

14 December 2015

### **Briefing: Centerra Gold, Kumtor Gold Mine, Kyrgyzstan**

The EBRD is considering a “five-year revolving corporate debt facility to Centerra Gold of up to USD 150 million to finance the company’s capital expenditures and working capital as well as acquisitions in the Bank’s countries of operation”<sup>1</sup>. This loan follows another USD 150 million revolver for Centerra approved by the EBRD in 2010. The company is operating the Kumtor mine in Kyrgyzstan and plans to open the greenfield Gatsuurt gold mine in Mongolia.

### **Kumtor gold mine, Kyrgyzstan**

There are many questions related to the Kumtor Gold mine that need to be answered before the EBRD makes a decision on the new project. They relate to environmental liability (land use, water contamination risks), geotechnical risks (glaciers movement into the current and future pit, rock waste dumps, tailings management facility, and Petrov Lake outburst risk), as well as to social impact and human rights violations. The legitimacy of these questions has often been undermined by suggestions that they are motivated by political interests, especially in view of the protracted negotiations between the Kyrgyz government and the company.

The summary below is based on several reports: Centerra's own technical reports from 2012 and 2015, a number of state and parliamentary commissions evaluating Centerra’s performance at Kumtor Gold mine and independent experts' reports. Additionally, Bankwatch team visited Kyrgyzstan in October this year and met with CSOs, experts and state scientists, as well as with the EBRD and OSCE offices in Bishkek. The company refused to meet and suggested sending questions in writing to the company's management in Canada. Bankwatch team's attempt to meet communities in the Karakol area was impeded by the Kyrgyz state security services, namely by temporarily detaining two people who the team planned to interview, interrogating the team and allegedly warning villages before their arrival that '*Americans and Ukrainians are coming over to light up a conflict*'.

### **Environmental liability and land use**

According to Centerra's technical report of 2015<sup>2</sup>, since 2012 the Kyrgyz regulatory authorities have commenced several court claims for approximately USD 467 million relating to alleged environmental damages at the Kumtor Mine, mainly with respect to the existing rock waste dumps, use of water, and damages to glaciers and land. The company refutes all allegations and the cases are unresolved. Furthermore, according to the same 2015 technical report, following a Parliamentary report issued in 2012 and a subsequent State Commission’s final report in 2013, the Kyrgyz Government cancelled the Government Decree that provided the company land use rights over the Kumtor Concession Area<sup>3</sup>. In 2013, the Kyrgyz Republic General Prosecutor’s Office commenced a claim requesting that the court enforces this decision, but the case is still pending.

Water pollution is already a serious concern and is expected to be even more eminent after the mine’s

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1 EBRD Project Summary Document, 13 November 2015, <http://www.ebrd.com/work-with-us/projects/psd/centerra-global.html>

2 Centerra Gold, 2015, *Kumtor Technical report*, [http://www.centerragold.com/sites/default/files/centerra\\_kumtor\\_technical\\_report\\_final\\_march\\_20\\_2015.pdf](http://www.centerragold.com/sites/default/files/centerra_kumtor_technical_report_final_march_20_2015.pdf)

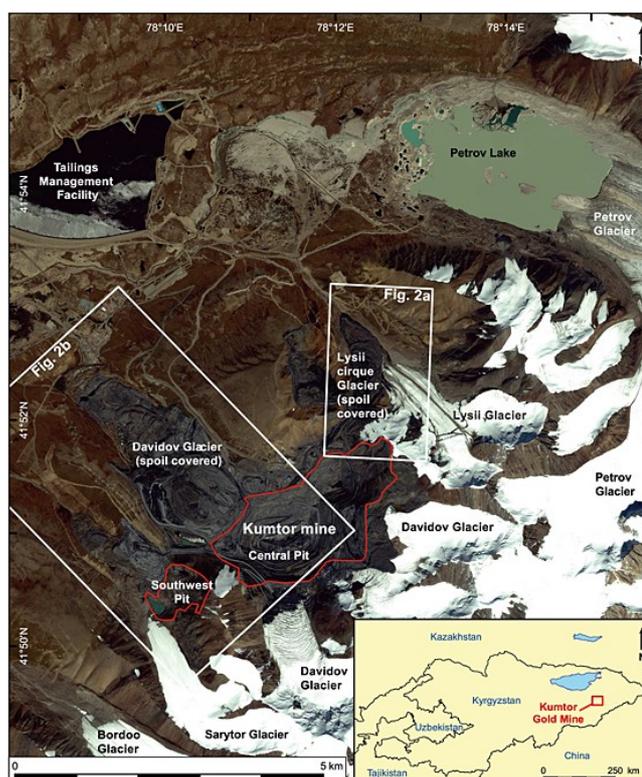
3 State Commission on Kumtor, 2013, *Отчет Государственной комиссии по проверке и изучению соблюдения ЗАО «Кумтор Оперейтинг Компани» норм и требований по рациональному использованию природных ресурсов, охране окружающей среды, безопасности производственных процессов и социальной защите населения*, <http://cbd.minjust.gov.kg/act/view/ru-ru/94130>

closure. Reports on water contamination by Kyrgyz<sup>4</sup> and the international hydrologists<sup>5</sup> and glaciologists have been confirmed by the findings of the State Commission of 2012<sup>6</sup> which point to sulphates, heavy metals, and other toxic elements that are reaching the water system downstream from the mine. An audit by ERM<sup>7</sup> commissioned by Centerra also confirmed the presence of elevated levels of sulphates in waters coming from cyanide leaching technology and as well “*additional source of sulphate via the southern tributaries from waste rock dumps and mine water discharges*”.

### Impact on glaciers and geotechnical risks

Last week a Kyrgyz representative at the Paris UNCCC Conference of the Parties said that by 2025 the glaciers in Kyrgyzstan are predicted to shrink by as much as 30-40%, and river flows to be affected by 25-35%<sup>8</sup>. As it can be seen on the image below, the Kumtor mine is situated on top of two glaciers – the Davidov and Lysii, and the mine is a prime example of mining's negative impact on glaciers. First and foremost, twenty years of extraction and fifteen years of dumping waste rock on top of the glaciers have caused an accelerated glacier terminus surge<sup>9</sup>. In other words the glaciers are now advancing into the open pit, which is creating great challenges to the mining operation.

Furthermore, in the immediate proximity of the mine area there are two more glaciers – the Sarytor and Petrov glaciers, and the Petrov glacial lake, which is situated five kilometres upstream from the mine's tailings facility. Several Kyrgyz and international experts have warned of rising water in the lake fed by glacial melt and a break of the natural moraine dam, made of soil, rock and ice, which can cause a potential Glacial Lake Outburst Flood. Centerra's technical report of 2012 acknowledges that the lake's moraine “*will thaw out prior to 2050 due to continued global warming, and a sudden and potentially damaging glacial lake outflow will occur*”<sup>10</sup>.



The company's 2015 technical report<sup>11</sup> adds: “*Thawing of the moraine dam, to an extent that it allows for piping or overtopping of the dam, may lead to a dam breach and the uncontrolled release of lake water that can potentially erode a section of the tailings dam and damage other downstream facilities.*”

Construction of permanent spillways to lower the level of Petrov Lake by three meters was advised by the

- 4 Tree of Life, 02 May 2013, *Эксперт И.Торгоев о движении отвалов пустой породы на Кумторе*, <http://www.treelife.org/kg/index.php/ru/kumtor/33-dvijenie-otvalov-na-kumtor>
- 5 Moran, R., 2011, *Kumtor Gold Facilities, Kyrgyzstan: Comments on Water, Environmental and Related Issues*, <http://bankwatch.org/publications/kumtor-gold-facilities-kyrgyzstan-comments-water-environmental-and-related-issues>
- 6 State Commission on Kumtor, 2015, *op. cit.*
- 7 ERM, 2012, *Delivering sustainable solutions in a more competitive world Environmental Due Diligence: Kumtor Gold Mine, Kyrgyz Republic*, [http://www.kumtor.kg/wp-content/uploads/2011/12/ERM-Kumtor-Site-Visit-Report-Final-for-Issue\\_en.pdf](http://www.kumtor.kg/wp-content/uploads/2011/12/ERM-Kumtor-Site-Visit-Report-Final-for-Issue_en.pdf)
- 8 Central Asia News (KG), 08 December 2015, *Изменение ареалов уязвимых горных экосистем из-за повышения температуры является угрозой исчезновения в Кыргызстане снежного барса, - ГАООС/ИХ*, <http://ca-news.org/news:1172385>
- 9 Jamieson, Ewertowski & Evans, 27 July 2015, *Rapid advance of two mountain glaciers in response to mine-related debris loading*, *Journal of Geophysical Research*, Volume 120, Issue 7 Pages 1418–1435, <http://onlinelibrary.wiley.com/doi/10.1002/2015JF003504/full>
- 10 Centerra Gold, 2012, *Kumtor Technical report*, [http://www.centerragold.com/sites/default/files/kumtor\\_43-101\\_2012\\_dec\\_20.pdf](http://www.centerragold.com/sites/default/files/kumtor_43-101_2012_dec_20.pdf)
- 11 Centerra Gold, 2015, *Kumtor Technical report, op.cit.*

AMEC consultancy for Kyrgyzaltyn, Centerra's Kyrgyz shareholder. The construction of the spillway was planned to commence in 2014 as to the 2012 Technical report by Centerra, however, these options continue to be evaluated as to the new Technical report of March 2015.

### **Tailings Management Facility and long-term threats**

A recent report of the Center for Science in Public Participation analyses 52 failures of TMFs in the period 1990-2010, sourcing “*data from court cases or proceedings where government sought unsuccessfully to recover what had been spent on remediation, compensation for damages or assigned as value for actual socio economic and natural resources loss*”<sup>12</sup>. The study shows that the total costs for just 7 of the 16 TMF failures that were classified as Very Serious (released more than one million cubic meters of tailings) was \$3.8 billion, at an average cost of \$543 million per failure. The reports argues that “[*t*]hese failures are a direct result of the increasing prevalence of TSF’s with greater than a 5 million cubic meter total capacity”. It is worth noting here that “[*a*]s at September 30, 2012, the [Kumtor] tailings facility contained approximately 58 million cubic meters of tailings”<sup>13</sup>.

The Kumtor mine plan forecasts the need to store additional 45 million cubic metres of tailings in the future and the current tailings facility will not be able to accommodate them<sup>14</sup>. New storage options are being considered, including raising of the existing tailings dam which is preferred by the company (first of all economically), compared to the other options for new tailings management facilities within and outside the Concession Area.

The most serious concern relates to the fate of the TMF after mine closure. The Life-Of-Mine plan has been extended till 2023 and milling till 2026<sup>15</sup>. Centerra is required to update its Conceptual Closure Plan (CCP) every three years and the current CCP states that the closure cost for the mine will be 50mln USD, with 16 mln USD being at the balance of a reclamation trust<sup>16</sup>.

The mine's Conceptual Closure Plan has not been consulted with the public, in spite of concerns that the amounts stated in the CCP will likely be insufficient to address the possible pollution of rivers and soils around the mine after mine closure in the long-term. For example analysis of the Center for Science in Public Participation commissioned by the Kyrgyz organisation Tree of Life raised the point that “*a risk of governmental partnership is that the government could be deemed responsible for failed reclamation or insufficient reclamation funds, such as if the company went bankrupt or abandoned the site.*”<sup>17</sup>

The 2013 State Commission's report raised concerns about the absence of a technical project and an estimation of the necessary resources for recultivation works, which “*may lead to the situation when the Government will be obliged to conduct recultivation from the state budget.*”<sup>18</sup> In this regard the Commission's recommendation to Centerra was “*to develop a technical project for recultivation of the Kumtor mine after its closure in accordance to Kyrgyz legislation on subsoils and environmental protection, and based on the technical project to define the finances for the Recultivation Fund of the Kumtor project*” (own translation from Russian). It is not clear if and how this recommendations is implemented by Centerra Gold.

### **Human rights**

The history of public opposition against the Kumtor mine dates back to the Barskoon cyanide accident in 1998 and since then the mine's development has been intertwined with political controversy. The most recent wave of protests started in May 2013 in the Saruu village in the Karakol region. In 2013 and 2014 there was a series of protests, road blockades and electricity cuts to the mine by Saruu protesters and related raids by the Kyrgyz police, security services and even military.<sup>19</sup>

12 Bowker & Chambers, 21 July 2015, *The Risk, Public Liability and Economics of Tailings Storage Facility Failures*, Center for Science in Public Participation, <http://www.csp2.org/technical-reports>

13 Centerra Gold, 2015, *Kumtor Technical report*, *op.cit.* (p.127)

14 *ibid.*

15 *ibid.*

16 *ibid.*

17 Chambers, D.M, 2011, Review of Selected Kumtor Mine Documents and Data, <http://treelife.org/kg/index.php/en/kumtor?start=10>

18 State Commission on Kumtor, 2013, *op.cit.*

19 D. Gullette, A. Kalybekova, Agreement under pressure, 2014, pp. 5-6, 19, <http://library.fes.de/opus4/frontdoor/index/index/docId/9770>

The Saruu village argued that they saw no benefits from the Kumtor mine and demanded that the Kumtor mine profits were directed to local infrastructure, for example roads, health care, clean water access, education, employment, micro crediting, sport facilities, fuel for farmers, veterinarian services<sup>20</sup>. However, many people interviewed by Bankwatch in Bishkek saw the protest as a part of the struggle between political groups, which is likely to be the impact of the official media reporting of events. The President of the Kyrgyz republic went as far as calling the protesters in the Karakol region as terrorists and bandits<sup>21</sup>.

The protests and raids resulted in mass arrests and physical harm to people, for example in May 2013 the police injured 55 and arrested 92 people when breaking up a road blockade. At that time the arrested were released without charges, however, police later included this episode when presenting charges in future trials. As a result of a spiral of civil disobedience and state forces heavy-handed response currently there are a number of people from Saruu in prison or on trial. The situation in the village is still extremely tense, which was confirmed by the obstacles faced by Bankwatch during the visit to the area in October.

### **Centerra's response to Saruu**

Although Saruu people and Kyrgyz civil society point to the revolving doors between the company's security personnel and the state's security services, the role of Centerra Gold in the spiral of protests and their violent suppression by Kyrgyz authorities remains unclear. Nonetheless, the involvement of the company was clear in securing evidence for pressing extortion charges against Saruu protest leaders.

In the summer of 2013, after the May protest, Kumtor invited two of the informal leaders of the Saruu protest to hold negotiations. The meeting was recorded secretly and as a result an edited video appeared on-line<sup>22</sup>. The video showed parts of the conversation between Kumtor staff (Douglas Grier, Sustainable Development Director and Turumbek Duishenaliev, Security chief) and two protest leaders (Bakhtiyar Kurmanov and Ermek Junushbaev). The video left little doubt for viewers that Saruu representatives were extorting USD 3 million from the company.

The two Saruu representatives were later charged for extortion and were sentenced for seven years in prison each. They have never accepted the charges, saying that the taped meeting was a set up. The conviction led to new protest and arrests in October 2013. Police arrested over 20 people, taking some of them all the way to Bishkek. Interviewed Saruu villagers argue that some of the arrested were not even taking part in the protest. Police had severely beaten up Saruu detainees, so Kyrgyzstan's Ombudsman, Bakyt Amanbaev, visited the arrested and took photo and video footage demonstrating injuries, maltreatment and torture<sup>23</sup>. This evidence later became the base for a court case against the police. The case was lost as the Supreme Court decided on July 14, 2014 that the victims did not authorize the Ombudsman to represent them in court.

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20 Kumtor Sent A Letter To Kyrgyz Republic Prime Minister, <http://goo.gl/HVxCdq>

21 News Asia, 09 October 2013, *Президент Киргизии обвинил участников беспорядков в Караколе в терроризме*, <http://www.news-asia.ru/view/ks/sport/5354>

22 Evening Bishkek, 28 August 2013, *У "Кумтора" вымогают \$3 миллиона*, [http://www.vb.kg/doc/241162\\_у\\_кымтора\\_вымogaut\\_3\\_milliona.html](http://www.vb.kg/doc/241162_у_кымтора_вымogaut_3_milliona.html)

23 KNews, 04 March 2014, *Генпрокуратура отклонила обращение омбудсмена о возбуждении уголовного дела по факту пыток со стороны сотрудников правоохранительных органов*, <http://goo.gl/NybCYO>