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Bulgaria:

Centre for Environmental
Information and Education
(CEIE)
For the Earth!

Czech Republic:

Centrum pro dopravu a
energetiku
Hnutí Duha

Estonia:

Estonian Green Movement–FoE

Georgia:

Green Alternative

Hungary:

Nature Protection Club of
Eotvos Lorand University (ETK)
National Society of
Conservationists–FoE (NSC)

Lithuania:

Atgaja

Macedonia:

Eko–svest

Poland:

Polish Green Network (PGN)
Institute of Environmental
Economics (IEE)

Russia:

Sakhalin Environment Watch

Slovakia:

Friends of the Earth – Center
for Environmental Public
Advocacy (FoE–CEPA)

Ukraine:

National Ecological Centre of
Ukraine (NECU)

CEE Bankwatch Network's
mission is to prevent
environmentally and socially
harmful impacts of
international development
finance, and to promote
alternative solutions and public
participation.

TO:

Kevin Bortz
Director, Natural Resources

Alistair Clark
Corporate Director, Environment and Sustainability

EBRD Civil Society Engagement Unit
CSO@ebrd.com
European Bank for Reconstruction and Development

6 April 2012

Re: Centerra Gold Revolving Debt Facility

Dear Mr. Bortz and Mr. Clark,

We would like to request information about the status of the Centerra Gold Revolving Debt Facility and as well bring to your attention to issues and findings from recent Bankwatch and partner reports on the company's performance.

In November 2010 the EBRD provided a USD 150 million three-year revolving credit facility for Centerra Gold Inc. for its existing operations and potential acquisitions of mining assets in Mongolia and Kyrgyzstan. We would like to know whether Centerra Gold received, used or requested any funding since project approval and if yes, for what activities specifically?

The EBRD has previously supported another Centerra project, the Kumtor gold mine, and a number of environmental and social issues related to the mine's activities have been raised repeatedly. Additionally after a recent mission to the region and meetings with international and Kyrgyz experts, including NGO participation in a State Commission, issues related to water supplies and glaciers were discovered and need the attention of the EBRD.^{1 2}

Expanded concession zone and protected areas

The New Terms Agreement signed in 2009³ gives Kumtor Gold Company exclusive rights to all minerals within an area of approximately 26 000 hectares until 4 December 2042. However the State Commission found this decision was unfounded, as the deposits under the existing license had not yet been fully mined. The ruling continued that there would be no

¹ Robert E.Moran, Kumtor Gold Facilities, Kyrgyzstan: Comments on Water, Environmental and Related Issues: September 2011 and Comments on Commission Water Quality Data (field and Lab) from Kumtor Site Visit, 20 September 2011:

<http://bankwatch.org/sites/default/files/Kumtor-MoranReport-31Jan2012.pdf>

² Kyrgyz State Interagency Commission (State in the text) has been formed by the Governmental Decree #413–p as of 13 Sept.2011 and conducted the Kumtor site visit and water sampling on 20 Sept. The report is available here:

<http://treelife.org.kg/index.php/ru/kumtor>.

³ AGREEMENT on New Terms for the Kumtor Project among Government of the Kyrgyz Republic on behalf of the Kyrgyz Republic and Kyrgyzaltyn JSC and Centerra Gold Inc. and Kumtor Gold Company CJSC and Kumtor Operating Company CJSC and Cameco Corporation as of 24 April, 2009

incentive with the new concession for the company to complete existing underground works, which are more expensive than the open-pit method.

The New Terms Agreement says, “No part of the Sarychat–Ertash National Park neither is, nor will be... included in the Expanded Concession Area.” However the boundaries of the national reserve have been changed⁴ to further explore the Kumtor mine – 4380 hectares of the park’s territory including the Petrov glacier and the Koendy district, buffer and core reserve zones respectively, were set aside. This decision was made illegally,⁵ as a separate environmental impact assessment and public consultations were required but not carried out.

The integrity of the important Sarychat–Ertash natural reserve, home to snow leopard and other red listed animals, is under acute threat from the Kumtor gold mine's expansion, an issue of concern for international and Kyrgyz NGOs⁶.

The Petrov glacier is the largest glacier in the water basin of Naryn river and is an important regional water source, while the Koendy district is the migration corridor of argali to the internal part of the reserve. Even exploration works are having negative impacts on natural species, and these need to be assessed in compliance with EIA legislation.

Glaciers and waste management

The pit intersects two glaciers, Lysyi and Davidov, where previously the company dumped waste rock directly on the glaciers. The company plans to remove and manage the waste dump and glacial ice in the coming years until 2014. Improvements began only in 2007 after significant creeping of the waste dump and the Davidov glacial ice affected mine operations, including delaying mining in some parts of pit.

According to the company’s own assessment, these movements continue – in some sections at a rate of 36 metres per month – and will continue despite the unloading of waste dump material and dewatering efforts.⁷ Moreover the mine pit walls are losing their stability, resulting in several accidents to date.

In July 2002 a Kyrgyz worker was buried in the collapse of a 200-metre high pit wall at the mine near the Lysyi glacier. A failure of the same severity also occurred in 2006. Additionally recent news from Kyrgyzstan⁸

⁴ The amendments to the Governmental Decree #19 from 2008 changed the territory of Sarychat–Ertash Nature Park. From 2009, 4380 ha were excluded from the Sarychat–Ertash National Park

⁵ The Kyrgyz “Regulations on the transfer of land from one category into another” as of 28.01.2008 require the EIA for such a land–use change

⁶ Human Development Centre “Tree of Life”, WWF–Kyrgyzstan, Citizens Against Corruption and International Snow Leopard Trust expressed their demands to restore the reserve’s territories integrity: <http://kg.akipress.org/news:495321>

⁷ Technical Report on Kumtor Gold Project, Centerra, 2011:

http://www.centerragold.com/sites/default/files/kumtor_43-101_march-22-2011_final.pdf

⁸ <http://www.mining.com/2012/03/27/centerra-gold-posts-revised-2012-production-forecast-for-kumtor-mine/>

describing Centerra Gold's revised production forecast for 2012 notes substantial acceleration of ice and waste movement and the need for unloading this ice and waste in the pit.

The company's technical report admits that, "Hydrological conditions in the open pits are controlled by the presence of originally up to 250 metres of permafrost that has become more discontinuous in the areas exposed by mining and the seepage of seasonal surface waters and ground waters into the open pit and their walls." The inflow of seasonal melt waters can be as much as 1 000 litres per second. The Davidov glacier is the predominant source of melt water entering the central pit in the summer months.⁹

This means that both the Centerra and EBRD impact assessments of the waste rock placed on glaciers has been incorrect from the start, since the magnitude of the melting has not been predicted accurately. As a result the operations suffer and waste must be removed from the glaciers.

Thus, any future plans of the company should be thoroughly analysed, assessed and consulted before the expanded or new production starts.

Water contamination and Petrov Lake

The reports prepared by Kumtor avoid mention of the chemical components of the ore. The Kumtor technical report misrepresents the potential for water contamination by stating that the mine waste does not have acid-generation potential. According to an analysis of wastewater samples from the State Agency for Environmental protection, the high amounts of sulfate and suspended solids in the effluent drainage were identified in the runoff from the mine pit, waste dumps and in the effluent from the glacial moraine.¹⁰ The existing sump and pond drainage systems of the central pit do not fully cope with the task of cleaning suspended particles from such volumes of water and the Ministry of Natural Resources has therefore asked the Kumtor Company to make improvements.¹¹

Petrov lake grew by more than 92 000 square metres annually in recent years from glacial melting. The lake's natural dam has become less and less stable and although there is no imminent danger, the lake's tremendous growth might cause the dam to give. The mine tailings are located 85m below Petrov lake¹², and in the worst-case scenario, the downstream tailings could easily wash away, with unforeseeable impacts on people and the environment.

⁹ Technical Report, *ibid*.

¹⁰ The letter to HDC Tree of Life from State Agency of Geoecology at the Ministry for Environment of Kyrgyz Republic as of 21.12.2011

¹¹ Kyrgyz State Interagency Commission (State in the text) has been formed by the Governmental Decree #413-p as of 13 Sept.2011 and conducted the Kumtor site visit and water sampling on 20 Sept. The report is available here:

<http://treelife.org/kg/index.php/ru/kumtor>.

¹² Scientific-Engineering Center "Geopribor"

Local people are already reporting that pollution in the Kumtor river is significantly decreasing the amount of fish in recent years. It is worrying that there has already been a change in the status of the Kumtor river waters from fishery water to the cultural and household use¹³.

The State Commission findings and recommendations were taken onboard by the Government of Kyrgyz Republic and issues on water quality, lake Petrov, natural reserve land transfer were assigned to be addressed by state agencies and the company¹⁴.

Closure plan and reclamation funds

The situation after mine closure raises many concerns, including the possible pollution of rivers and soils around the mine and the need to constantly monitor and establish decontamination treatment.

Current costs of mine closure are estimated at USD 26.9 million¹⁵ and this figure might not be sufficient and should be revised to accurately reflect future costs.

It should guarantee a reclamation plan with full financial guarantees to ensure that the plan is implemented at the cost of the operating company, rather than deferring the reclamation planning until "two years before operations cease" as is now promised by Centerra.

The mine reclamation plan must also be publicly reviewed at least every five years to ensure that the plan and reclamation funds are adequate and sufficiently secure to protect the Kyrgyz people. At the moment, there has been no public discussion around the reclamation plan.

Kyrgyz regulators

Kyrgyz regulators are not allowed to make unannounced audits of the Kumtor site, nor do they have adequate resources both financial and analytical capabilities to reliably oversee the water quality monitoring performed at the site. The Interagency Commission recommended that the State Mining Safety Inspectorate should be authorised to run industrial safety inspections more frequently and more often than once per year, in view of the risks associated with the Kumtor mine and to ensure a proper level of industrial safety on the site. In addition, it is clear the regulators lack the necessary political support to perform truly independent, competent oversight.

Current reforms of the Kyrgyz government include proposals to separate environmental control from the State Agency for Environmental Protection and Forestry (SAEPF), despite the second Progress Report on the Millennium

¹³ The Governmental Regulation of Kyrgyz Republic # 561 as of September, 7, 2009.

¹⁴ <http://www.gov.kg/?p=7136>

¹⁵ „During the first nine months of 2011, Kumtor completed the regular update to its closure study which resulted in an increase of \$4.6 million based on the net present value of its obligation which now totals \$26.9 million (December 31, 2010 – \$22.1 million). The expenditures under this obligation are expected to be made over the 2011 to 2022 period, subject to further extension of mine life.“

<http://www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00020738>

Development Goals for Kyrgyzstan recommended elevating the status of SAEPF to a level of Ministry¹⁶ as one of the components to ensure the environmental sustainability in the country. Due to opposition from NGOs and scientists, only some functions of the SAEPF were reduced. However this proposal is worrying as removing some functions of environmental monitoring and assessment from SAEPF may lead to a disintegration of the country's environmental policy and strategy, weakening its environmental controls and increasing future threats to the environment.

We conclude with the following recommendations:

- The expansion of the mine and EBRD financing for Centerra should be put on hold until an EIA for the Sarychat–Ertash national reserve is carried out in consultation with the public and NGOs.
- Detailed and statistically–reliable reports defining the baseline, pre–operational conditions for water should be made public.
- The composition of ores should be opened to evaluate the acid–forming potential of mine discharges, and the disappearance of fish in the Kumtor river investigated.
- The lack of preliminary, adequate expertise and impact analyses of the company's operations should be alarming for future risk assessments of Centerra and the EBRD, and any assessments should be open and consulted.
- Careful attention from regulators and the company should be devoted to stability factors at the Petrov lake, tailing facility, pit walls, and waste rock dumps stability as there is not such a notion as too much of precaution.
- The Kumtor Reclamation Trust Fund contains inadequate funds to truly remediate and maintain the site after mine closure in the long–term and needs revised. The mine closure plan should be disclosed and consulted.

In view of the experiences with the Kumtor mining project of Centerra, we suggest that the EBRD includes **glaciers**, as well as **natural protected areas** in the **“no–go” zones** for the mining strategy of the EBRD.

Thank you in advance for the positive consideration of this letter.

Regards,



Vladlena Martsynkevych
CEE Bankwatch Network

¹⁶ The Kyrgyz Republic. Second Progress Report on the Millenium Development Goals, UNDP, 2010: <http://bit.ly/H8p76J>