

Kyrgyzstan's Controversial Gold Mine

Allegations of torture are only the latest scandal to be associated with the troubled Kumtor Gold Mine.

By Ryskeldi Satke
February 19, 2015



Image Credit: REUTERS/Vladimir Pirogov

The largest open pit gold mine in Central Asia, Kumtor's transformation from what should have been a relatively straightforward case of foreign investment in Kyrgyzstan into a national controversy has proceeded in step with the country's political instability of the past two decades.

Throughout the history of the Kumtor gold mine, the lead operator of the project, Canada's Centerra Gold Inc., has insisted that it has adhered to international mining standards and to the laws of the Kyrgyz Republic. Of course, it is no secret that doing business in the post-Soviet states (with the exception of Georgia) requires discretion with respect to the corruption that is rampant in those countries. Allegations of bribery and behind-the-scenes deals involving the government are hardly news in Kyrgyzstan.

But after two violent regime changes – in 2005 and 2010 – that left scores dead, the Kyrgyz public pressed parliament to launch an investigation into Kumtor in 2012. Two Israeli-based firms were hired to lead an unprecedented probe into the gold mine, which has revealed episodes of bribery and shady deals during the first restructuring of the Kumtor project in 2003. Moreover, Muszkat Consultants and Barlev Audit have advised Kyrgyz MPs to take the case to international arbitration and to file criminal proceedings with the Canadian police. But rational action is not a hallmark of Kyrgyz politicians, and they didn't take the advice. However, Kyrgyz prosecutors did meet with Canadian MPs and authorities in Ottawa last year to discuss the case.

Long before the first restructuring agreement with the Canadian miner Cameco (Centerra's predecessor) in the 1990s, the Kumtor project was rocked by a corruption scandal. This occurred during the presidency of the first ruler of the republic, Askar Akayev. Suspicions arose in the Kyrgyz parliament over the awarding of the mining contract to Cameco following revelations over the involvement of a trading firm called the Seabeco Group, which had close ties to Akayev, in lobbying on the Canadian mining company's behalf in the bidding process. A *Financial Times* investigative report from January 1994 indicated that the role of the Seabeco Group's owner, Boris Bershtein in facilitating the Kumtor deal with Cameco was crucial if not major. Cameco told the *Financial Times* that Bershtein "did a good job in helping them arrange the deal."

The controversy surrounding Soviet émigré Boris Bershtein was also stoked by the Israeli **investigative audit**. Barlev noted that Cameco hired Bershtein as its representative at a time when the latter was “head of an official Committee for the Reconstruction and Development of Kyrgyzstan.” In one bizarre episode, Boris Bershtein’s private jet ferried 1.6 tons of Kyrgyz gold to Switzerland in 1992. The incident spurred a public outcry, prompting Kyrgyzstan’s parliament to launch an investigation into irregularities. Former MP Shergazy Mambetov, who headed the probe, **told** Azattyk, the Kyrgyz language service of Radio Free Europe/Radio Liberty that the findings of the nine-month investigation (1993-1994) had threatened the then president’s grip on power. In the months following, the president clashed with parliament over the results of the probe, the Kyrgyz cabinet resigned, and the Parliament was ultimately dismissed.

However, the controversy didn’t end there. The initial shareholding agreement between Cameco, with a 33 percent stake in the Kumtor mine, and Kyrgyzstan, with 67 percent, was modified in a mutually agreed restructuring of the gold mine project in 2002-2003. It was decided that Centerra Gold Inc. would be set up to run the gold mine, and the Kyrgyz government would swap its majority stake with a 28.8 percent holding in the newly created Centerra Gold, with Cameco having 58.5 percent.

A **report** issued by Israeli firm Muszkat Consultants after a detailed investigation in 2012 concluded that the first restructuring deal was littered with dubious schemes via an offshore company Eckerd Ltd. (based in the British Virgin Islands), which was linked to the suspicious transactions involving amounts of \$4 and \$11 million. Both Cameco and Centerra Gold have repeatedly denied wrongdoing. Muszkat Consultants stated that the “sums of \$4 and \$11 million were ‘recorded’ in such a way to justify the payments to Eckerd Ltd., an offshore company whose real owners were presumably linked to former President Akayev. These sums were in reality bribes and for money laundering.”

In its letter to the Kyrgyz Parliament, the Israeli investigative firm recommended going to international arbitration with a claim of \$3.5 billion against Centerra Gold. Kyrgyz authorities did charge ten former government officials with corruption over the 2003 restructuring. However, five fled to Russia and the remaining five, although put on trial, were later released because of the statute of limitations.

Whether intentionally or otherwise, the Kyrgyz state’s dubious policies regarding the Kumtor project have had a negative effect on local communities near the gold mine, with years of neglecting the social and environmental impact of the Centerra managed gold extraction. Prior to the outbreak of Kyrgyz mass protests against Centerra, Prague based CEE Bankwatch **reported** that the Canadian company “has been contaminating local waters and glaciers while hiding evidence of such negative impacts from public oversight.”

Torture

The Kyrgyz government has largely ignored local grievances, prompting affected communities to stage acts of civil disobedience and encouraged widespread enmity towards Centerra Gold. In one episode, environmental activists from the village of Saruu quietly **traveled** to a guarded gold mine in July 2013 and documented the

destruction of the Davidov glacier. Sweeping arrests followed during and after the protest in October 2013. Scores of community activists have been arrested and tortured by Kyrgyz law enforcement agencies. In light of these disturbing reports, Kyrgyz state ombudsman Bakyt Amanbayev visited mistreated activists in the prison and compiled video evidence of torture ([here](#) and [here](#)). Speaking with Azattyk, the ombudsman **confirmed** that torture had taken place and added that a complaint was filed with the Kyrgyz courts calling for an official investigation into the matter.

Despite the strides Kyrgyzstan has made on basic freedoms in Central Asia over the last two decades, the UN Human Rights Committee **remains** "concerned about widespread practice of torture and ill-treatment, in particular for the purpose of extracting confessions." The Committee Against Torture meanwhile highlighted "the failure of Kyrgyzstan to investigate fully the many allegations of torture and ill-treatment." Out of twelve activists, four were sentenced to prison terms (4-8 years), four were given probation, and the rest were released on bail. The Kyrgyz government has failed to investigate torture cases, further degrading the country's human rights record.

The Kumtor project has clearly been a political issue since its very earliest days, and remains so today. Ultimately, the Centerra Gold controversy in Kyrgyzstan has proceeded in lockstep with the declining image of the country's mining industry. It is quite likely that the Kumtor gold mine agreement will be reassessed once again if the country witnesses further strife.

Ryskeldi Satke is a contributing writer with research institutions and news organizations in Central Asia, Turkey and the U.S. Contact e-mail: rsatke@gmail.com