



**КАБАР РДО**  
*Place for dialogue*

**SITUATION AMONGST MINING  
COMPANIES IN THE SOUTH  
OF KYRGYZ REPUBLIC**

**ANALYTICAL  
REPORT**



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# **ANALYTICAL REPORT**

**on the situation amongst mining companies  
in the south of the Kyrgyz Republic**

**This document analyses recent issues in the mining industry.**

**September, 2013**

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## 1. Introduction.

Across the Kyrgyz Republic, open disagreements and conflicts between gold mining companies and local communities, are causing considerable public concern. The Southern regions of the Kyrgyz Republic are no exception; the same tense situation is found around the operations of a number of companies in the Osh, Jalal-Abad and Batken provinces. The conflict between communities and companies is frequently accompanied by open protest by local residents, most notably the creation of roadblocks on strategic roads. Protesters accuse the gold mining companies and relevant government authorities of misconducting licensing and permitting procedures, as well as threatening the environmental security of territories located near mines. In this context, the most radical opponents of the companies require a complete closure of these plants. More moderate opponents demand the resolution of issues related to the environment, the revision of previously signed contracts, and the active intervention of government agencies and the public, to ensure transparency of company actions. Preliminary assessment of the situation indicates the presence of a conflict between an increasingly radical local population on one hand, and companies along with relevant state authorities that refuse to recognize the situation on the other. Given the current lack of cooperation and furthered adherence to existing behavioural and policy lines, it can be assumed that the confrontation will intensify. Accordingly, efforts to establish dialogue between groups are needed. Given the significant involvement of the general population, particularly in rural areas, the protests caused by poorer social and economic conditions will be present. This paper aims to analyze the current situation, to define the subject of discontent of protesters, to determine the level of social tension, to identify the forms of its manifestation, and to mark the main actions of the parties and direct stakeholders, as well as the associated risks and consequences, in order to propose findings and recommendations.

The results of this report are based on the activities of the project “Kabar Ordo”, within which discussions on mining were held in Chatkal, Ala-Buka and Chong-Alai districts with the participation of representatives of local governments, the public and investors. The report was also supplemented by visits of the project staff to Nookat and Kadamzhai, where tension between the local population and the investing companies was observed. Moreover, for the preparation of this report, several methods were applied including expert interviews, and desk research (consisting of the collection and analysis of published reports, materials and articles in various media) to analyze the existing regulatory framework for the mining industry.

The “Kabar Ordo” is collaborating with young journalists at several journalism outlets including “Channel 7”, “Bashat TV”, ORTRK “Ynytmak” and “Osh TV” in order to cover conflicts by analyzing the situation on the ground. Overall, the project creates *dialogue in order to assist in the resolution of existing issues* between parties, revealing details of ongoing conflicts in the region in the process.

## 2. Description of the situation.

According to the State Agency for Geology and Mineral Resources, the degree of industrial development of the gold reserves is of more than 29%, the number of operating licenses is 38, 14 of which are in the design stage, while the other 24 are conducting preparatory work and producing gold. The number of operating licenses for geological study is 118<sup>1</sup>. Additionally, 10 licenses<sup>2</sup> were repealed due to the results of 2012 and the first half of 2013. According to experts and government officials, along with the huge potential of this industry,

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<sup>1</sup> On the results of the State Agency for Geology and Mineral Resources for 2012 and tasks for 2013, I. K. Chunuev.

<sup>2</sup> A list of revoked licenses for 2012 and the first half of 2013.

there are problems, characterized by the presence of resonance objects<sup>3</sup>, most of which are located in Osh, Batken and Jalal-Abad provinces (*see Appendix 2*).

Tension around the gold companies increased immediately after the first work in the fields. These first differences were caused by the unclear licensing system in the area. The problem is exacerbated by the fact that the authorities in these events often distance themselves without expressing their position clearly. In addition to the unclear licensing system, there are other reasons for the conflict that include: environmental security, contributions to the local treasury, issues with transformation, and land reclamation. However, one thing is clear - because of the lack of transparency, accountability and appropriate information, the situation may rapidly deteriorate out of control. The lack of necessary data gives rise to misunderstanding with the population on one side, and the company and government on the other. The use of roadblocks by protestors on strategic roads not only stops traffic, but also the work of authorities and companies. In other cases, protesters directly interfered with operations in the field, such as in Chon-Alai region in August 2012, when a number of activists of the number of young people, drove away Chinese workers away from the mine. A few days later, a large group of up to 300 young people tried to destroy equipment with fire<sup>4</sup>. This is not an isolated case. The protests differ in the number of participants, decisive and consistent actions and requirements, and active attempts to influence the activities of other stakeholders.

Protestors' positions are defined by rumours. **First** - radical participants become catalysts for the "hard" categorical actions; they make demands such as complete closure of facilities. These radical protestors say they are tired of waiting for the results of their previous actions and that seemingly adequate attitude on the part of companies and government agencies. **Second** - the "moderates" are ready to begin negotiations to revise the previously reached agreements, provided that they will impose new conditions, which relate to payments made to the treasury, allocation of funds for the needs of the local population, and an improvement in the environmental safety of plants, and **Third** - the ones that for one reason or another, find themselves "under the field of view" of other stakeholders, thereby providing "a disservice" to the competition for deposits in obtaining any preferences, etc.; or they just want to get money by using this tool, in some cases, there are precedents.

In general, gold companies are underestimating the real situation in relation to the protests. Their position on the situation can be summarized as follows:

- All the agreements are legal; the government deliberately issued licenses;
- The demands of the protesters are being carried out gradually by independent environmental audits, assistance in the improvement of the social infrastructure of the local population, and the increasing wages of factory workers<sup>5</sup>;
- Politically motivated stakeholders and competitors are found behind the protests;
- The actions of the protesters aim at destabilizing the situation, thereby forcing companies to give large concessions.

Company representatives say that the protesters do not understand the legality of agreements already in existence; most of the participants only seek a personal profit. According to company representatives, the companies are needed for the development of regions--because jobs are created, investments are made in the local budget, and development funds support

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<sup>3</sup> Results of the work of the State Agency for Geology and Mineral Resources for 2012 and tasks for 2013, I. K. Chunuev.

<sup>4</sup> Interview with an active member of protesters.

<sup>5</sup> As the president of Full Gold Mining Zhong Guo, in the course of negotiations the company's management and employees have reached a compromise and it was the requirement to increase salaries. In addition, the salaries fund will be increased by 20 million KG soms. URL: <http://www.vb.kg/180083>.

factory activities<sup>6</sup>. The companies are concerned that the trend is to use all information is to discredit gold mining.

State power is involved in the resolution processes, but in practice, their actions lack efficiency and determination. The **position** of authorities can be expressed through the following points:

- Protests should not disrupt public order, and participants-leaders of the shares must be appropriately tested by the law enforcement agencies;
- The vast majority of the protesters are “random”; they do not have enough information;
- The authorities should intervene in the situation, **but with only one purpose** - to resolve the situation through a legal lens;
- Protests can be used by other interested parties for political purposes.

Summarizing the government position: in any case, the investor is required and if there are violations from the investors, then violations should be removed, but what the local authority is a kind of “between two fires” - local residents and investors.

Civil society has not expressed its position in this situation. Civil society organizations have played no part in meetings, and did not comment on the situation. Some organizations attempted to establish dialogue between the conflicting parties, by organizing meetings and conferences to discuss issues around the mining industry.

The analysis of the situation shows that, **First** - problems arise due to a lack of transparency in licensing system. This in turn increases the dissatisfaction of citizens towards government agencies and companies. **Second** – both sides of the conflict feel that they are able to defend their position, polarizing the issue where the dialogue, providing a definitive compromise at this stage - is exhausted. Parties provide organizational and financial support for certain groups. **Third** - because the majority of licenses are accompanied by serious violations<sup>7</sup> that have been long known to the public, there are attempts to influence events by outside stakeholders from different spheres - business, criminal groups, some representatives of government agencies, local informal leaders. **Fourth** - precedents were created when companies distributed cash to the population, wanting to pay them off, therefore building confidence among the protesters that they may dictate their position through force. **Fifth** - Suspending licenses<sup>8</sup>--a promise by the authorities to resolve the issue in favour of the population, did not help in resolving the situation. The parties periodically discuss the existing problems, but the lack of alternative proposals from the authorities delays the beginning of productive dialogue. In addition, divided public reaction leads to contradictory performances amongst the highest levels of government who offer investors an agreement with the local population and only then discussed the issue of licensing. **Sixth** – The insufficient exchange of information and the lack of full transparency generate various rumours amongst the public. This in turn acts as a tool for accusations of misconduct of parties to the conflicts.

Possible scenarios: Recent events show that power manifests inertia, with an unknown position, besides this problem has been solved slowly, enough consideration has not been given

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<sup>6</sup> Mining and Metallurgical Trade Union of Kyrgyzstan requests the Government to resume production soon at the field of Ishtamberdy. As informed the representative of the Central Committee of the Mining and Metallurgical Workers' Union of Kyrgyzstan for Jalal-Abad province Abdizhalil Toshmatov, the company employs 540 people in Kyrgyzstan and 160 Chinese citizens. Thus, Kyrgyzstan employees make 70 %, Chinese - 30%. URL: <http://www.vb.kg/242325>.

<sup>7</sup> The majority of investors who are now working in Kyrgyzstan have been licensed without publicity and public awareness, said the Kyrgyz Prime Minister Zhantoro Satybaldyev on September 2 at the press conference in Urumqi. <http://pda.kabar.kg/economics/full/61911>.

<sup>8</sup> The Vice Prime Minister for Economy and Investment Dzhoomart Otorbaev: “As soon as you arrange with the local community, the government immediately gives permission for the project. For our part, we want you to stay to work, but we will not ignore the opinion of the people. Their opinion is our priority”- he said. <http://www.tazabek.kg/news:306221>.

to effective information policy and accountability. This has led to the fact that the protesters have gained support from the majority of people in the field. Protestors have no confidence in a policy that promotes informing citizens about processes in the mining industry. This lack of belief proves that the rallies and protests will continue. In this context, the discontented masses have defined their objectives and requirements, which imply new protests with many people. Additionally, conflict may emerge between groups of citizens who believe in the work of the mining companies and those who organize the rallies. The situation is worsened by the mistrust that exists between citizens and both the local and central authorities. This mistrust may destabilize the political situation, not only in the mining communities, but also in the regions as a whole. In recent years, any situation involving foreign companies have become hotbeds of tension<sup>9</sup>. **It is also important** to remember that if events will be developing in the framework of the described trends and overlooked by all parties of conflict situations, the difficulty can gradually lead to problems of the following nature:

- Periodic protests weaken the power of the state in affected regions. This **may lead to the loss of the regulatory and coordinating role of the government in this area** (in most such situations, local authorities continue to be observers);
- Constant misunderstandings **lead to delays in the mining industry**;
- The above-noted two points are reasons that the state will **lose an effective investment policy**;
- **Crime will increase** if the government and civil society cannot offer alternative solutions to problems.<sup>10</sup>

The presence of hot spots indicates that current measures are not properly affecting the development of the mining industry situation. On the other hand, inconsistent, and ineffective government policies lack an adequate, effective and long-term strategy for the development of the mining industry. This creates a number of insurmountable disadvantages for both the investor and the local population.

### **3. Conclusions and recommendations.**

Despite efforts to further stabilize the situation, based on the text above, we can note that the protests are not spontaneous. Signals of tensions are permanent in recent years in this area. This suggests the need for a more versatile examination of the mining industry. Conclusions made from the analysis of the situation around the gold mining companies can be used for wider generalizations on the analysis of the development of the sphere. All measures are ultimately aimed at raising public confidence in authorities and investors who operate within the law.

#### ***Public authorities needs to:***

- follow sensitive indicators related to the development of this sector, and monitor the legal process of license and permit procedures in order to improve the regulatory framework in the sphere of subsoil use.
- regulate the law, particularly regarding issues of property ownership and land use in the development of deposits that lead to disputes between the mining companies and local populations over the use of rangeland<sup>11</sup>;
- act in conjunction with relevant agencies and stakeholders to ensure transparency of the licensing system;

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<sup>9</sup> Events in the village of Katran, Leilek district of the Batken province ([http://rus.azattyk.org/content/kyrgyzstan\\_katran/24785364.html](http://rus.azattyk.org/content/kyrgyzstan_katran/24785364.html)), and in the village of Kurshab when clashes broke out between the local population and the foreigners, prove the seriousness of such incidents, and require proper attention (<http://fergana.akipress.org/news:206500/>).

<sup>10</sup> The recent events surrounding the “Kumtor” deposit, where extortion of large sums of money from the mining plant were observed (<http://svodka.akipress.org/news:133844>)

<sup>11</sup> This statement is taken from the text of the Medium-Term Programme of Action.

- build dialogue between parties, providing the participation of an independent mediator, resulting in a process that will allow for actors to coordinate actions;
- should provide a deep study of the causes of conflict and the positions of all parties to the conflict with the support or organizations that have the experience to attract competent facilitators, as to avoid violence;
- continue to conduct outreach activities with local communities.

***Gold mining companies need to:***

- Work on eliminating violations, including industrial and technical security<sup>12</sup>;
- Take social responsibility of local communities;
- Begin training local staff to create a transparent mechanism for receiving / dismissing employees, and make information available to the community regarding official paperwork and official language;
- Hold regular public hearings on development projects as well as, training related to capacity building in the field of public relations;
- Assess their impact on the environment and report regularly to local communities;
- To work within the framework of existing laws, proving to the local population that they are working honestly;
- Participate in creating formal agreements aimed at involving the whole of society and social development. For example, in the tripartite agreements between mining companies, government and the community that promotes social development<sup>13</sup>.

***Civil sector needs to:***

- Monitor, with stakeholders, in order to make “fresh” policy briefs;
- Provide support for the implementation of social impact assessments and trainings in this area. This may include mapping security and environmental risks, and the use of new approaches in the field of social investment and community involvement<sup>14</sup>;
- Promote dialogue between conflicting parties, by organizing meetings and mediating negotiations.

***Law enforcement authorities needs to:***

- Thoroughly investigate each incident involving violence, and unlawful interference. Future conflicts must be stopped immediately;
- Engage in its own monitoring of the situations, comparing it to other reports and presentations in the area;
- Consider that not enough people will trust law enforcement authorities to act objectively.

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<sup>12</sup> Violations of today are one of the main arguments of the protesters, and at the same time being the cause of confrontation between the parties. Also the subject of the State Agency for Geology and Mineral Resources for the suspension of licenses.

<sup>13</sup> Mining activities, development and the environment in Central Asia: An application to the instruments with practical examples, Environmental Network «Zoi», University of Eastern Finland, Gaia Group Oy 2012

<sup>14</sup> Mining activities, development and the environment in Central Asia: An application to the instruments with practical examples, Environmental Network «Zoi», University of Eastern Finland, Gaia Group Oy 2012

## Annex 1

**Table - What does the current situation show?**

What facts point to the existence of problems?	<ul style="list-style-type: none"> <li>- constant protests;</li> <li>- suspension of licenses;</li> <li>- lack of awareness of the population on the mining industry;</li> <li>- unclear licensing and permit procedures;</li> <li>- lack of a clear, strong position in power;</li> <li>- lack of transparency of gold mining companies.</li> </ul>
What happens in those areas where mining companies operate?	<ul style="list-style-type: none"> <li>- people regularly protests, accompanied by road closures;</li> <li>- non-compliance with the conditions of ecological security of companies;</li> <li>- government does not provide an objective assessment of the situation;</li> <li>- try to use the events of the third forces for their own purposes.</li> </ul>
Where there is a conflict or stressful situation?	<ul style="list-style-type: none"> <li>- Osh region, the field Kara Kazyk, the Chinese gold mining company “Kaidi”;</li> <li>- Batken region, the field “Shambysay”, the Austrian mining company «Manas Resources Ltd»;</li> <li>- Jalal-Abad region, the field “Ishtamberdy”, Chinese gold company LLC «Full Gold Mining»;</li> <li>- Jalal-Abad region, the field Kuru-Tegerek ( LLC “Firm Fonta”);</li> <li>- Jalal-Abad region, Chaaratskaya area (JSC “Chaarat ZAV”);</li> <li>- Jalal-Abad region, the field Sarai-Sai ( LLC “GMK Alliance”);</li> <li>- Batken province, April's field (LLC "Az International”).</li> </ul>
What is the scope and extent of the damage? (The number of victims and survivors, the amount of destruction of buildings and infrastructure)	<p><i>According to the residents:</i></p> <ul style="list-style-type: none"> <li>- An increase in infectious diseases;</li> <li>- A sharp deterioration of the ecological environment surrounding areas.</li> </ul> <p><i>According to the company:</i></p> <ul style="list-style-type: none"> <li>- Damage to buildings during the clashes;</li> <li>- Maiming workers of the plant.</li> </ul> <p><i>According to representatives of state agencies:</i></p> <ul style="list-style-type: none"> <li>- Delay the movement of residents, transportation during road closures;</li> <li>- Stop revenue (due to the plants) to the treasury;</li> <li>- Individual cases of damage to state objects, mutilation of representatives of state power.</li> </ul>
How many people participate in the events? How much more can potentially get involved?	<p>The total involvement of all parties in the event of direct and indirect is from 500 to 3500 people. 500 - 1500 of these people are active participants. The probability of increasing the number of people is high, this indicates the mood in places where events unfold; it can reach up to 5000 - 6000 people.</p>
What do the parties do themselves to reach compromise?	<p><b><i>On the part of the gold mining companies:</i></b></p> <ul style="list-style-type: none"> <li>- performance of some of the requirements of inhabitants (improvement of social infrastructure, financial assistance, improvement of work in order to reduce environmental threats);</li> <li>- establishment of a platform for dialogue with state agencies, communities to exchange information, review existing questions around the plants;</li> <li>- in some cases, attempts to revise the treaties of the allocations to the local treasury.</li> </ul> <p><b><i>On the part of the inhabitants of the protesters:</i></b></p> <ul style="list-style-type: none"> <li>- active participation in all negotiations and meetings for the speedy</li> </ul>

	<p>resolution of problems;</p> <ul style="list-style-type: none"> <li>- in some cases, consent to the possible increase in the number of allocations to local coffers.</li> </ul> <p><b><i>On the part of government agencies:</i></b></p> <ul style="list-style-type: none"> <li>- attempts to develop proposals and options for solving the problems in the process of negotiations, meetings, etc.</li> </ul>
What are the actions of third parties to influence the course of events?	<p>By their nature, in this case, they are divided into two camps:</p> <ul style="list-style-type: none"> <li>- <i>Supporting the protesters:</i> incited to radical actions to obtain higher material benefit for personal gain, they are mainly influenced by the events of what unhappy people (environment, land reclamation, a small allocation to the treasury, etc.);</li> <li>- <i>Supporting the work of companies:</i> put pressure on the leaders of the protesters, distribution of money, material assistance in order to reduce the protests of residents.</li> </ul>
What is a mitigating circumstance?	<p>Keeping in mind the suspension of all three objects that hold tensions, mitigating circumstances as a whole have been exhausted, even if they are, the mood of the masses suggest that these circumstances are not effective, but the attempts to establish platforms for dialogue with the involvement of people from outside.</p>
Which may increase the tension of the situation?	<ul style="list-style-type: none"> <li>- failure to comply with the requirements set by the protesters - residents from plant areas;</li> <li>- inert actions and the lack of a clear position of the relevant government agencies;</li> <li>- regular road closures, the radicalization in the demands of protesters;</li> <li>- postponing of the reconsideration of the agreements.</li> </ul>

## **Annex 2**

### **Short background**

- LLC "Firm Fonta", PM A- 64- 98 dated 15.07.98 -31.12.04, 14.11.08. - 31.12.18. Bl. № 01012 extension;
- JSC "Chaarat ZAV" HP 3117 - AE on 25.06.12 25.12.32. Number 00011;
- LLC "MMC Alliance" HP 1747- AE - 16.04.08g. 16.04.12. Bl. № 00589, rebelled. 05.07.12. - 20.07.13, # 00067;
- LLC «AZ International», HP A- 118- 03 - 06.06.03 06.06.05., 27.10.11 -31 .12.13. Extension 00746;
- LLC "Kaidi" HP 1633 -AE 14.02.08. - 14.02.10. - 31.12.15. Bl. № 00094, 1632 -AE 14.02.08. - 14.02.10. - 31.12.15. Bl. № 00093;
- LLC «Full Gold Mining» created on 7 June 2007, # 4 PM 27.12.11-31.12.14;
- "Manas Resource Co. Ltd." (Australia) is engaged in prospecting and exploration of gold deposits in Kyrgyzstan since 2004, its "Kyrgyz daughter" CJSC «Z-Explorer» HP 3164 AU from 17.12.12 till 12.06.16., #00143<sup>15</sup>.

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<sup>15</sup> <http://www.geology.kg/licensing/data.html>