The Kumtor Gold Mine and the Rise of Resource Nationalism in Kyrgyzstan

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Key points

- The mining sector has become the battleground on which the Kyrgyz authorities, the opposition, the local communities and the mining companies, defend their interests.
- There is more than ‘just’ economics to resource nationalism and the Kumtor controversy: Symbolic politics matters as much, and complicates matters further.
- Political instability, unrest, and constant calls for renegotiating contracts with foreign mining companies have already tattered the country’s image as an investment destination.
- Resource nationalism in the mining sector proceeds in tides whose timing appears not to be aligned to the trends in global commodity prices.
Kyrgyzstan’s mining sector has become the battleground on which a number of players, namely the government, the opposition, local communities, and transnational corporations, defend their interests. No other site illustrates this point more than the country’s most prized asset, namely the gold mine at Kumtor, located some 350 kilometers southeast of the capital city of Bishkek. Kumtor is the country’s main source of hard currency, a vital contributor to the country’s GDP, and the single largest private employer. Since 1997, when production started, Kumtor has emerged as one of the most contentious issues in the small Central Asian republic’s socio-economic and political life.¹

After several years of wrangling, protests, and calls for nationalization, the government and Centerra Gold (the company that owns the mine) earlier in 2015 looked set for the signing of yet another agreement regulating the ownership structure and the sharing of responsibilities and profits.² Instead, in a surprising twist of events, (now former) Prime Minister Joomart Otortayev’s government withdrew from the negotiations with Centerra just before a new deal could be finalized on the grounds that the new deal would “no longer [be] in the country’s best interests”.³ This occurred a few days after the Jogorku Kenesh (the Parliament) had issued a negative assessment of the government’s handling of the matter (signing a new deal, that is). On April 23, the PM resigned. Since the opposition has held every single government hostage since 2010 over the Kumtor dispute, this could be construed as an outright victory of those outside (and even within) the ruling coalition advocating resource nationalism. And yet, the new government, led by Temir Sariyev, promptly confirmed that neither nationalization nor the renegotiation of the deal were on the agenda. “Nationalization will only create certain risks and threats for us. We must seek other ways”, Sariyev stated in April,¹ perhaps suggesting that the authorities’ awareness of the need for a compromise might actually trump calls for nationalization. Is the turf war over?

Simply put, the controversy revolves primarily, albeit not exclusively, around the ownership of the mine and the profits that derive from the sale of gold. At the same time the dispute is not just about economics but also about the symbolic value of the country’s natural resources at a time of imperiled sovereignty. At heart, Kumtor illustrates the dilemmas of small countries with weak economies, rich in natural resources, but in need of capital and technology, that seek to promote foreign investment while at the same time striving to protect their strategic assets.

Resource nationalism

Resource nationalism remains a much-debated, yet poorly understood and considerably under-theorized phenomenon. The context for its more recent upsurge and manifestations is evident. As Humphreys notes, this is “closely related to the commodities boom of the 2000s and the growing sense amongst the citizens of mineral-rich countries that they have not received an appropriate share of the benefits of higher prices and that they have insufficient control over the decisions shaping mining investment”.⁵ A more analytical approach to the phenomenon, or trend, has remained much more elusive. While some have paid greater attention to the institutional configurations constraining the environment in which foreign companies operate,⁶ others have privileged more expansive definitions. Bremmer and Johnston refer to the phenomenon in terms of “efforts by resource-rich nations to shift political and economic control of energy and mineral sectors from private and foreign investors to domestic and state-owned ones”.⁷

While the easiest way to define the phenomenon operationally would be to limit oneself to actual policies and policy changes, the risk here would be that such a restrictive approach might be applicable to too few cases. Moreover, perceptions of instability, a country’s inability to respect the sanctity of contracts, and lack of protection for foreign investors have clear
negative externalities, such as their impact on investors’ confidence, thereby affecting the country’s appeal as a business destination. By contrast, a loose understanding of ‘effort’ might stretch the concept so thin to question its heuristic purpose, one of the classical problems of conceptual travel and over-stretched in the social sciences.

Thus, for the purpose of this paper, the presence or absence of legislative initiatives to redesign the ownership structure of a company or a sector shall be understood as the discriminating factor between situations which in turn might be understood as illustrative of resource nationalism. As such, Ward’s definition of resource nationalism as referring to “government efforts to maximize revenues from and exercise control over the exploitation of natural resources” seems quite fitting to capture the issues at stake and the accompanying dynamics.\(^8\)

Kyrgyzstan’s mining sector, and specifically the case of the Kumtor gold mine, thus serves as a fitting vantage point to explore the rise of this phenomenon, the motives driving it, the timing, and its impact.

**Kumtor’s Centrality to the Kyrgyz Economy**

Less endowed with natural resources (especially hydrocarbons) than its neighbors and with the hydroelectric sector awaiting investment to deliver on its much-heralded potential, the mining sector’s contribution to Kyrgyzstan’s economy is far from negligible. In 2014 it accounted for 15% of the budget revenues, 15% of the country’s GDP and over half of its industrial output and export revenues, constituting Kyrgyzstan’s main source of wealth (see table 1). The country’s mining industry consists of three important sectors, namely gold, extractive minerals, and ores;\(^9\) of these gold makes the most significant contribution in economic terms.

**Map 1. Kumtor**

Kumtor (map 1) is the largest gold mine in Central Asia operated by a Western company. The gold deposit was discovered in 1978, but due to the difficult environmental conditions and the costs associated with developing the mine the project was suspended. Development started again in 1992 and in 1997 the mine became operational. Production is expected to last until 2026, when most of the reserves are expected to be exhausted.

While not overtly complicated, the ownership and operating structure of the mine requires a quick summary since this is the issue around which the controversy between the authorities and the company revolve:
- the Canadian company Centerra Gold Inc. is the owner of the mine;
- Kumtor Gold Company, fully owned by Centerra, operates the mine;
- The Kyrgyzstani government owns 33% of the shares in Centerra (not Kumtor) via the state-owned mining company Kyrgyzaltyn JSC;
- Centerra also owns other mining sites in Mongolia, Russia, Turkey, and China;
- The Kyrgyz government receives dividends from Centerra’s profits.

To complicate matters, the key players involved in the ‘Kumtor saga’ are not restricted to government and the company itself, but include the mine’s employees (currently just over 3,000, 95% locals⁻), the local communities in the Issyk-Kul Region whose livelihood are affected by the economic activities of the mine and the environmental fallout, and, perhaps most problematically, all those political actors within the government (such as in the Ata Meken and Ar-Namys parties) and outside it (especially the Ata-Jurt opposition party) who have campaigned for either a renegotiation of the deal on more favorable terms (for the state) or outright nationalization.

### Factsheet 1: The Kumtor Gold Mine

| Life of mine: 2026. |
| Between May 1997 and until 31 March 2015 the mine has produced ca. 10.3m ounces of gold (311 tons). |
| Kumtor accounted for 7.4% of Kyrgyzstan’s GDP and 23.1% of its industrial output in 2014. |
| Expected production in 2015: 470,000-520,000 ounces. |

Source: www.kumtor.kg/en/deposit/production-basic-data.

### Contribution to the local economy

It is difficult to downplay Kumtor’s significance to the country’s economy (see factsheet 1). Between May 1997 and until March 31, 2015, the mine has produced ca. 10.3m ounces of gold (311 tons). After a very negative year in 2012, output returned to acceptable levels in 2013 and 2014 (table 1). Kumtor accounted for 7.4% of Kyrgyzstan’s GDP (chart 1), 15.5% of industrial output in 2014 (chart 2), and 36.5% of its hard-currency revenues in 2013 (chart 3). In 2014 its contributions to the national budget were in excess of $120m and in the period from 1994-2014 its contributions within the country exceeded $2.7bn.¹² In 2015 the mine is expected to produce between 470,000 and 520,000 ounces of gold which represents a slight decline in production compared to 2014 (production in the 1st quarter of 2015 was 164,272 ounces).¹²

### Chart 1. Kumtor’s share of the KG GDP (2014)

Source: Kumtor Basic Operating Results 2014, p. 1.
Evolving Ownership Structure

The agreement regulating the ownership and operation of the mine has changed several times over the years. Kumtor Gold is currently owned by the Canadian firm Centerra Gold, which owns both the mine and output. According to the original agreement, signed in 1992 (see table 2), the Kyrgyzstani government had a 67% interest via Kyrgyzaltyn JSC, whereas a Canadian company called Cameco Corporation held 33%. The agreement was first amended in 2004, whereby Cameco sold some of its gold shares to a new (Canadian) company called Centerra (which obtained 66% of the shares) while retaining some shares in Kumtor, whereas the government’s decreased to 16%. A new deal was renegotiated under the Bakiev administration in 2009 (‘the New Agreement’). As a result of this, Cameco sold all of its remaining interests to the government (again, via Kyrgyzaltyn JSC).
Table 2: The Kumtor deals and the changing ownership structure

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<td>Centerra Gold Inc.</td>
<td>-</td>
<td>66%</td>
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<td>50%</td>
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<td>Kyrgyzstan Government (via Kyr-</td>
<td>67%</td>
<td>16%</td>
<td>33% of shares in the opera-</td>
<td>50% Kyrgyz gov’t to sell its shares in Centerra; swaps shares for a joint venture in Kumtor</td>
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<td>gyzaltyn JSC)</td>
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<td>Cameco Corporation</td>
<td>33% of interests</td>
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The exact terms of a new deal, replacing the 2009 New Terms Agreement, have been at the epicenter of the dispute opposing the government, parliament, and the company over the past few years. The details of this (failed) deal are outlined below. Before doing so however, it is helpful to recall the historical context behind the recent (post-2010) surge in resource nationalism. This will serve the purpose of understanding why negotiations have been so protracted and a settlement as procrastinated as it is. This backdrop encompasses real and legitimate social grievances at the local community level, the series of incidents and scandals that have marred the life of the mine, and the deep political instability which hinders both political and economic development.

A Troubled History: Grievances, Scandals, and Unrest

Although the core of the dispute revolves around the ownership, structure, and the distribution of profits, social grievances, environmental hazards, and weak governance have to be taken into account as well. Local communities show increasing hostility towards the mining sector and do not hesitate to resort to violence to disrupt its operations. Just to give a sense of the trends, miners went on strike in October 2010 demanding a 100% pay raise; a renewed ten-day strike took place in February 2012, where miners demanded that Centerra pay part of their social security contributions; more recently, on May 28-31, 2013, clashes broke out again. Protesters seized control of an electricity sub-station and cut off the power supply to the mine. Environmental risks include pollution of soil, water, and air, as well as the presence of hazardous chemicals and waste, and the increased risk of landslides, mudflows, and slope erosion. Concerns over the area’s exploitation and environmental damage led to new protests in late 2011, which blocked mine-bound supplies. Difficult weather conditions in the winter of 2011-2012 led to heavy ice flows and waste build-up, slowing production.

Last, but definitely not least, is the issue of governance and political instability. Corruption is endemic. authoritarian governments have alternated with brief moments of pluralism and competitive politics, but time and again the country has been plunged into regime overthrows, such as in 2005 and 2010, giving rise to prolonged phases of instability. Protests and calls for nationalization, combined with calls for resource sovereignty, have resurfaced, and in fact intensified, in the wake of the 2010 events in Osh, the main city in the country’s south, where clashes between groups of ethnic Kyrgyz and Uzbeks left several hundreds dead.
and hundreds of thousands displaced. The Osh events, and the power vacuum which both preceded and followed them, also served as the window of opportunity for the violence, rendered the perceptions of fragility of the state (and of national identity too) which have marked Kyrgyzstan’s post-independence life even more acute.14 It is against this background that the rising calls for the defense of natural resources, and ‘Kyrgyz land’ should be located.

The Rise of Resource Nationalism

Simply put, the controversy revolves primarily around the ownership of the mine and the profits that derive from it. Specifically the contentious issues range from the identity of the company that owns the mine, the split of the shares between the foreign mining company and the state-owned Kyrgyz one, the profits (whether they are from Kumtor ‘only’ or from all of the mine’s owner’s revenues), as well as the various taxes and social contributions that the company that owns the mine has to pay to the regional development fund, and the taxes that are contributed to the state’s coffers.

The main stakeholders seem to hold interests that are not always reconcilable: the local communities demand more tangible benefits, such as schools and hospitals, and want more done to prevent environmental damage. National authorities have to protect national interests while attracting foreign investment. Mining companies are subjected to a fluid and cumbersome regulatory regime, various types of taxations, and penalties. There is an evident economic component to the dispute as the terms of the various agreements outlined in table 1 clearly show. At the same time Kumtor speaks to a more symbolic dimension of Kyrgyz(stani) politics, as the controversy raises questions of sovereignty over a country’s natural resources and the possibility (and fairness) of redressing perceived past wrongs.

While controversies have been part of Kumtor’s life, it was only after the collapse of the Baki- ev regime in 2010 that Kyrgyzstani policy-makers became more vocal and began calling for yet a new agreement on better terms for the state or the outright nationalization of the mine. In June 2012 Kyrgyzstan’s parliament narrowly voted against the nationalization of the mine. When former Prime Minister Joldoro Satybaldiev expressed his opposition to the nationalization of the mine in early October of that year, some 1,000 protesters joined a rally organized by the fiercely nationalist party Ata-Jurt in the capital city of Bishkek. Kamchybek Tashiev and two fellow Ata-Jurt members, Sadyr Japarov, and Talant Mamytov, were arrested and charged with seeking to forcefully overthrow the government. The controversy over the ownership and the future of Kumtor was re-ignited by the parliament’s decision in February 2013 to renegotiate the terms of the 2009 agreement. This involved the parliament instructing the government to invalidate the 2009 Kumtor Project Agreement and the 2009 legislation amending the country’s tax code, which gave a more favorable deal to Centerra Gold.

In September 2013, the government and Centerra agreed on a Memorandum of Understanding (MoU) according to which the parties would have swapped the government’s shares in Centerra for a joint venture in Kumtor. The MoU was initially rejected by the Jogorku Kenesh over the clause that would have allowed the distribution of payments due to Kyrgyzstan, to Centerra. In December of that year, a version of the MoU without such a clause was approved. Rather than bringing negotiations to a close this was merely the beginning of two long years of dragging negotiations. In that period what was being negotiated were the exact terms of the aforementioned joint venture, whilst politicians from all sides kept invoking the idea of nationalization of the mine. Especially vocal were the party Ata-Meken, most notably its leader Omurbek Tekebayev, Ar-Namys’s Feliks Kulov, Respublika, and Ata-Jurt (now divided in a various splinter groups).15

In February 2014, after months of protests, rallies, and violence, the parliament voted in favor of a new agreement framework. It seemed that the parties were finalizing the terms of a new agreement whose signature was expected first in late 2014 and then any time in the first half of 2015. The terms of the agreement would have been the following:

- The government would have released its shares in Centerra;
- In turns, Kumtor would have been co-owned as a joint venture (50-50) by Centerra and the Kyrgyzstani government, via Kyrgyzaltyn.

Changes would have been momentous. To start, Kyrgyzstan currently benefits from Centerra’s profits in its other mines elsewhere. The new agreement would have led to Bishkek single-handedly giving up those revenues. In turn, it would have taken on greater responsibilities (the joint venture) and risks exclusively in Kumtor. This would have tied the performance of the Kyrgyzstani economy to the volatility of gold prices, made the local economy even more dependent on one single sector (gold) at the expense of other (non-gold) sectors, and also raised key questions about the long term development of the country. It is worth remembering that production is expected to end in 2026 (after which the agreement would have allowed the government to increase its shares up to 67%). In that form the agreement stopped undoubtedly short of nationalization. However, as Gullette puts it, it evidently gave up long-term financial development for short-term economic gains, gambling on an uncertain future.

On April 9, 2015, the national parliament adopted a non-binding resolution which called the government’s handling of the Kumtor negotiations ‘unsatisfactory’. The following day a small rally gathered outside the Jogorku Kenesh, calling for a new agreement, but stopping short of advocating the nationalization of the mine. On April 13, then Prime Minister Otorbayev, in a surprising turn of events, announced that the government would no longer pursue a new agreement as this “was no longer in the interests of the country”. Ten days later, he resigned. While the failure to settle the issue with Centerra no doubt lies at the heart of the collapse of the government, victory was short-lived for those advocating nationalization, such as Ata-Meken’s Omurbek Tekebayev or Ar-Namys’s Feliks Kulov. Within days the parliament had voted in the new coalition government, identical in its composition (so, with Ata-Meken and Ar-Namys as the Social-Democratic Party of Kyrgyzstan’s junior parties). The new Prime Minister, Temir Sariyev, did not waste time in announcing that “nationalization” carries “risks and threats”, and thus “the government should look for other ways”. In an even more stunning twist, the prime minister’s spokesperson, Bakyt Asanov, noted that the parliament had agreed to ensure the smooth operations of the mine. Kyrgyzstan’s record bodes ill in that regard.

The impression instead is that rather than a breakthrough, the stall in the negotiations might simply be a lull as negotiations are expected to resume during the year. Spats between the parties have also resurfaced in late July when the State Agency for Geology and Mineral Resources noted that Centerra’s report detailing data on stocks of gold at Kumtor (including the projected lower production in 2015) was overdue.

What caused the government’s turnaround? Has resource nationalism won? Was it a turnaround after all? At first glance, the more radical elements inside and outside the parliament have held governments hostages repeatedly. Governments have formed and collapsed over the fate of Kumtor. Otorbayev’s resignation seemed to be just the latest score in a long line of political battles. From a different angle, the refusal to sign a short-sighted deal and the fact that the new prime minister excluded (for the time being) the possibility to renew the negotiations, could instead show that the moderation of the ruling Social-Democratic Party of Kyrgyzstan and the persona of President Atambayev have prevailed and
scope for compromise has finally emerged. Data coming from both inside and outside the country suggest an explanation more in line with the logic of the failed agreement. As of mid-2015 gold prices are low (chart 4) and Centerra’s own data on production at Kumtor also suggest lower-than-expected production targets this year. A status quo, which allows the Kyrgyzstani government to benefit from other Centerra-owned mines, looks, all of a sudden, not to be such a bad deal after all. Short-term economic gains are preserved.

Chart 4. Rise and drop in gold prices

Source: Thomson Reuters Datastream

While prevalent assessments of the trends in resource nationalism seem to point to the cyclical nature of the phenomenon (following fluctuations in global commodity prices), the case of Kyrgyzstan calls for additional research into this topic. Regardless of whether the spring 2015 events represent a victory for resource nationalists, a success for the more moderate voices, or just a lull prior to the parliamentary elections, one thing is clear: among the most significant negative externalities of the dragged negotiations are the decline of the investors’ confidence in the country’s appeal as an investment destination. Stability and the status quo suddenly look preferable, and more lucrative.

Conclusion

The Kumtor gold mine is a prized asset in post-Soviet Kyrgyzstan. The mining sector is central to Kyrgyzstan’s economy and its ability to stay afloat, despite its structural vulnerability, its exposure to external shocks, and dependence on the gold sector. The negative externalities of the instability in that sector have impacted on all parties concerned, with no visible benefit for any. Resource nationalism has become a negative-sum game.

This paper has explored the controversies surrounding the Kumtor mine to discuss and shed light on the rise of resource nationalism in the country. Its main contention was three-fold: firstly, the mining sector has become the battleground on which the three main stakeholders, namely the authorities (including government and opposition), the local communities, and the mining companies defend their interests. Secondly, while the specifics of the agreement are of course about economics (with a focus on short-term gains), what makes Kumtor especially controversial is that this is, at its core, about the vision of the state and the role of strategic resources in the present and future of the country. Lastly, as far as Kyrgyzstan’s
gold sector is concerned, the rise of resource nationalism seems not to have followed the trends in global commodity prices. Though the phenomenon was intensified at a time of historically high prices for gold (2011-12), calls for outright nationalization, legislative initiatives to that end, and the negotiation of a new deal (however temporarily stalled), have continued even as the gold price plummeted (as of mid-2015), thereby questioning assumptions that resource nationalism might be a cyclical phenomenon in this respect. It might in fact be that the Kyrgyz authorities’ predilection over short-term gains might be behind the current lull in resource nationalist tendencies, as the status quo currently benefits all parties. Bringing the Kumtor saga to an end would allow the authorities to begin paying attention to the country’s other equally urgent economic predicaments.

1 Natsional’nyi Institut strategicheskikh issledovanii Kyrgyzskoi Respubliki, Faktory negativnogo otndshenii mestnogo naselenia k investoram, razrabotchikam mestrorozhdenii poleznnykh iskopaemykh, vzaimootnoshenii nedropol’zovatelei i mestnykh obshchestv (Bishkek: NISI, July 2013).
4 Cecilia Jamasmie, “Kyrgyzstan names new PM to settle issue with Centerra over Kumtor mine,” Mining.com, April 30, 2015.
6 Ibid.
10 See http://www.kumtor.kg/en/.
11 Kumtor Basic Operating Results 2014, p. 1.
13 Kyrgyzstan is ranked 136th out of 175 countries in Transparency International’s 2014 Corruption Perception Index. Bishkek also ranks poorly in the fragile states index (62th on 178 in 2015, which places it in the very high warning category).
15 For a detailed overview of the stance on Kumtor of each political party in the country see Dave Gullette and Asel Kalybekova, Agreement under Pressure. Gold Mining and Protests in the Kyrgyz Republic, Friedrich Erbert Stiftung, 2014, pp. 7-11.
17 Trilling, “Kyrgyzstan’s Premier Says No Gold Deal as Mining Industry Fizzles”.
18 Cecilia Jamasmie, “Kyrgyzstan aborts plan to grab Centerra’s Kumtor mine, but wants more say,” Mining.com, April 17, 2015; Cecilia Jamasmie, “Kyrgyzstan gv’t told to ensure ‘smooth sailing’ for Centerra Gold’s Kumtor mine,” Mining.com, July 1, 2015.
19 Trilling, “Kyrgyzstan’s Premier Says No Gold Deal as Mining Industry Fizzes”.