

Kyrgyzstan Takes Stock in Revised Gold Deal

Author: [Aziza Turdueva](#)

Jury still out on whether the latest arrangements for the giant Kumtor gold mine will prove more lucrative than before.

While the Kyrgyz government has acquired a bigger stake in the company working a major gold mine at Kumtor, it may not receive the increase in revenue that it anticipates, experts warn.

The deal will see the government's share in Centerra Gold, a joint venture between Kyrgyzstan and Canadian mining company Cameco, double to nearly 30 per cent.

Commentators interviewed by IWPR want the deal to mark a new era in the way the government handles foreign investment deals, which under the previous president Askar Akaev were sometimes less than transparent.

Kumtor, is located in the Issykkul region in the northeast of the country 70 kilometres from the Chinese border, is one of the ten largest gold mines in the world. Over 180 tonnes of gold has been mined since commercial extraction began, and the field accounted for one-third of the country's industrial production in the first six months of 2007.

Centerra Gold was set up by the government and Cameco in 2004, and the Kumtor Operating Company, KOC, which runs the actual operation, was transformed into a wholly-owned Centerra subsidiary. This restructuring followed the expiry of an earlier arrangement with Cameco dating from 1994 which exempted the Canadian company from paying profit tax for a decade.

The government initially held around 30 per cent of the shares in Centerra, but subsequently sold about half, leaving it with 16 per cent.

Since then, there has been a change of government - President Akaev was ousted in March 2005 following massive demonstrations. Under the new dispensation, questions began to be asked about the previous administration's handling of the contract and the transparency of its finances.

Negotiations to review the arrangements for Kumtor started at the end of 2006, when the Kyrgyz authorities indicated that they would like to up their share in Centerra from 16 to 61 per cent so as to generate more profits and tax revenue.

The latest agreement, reached after a second round of talks was held in July, does not go nearly as far as that. The deal announced on August 30 involves a complex set of transactions in which Kyrgyzstan receives 22 million shares from Cameco, and Centerra issues ten million new shares which also go to the government. The Centerra share issue will be absorbed by Cameco's shareholders as a one-off loss.

Some of the shares are to be transferred immediately, but others will be released within four years, depending on a number of conditions.

By the end of the process, Kyrgyzstan will own about 29 per cent of Centerra, with Cameco holding 41 per cent and public shareholders the rest.

The deal also grants Centerra concessionary rights to explore and mine a wider area at Kumtor and sets out a simplified new taxation rate for the project.

Addressing parliament following the announcement of the deal, Prime Minister Almazbek Atambekov said, "We have come to an agreement which is beneficial not only for us but also for Kumtor, which will continue to operate."

The agreement has to go before parliament for approval this month.

Orozbek Duysheev, a member of the Kyrgyz delegation which negotiated the deal, welcomed an arrangement which he said would leave the country with more shares in Centerra, greater profits, and higher tax revenues. In addition, he said, the government would be able to use its Centerra stock as collateral when seeking foreign loans.

The government is counting on earning increased profits from the rising price of gold. According to Finance Minister Akylbek Japarov, "The Kyrgyz government is convinced that the price of gold will continue to grow from year to year."

He noted that when the deal was clinched, shares in Centerra went up and he predicted a rising trend through 2010.

But some analysts said the government's increased stake in the company would not necessarily lead to greater profits.

Sapar Orozbekov, the director of the Bishkek-based Centre for Economic Analysis, said that the conditions attached to the share transfer were difficult to fulfil, and the total value of the completed transaction might not be as high as the government expects.

Member of parliament Kanybek Imanaliev said it was unwise to be projecting high returns on the basis of a forecast rise in gold prices.

"The share of the profits [for Kyrgyzstan] will depend on the world price of gold and on the value of Centerra shares. So it is too early to be talking about a positive outcome," he said.

Other experts noted that future revenues would depend on the amount of gold produced at Kumtor.

According to Nasirdin Shamshiev, head of the department for macroeconomic and microeconomic analysis at the Ministry for Economic Development and Trade, the rate of production has slipped of late.

“Judging from recent months, we cannot talk of an increase in gold mining. In 2006, around nine tons of gold was mined at Kumtor. In the first half of this year, it was around four tons – in other words, less than for the first half of last year.”

In July, Cameco revised its 2007 forecast for Kumtor production from nearly 13 tons down to 8.5 tons.

Much of the pressure for economic reform since 2005 has been based on a perception that Kyrgyzstan’s former rulers failed to secure the best possible terms when they signed foreign investment deals, and that as a result the country has lost hundreds of millions of dollars in potential revenues.

Analysts interviewed by IWPR said the share deal provided an opportunity for a fresh start, with more transparent accounting by government to avoid the allegations of corruption that persisted through the Akaev years.

Jumakadyr Akeneev, formerly head of the national statistics committee, said that in the old days, neither the statistical office nor the tax agency had access to information about Kumtor.

“It was an area that was closed to everyone, to the entire country. The information was kept a complete secret. Only former president Akaev and his immediate entourage had information about Kumtor,” said Akeneev.

Economics professor Ayilchy Sarybaev said that in future, the government must be conducted with “transparency, openness, and the publication of financial reports”. Otherwise, he said, “things will change little from what went on before”.

Duisheev hopes the deal will set a precedent for how contracts with foreign companies are drawn up.

“In future, the talks with Cameco will serve as a model for other foreign companies that wish to work Kyrgyzstan’s mineral deposits,” he said. “The talks showed that when a deposit is to be opened up, the interests of the local population and indeed the entire nation must be taken into account.”

Aziza Turdueva is an IWPR contributor in Bishkek

Location: [Kyrgyzstan](#)

Focus: [Central Asia](#)

Source URL: <https://iwpr.net/global-voices/kyrgyzstan-takes-stock-revised-gold-deal>