, is “anti-national” and disadvantageous to the country. Askar Akayev refutes this assertion, explaining that one ounce of gold cost $300 at that time, in the 1990s. “Such prices were on the world stock exchanges in New York and London. The cost of gold in Kumtor was estimated at $260–270. It was quite an effort to attract investors there, but we managed to do it with the support of international financial institutions. They asked us what the benefit was for them to mine gold at an altitude of 4,000 meters above sea level. During this time, the price of gold has increased to two thousand dollars (today, the price of $1,200 is offered for one ounce – HBO). Therefore, it is wrong to compare the present time price of gold with the conditions of the 1990s,” Askar Akayev said in a conversation with the author. According to him, if they had not let the Canadians mine this gold, Kyrgyzstan would not have received profits when the gold started going up in price. “Kyrgyzstan has come to play an active role on the exchanges, because we raised the question of increasing profits. We did this not only for the gold, but also to attract investors. It is right that today we should raise the question of increasing the proportion of Kyrgyzstan, given the growing prices. However, we should not forget about the state of those times. We were thinking about joint projects. Many investors came to the republic to work on these. Yet now, after the recent scandals and revolutions, investors are leaving the country,” stated Akayev.

The intrigue is that the major money generated by Kumtor does not come from the production and sale of gold, but is made at the exchange games with its shares. We need to know the major players. “All insinuations about the nationalization of Kumtor may be just tools of the game to have share prices go down in the world market,” said Aleksandr Knyazev, expert on Central Asia and the Middle East.

50/50 is not an option
Political life around Kumtor has livened up in the past two years, after President Almazbek Atambayev came to power. This happened not because a revision was initiated by the new head of Kyrgyzstan. Everything is much simpler than that. Atambayev has no control over the situation in Kyrgyzstan. He is unable to cope with obstinate politicians who want to claim their “piece of the cake”. Last summer was especially “hot”. The profitable gold mine looked very attractive in the poor conditions of the Kyrgyz economy. Attempts to take control of Kumtor have been undertaken by some political and criminal groups. As a tool to achieve the goal, they used calls for the nationalization or confiscation of the enterprise from the investors, a transport blockade of the company, a power outage, visits of dozens of inspection commissions and applying pressure directly on the company's top management.

Organized local people blocked the road to the Kumtor Mine, demanding the Canadian investors to pave roads in several villages, to repair welfare facilities, to build a clinic and, most importantly, to pay each resident financial compensation for the use of the “natural resources belonging to the inhabitants of these areas”. Law enforcement agencies could not do anything about the protesters. The deputies supported the “locals”, demanding the management of Kumtor to transfer 67% stake of the deposits to Kyrgyzstan, and, secondly, to pay $304 million for “environmental damages”, which they calculated themselves.

Later, the same demands were made in Parliament. Kyrgyz officials spent several months and more than $1 million for negotiating with Canadian investors. As a result, a memorandum was signed with Centerra Gold. According to the document, Kyrgyzstan was offered to withdraw from being a shareholder of Centerra Gold, but to receive 50% of the joint venture created with the Canadians, and to develop the mine further on these conditions. However, the deputies considered this option as not profitable for Kyrgyzstan and offered the government to submit a new agreement by December 23, where the stake of Kyrgyzstan will be 67%. If it is not, the government will be forced to resign. The issue of the resignation of the cabinet has been one of the key issues in determining the fate of Kumtor. For deputies that have started preparing for re-election, the current controversy is an occasion to demonstrate their citizenship position to voters. Delaying a decision on Kumtor has another explanation – most of the deputies in the Kyrgyz Parliament are seeking to evade responsibility for their decisions. After all, whatever the decision is, it can always be subject to criticism. Now, only the members of the government are responsible for the situations. If officials do not achieve additional concessions from the Canadians, and a decision to denounce the agreement is taken after all, the Canadians will claim $2–3 billion from Kyrgyzstan in the international arbitration court.

By the way, today international courts are considering nine cases against the leadership of Kyrgyzstan. The total amount of claims of foreign investors is exactly one billion dollars. The number of those wishing to invest in the country is getting smaller, because the local authorities treat every foreign investor from the “nomad’s positions”, i.e., with an aim to plunder.

**What effect will the nationalization of Kumtor have?**

“The nationalization of the deposit will allow retaining the entire amount of gold mined in the country,” Aza Migranyan, head of a CIS Institute department said to the author. According to her, the Canadian company has produced 260 tons of gold in 15 years. Kyrgyzstan gets only a small share of the produced gold from this amount. The major part is exported. Kyrgyz gold is bought by Canadian and European companies. Primarily this is Germany; it buys almost all Kyrgyz gold. “Gold is a specific product and it forms the strategic reserve of the country. Therefore, theoretically, it could improve the liquidity of the country, but we can hardly say that it can essentially solve the problems of economic growth, and lead the Republic out of stagnation. This requires serious investments, and large-scale ones,” said Migranyan. On the other hand, Kyrgyzstan will not be able to produce and sell gold independently. To do this, there is no technology, equipment, specialists and, most importantly, money in the budget for the development of the industry. In addition to these factors, there is another important nuance: Kumtor Operating Company has announced the possibility of reducing or closing several points of mining and processing of gold. The expert notes the share prices decreased significantly on the world market in the summer and autumn of this year. According to her, the price reduction was influenced by political tensions around the enterprise, including the latest attempt at seeking nationalization of Kumtor.

Last week, the International Institute of Political Expertise, a part of the Minchenko Consulting holding company, published a report on the political risks of investing in the countries of Central Asia. The first place was taken by Kazakhstan, and Kyrgyzstan took the fourth place out of five. The president of the holding company Yevgeniy Minchenko noted that the issue of the nationalization of Kumtor became “solely opportunistic and political”. A way out of the conflict can only be the “conclusion of an agreement fair for all investors, which would ensure the smooth operation of the mine on the one hand, and guarantee the effective protection of investors, including foreign ones, on the other hand. The further work on the formation of a package of agreements should be conducted to meet the requirements of international law and norms of business, but not populist slogans and blackmail. In general,
President Atambayev called for this approach at a press conference on December 16, 2013.

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