

---

## **KYRGYZSTAN: HOW WILL KUMTOR GAME OF CHICKEN END?**

- 05.05.2016

---

Eurasianet, May 4, 2016

Kyrgyzstan has upped the stakes in its on-and-off battle against the operators of its giant Kumtor gold mine with a raid on the companys offices that officials say is part of an alleged corruption probe.

Few doubt the April 28 raid in Bishkek was unrelated to the increasingly frayed relationship between Kyrgyzstan and Toronto-based Centerra [ ] in which the Central Asian states government owns an almost one-third stake. Negotiations to revise the Kumtor concession collapsed last year, so the authorities have reverted to hardball tactics.

The state prosecutors office and the State Committee for National Security have said they are digging into payments made by Centerras local affiliate to the mother company in Canada going back as far as 2013.

It is too early to tell if government suspicions that some money may have gone astray are founded, but the sight of rifle-toting men entering the countrys largest private investor is going to do nothing to bolster Kyrgyzstans reputation as a promising destination for foreign money.

Mark Burton, Kumtor vice president for finance, and Leslie Louw, the vice president for procurement and logistics, both flew out of the country on the day after the raid, although Centerra insists [ ] and on May 3 even offered proof [ ] that both had planned holidays in advance of the event.

The companys response to the raid itself was immediate and typically sanguine, noting the government had expressed concerns regarding, among other things, an inter-corporate dividend paid by KGC to Centerra in 2013.

The Company re-iterates that such inter-corporate dividend complied with the 2009 agreements governing the Kumtor Project (the Kumtor Project Agreements) and all applicable Kyrgyz Republic laws. Any claims to the contrary are without merit, Centerra said in a statement.

In the months preceding the raid, the standoff between Kyrgyzstan and Centerra had only been growing increasingly sour.

Other than the lack of a new deal for the mine, there are other issues that show no sign of being resolved in the near future.

One of these is the question of proposed changes to legislation regulating the use of water resources. Any such amendments would be politically unpopular but vital for Kumtor if the company is to expand its mining activities into the glacial zone without incurring the wrath of the state environmental inspectorate.

Government and parliament have shown little interest in approving the changes.

And then there is the boardroom.

Kyrgyzstan is outraged at the Centerra boards decision at the end of last year to issue an additional 4.6 million shares as a means of covering the expense of company liabilities to third parties. The share dilution led to Kyrgyzstan owning less of the Centerra pie, down from 32.7 percent to 32.1 percent.

The three Kyrgyz directors on the board were against the decision but were helpless to overturn it. The government has since said it plans to launch legal proceedings against Centerra.

While the current situation is damaging for everyone – Centerra stocks have still not fully recovered to their pre-raid levels – what nobody, including the participants in the standoff, seems to have a clear idea about is what happens next.

If Kyrgyzstans investigation reaches its logical conclusion and charges are filed against the company, will the country spend more vital budget resources on lawyers to take Centerra to an international court?

This would seem to be necessary since the terms of the existing arrangement do not allow for disputes to be resolved in local courts.

Or are decision-makers in the government finally preparing for the potentially financially ruinous step of nationalizing the mine?

That prospect seems improbable given the current economic situation and the governments need for immediate revenues in a spring protest season that has already offered more political turbulence than anticipated.

For now at least, the ball is in Bishkeks court.

---

Kaynak/Source: