

KYRGYZSTAN

By Interfax-CNA

Last year, Kyrgyzstan's GDP grew by 5.3% compared with 5.1% in 2000. Consumer prices increased at a much slower rate than, and inflation was just 3.7%, falling to a 10-year low and comparing with 9.6% in the previous year. Kyrgyz foreign trade turnover declined by 10.3% to US\$853 million, exports dropped by 3.7% to US\$438 million and imports fell by 16.3% to US\$415 million.

Industrial production improved considerably. Metallurgical output rose by 16%, machine building and metalworking by 16.5%, light industry by 10% and the construction sector by 6.2%. Production in the fuel industry dropped by 6.2%.

The Kyrgyz Government sees as its top priority in 2002 bringing US\$150-US\$200 million in foreign direct investments (FDI) to the country's economy. FDI totalled US\$73 million in 2001, 83% of the amount the country received in 2000. The government plans to improve the legislation needed for the development of the banking sector and to take steps aimed at boosting the public's confidence in commercial banks. Restructuring of enterprise debts will continue, and the fuel and energy sector is to be rejuvenated through the introduction of a flexible tariff policy and continuing efforts to modernise the coal industry.

The 2001 budget envisaged about US\$730,000 for geological exploration, equivalent to some 91% of the total envisaged for this sector. The exploration to be financed from the budget will be directed towards prospecting and appraisal, and specialised large-scale and detailed searches, as well as to the study of well-known mineral properties so that these can be transferred to local or foreign exploration companies for further study.

The European Bank for Reconstruction and Development (EBRD) continues to play an active role in Kyrgyzstan's development, and has financed 16 projects totalling US\$174 million in Kyrgyzstan over the past eight years. EBRD has been involved in developing the republic's major Kumtor gold mine and in projects concerning telecommunications and electricity supply to a number of Kyrgyzstan's northern regions. EBRD funding of the energy sector in the republic's north has made it possible to develop the Kumtor gold mine successfully and speed up the development of the Dzherui gold deposit (in the Talas region). Kyrgyz officials believe that EBRD could play the key role there by attracting a strategic investor to the gold mine and by bringing in new technologies.

Meanwhile, the World Bank has recommended that the Kyrgyz Government ends its participation in gold production joint ventures with the private sector. In a report prepared at the request of the government, the World Bank concludes that the government will find it difficult to achieve successfully the majority of tasks facing the mining sector - particularly the maintenance of production levels and social order at existing combines, and the establishment of a competitive tax regime that will attract and retain private investment. It says that the government is making a big mistake by participating in the gold-mining sector. As a direct consequence of this participation, the report says, investors have been granted extremely generous tax privileges and concessions in investment agreements. The World Bank recommends that government sets up a single state body to work with the mining sector, to withdraw from participation in various mining projects, to review legislation so as to expedite the issue of exploration/exploitation licences, to end the state monopoly on gold purchases and to

adopt environmental legislation that meets international standards.

The share of the mining sector in GDP last year increased from 1.5% to 7.7%, with exports rising from US\$56 million to US\$200 million. Nevertheless, the level of employment in the mining sector fell, and practically all the growth indicators in the mining sector are as a direct result of the development of the Kumtor gold ore deposit. This started in 1997 and has attracted a total of US\$450 million in investment into the republic. Kumtor's gold accounts for 40% of total export revenues and 30% of total industrial production. As a result of a drop in world gold prices, the operating life of the mine could be reduced and total revenues less than expected. It is anticipated that by 2007 production will have fallen significantly, posing a major problem for the government in terms of reduced export revenue and loss of jobs.

Apart from Kumtor, several potentially large gold projects such as Djerui and Taldy-Bulak are currently being evaluated by private companies but, given the present gold price, it is not clear when gold production will begin or whether these projects will commence production before output is halted at Kumtor.

Meanwhile, most foreign companies have halted exploration, citing the region's instability as the cause. Last year, of the 38 registered, only 15 companies with foreign participation carried out geological exploration. Barrick Gold of Canada was the most active, spending over US\$600,000 in the search for gold. However, for the most part, exploration activity was disappointing and met with little success. Japanese companies, which in 2001 decided to resume exploration in southern Kyrgyzstan after suspending work in 1999-2000 because of the invasion of criminal groups, again held their plans in abeyance, this time because of the military conflict in Afghanistan. Little work of any kind was carried out in the south of the country where almost all the licensed areas for gold prospecting are located. The areas

include Zandaly, Depleka, Hoji Ochkan, where three geological teams usually work. However, last year they spent only one month in the field.

Nevertheless, during the visit of a Kyrgyz Government delegation to the Kyzyl-Suu autonomous district of China on November 2001, a memorandum of intent was signed. China expressed its interest in financing the joint development of the Savoryady gold and tin deposit, which is located on the border of the two countries. The sides also agreed on joint coal production at several small coal deposits.

Gold

Kyrgyzstan produced 24.67 t of gold in 2001, 12.2% more than in 2000. The Kyrgyz-Canadian Kumtor Gold Co. produced 23.4 t of gold last year, 1.9 t or 12.3% more than in 2000. The joint venture mined 52.8 Mt (43.3 Mt) of material and processed 5.5 Mt of (6.5 Mt) ore at an average grade of 5.1 g/t achieving a gold recovery of 83.7%. Cameco owns 30% of the joint venture and the state-owned Kyrgyzaltyn 70% of the equity. The general agreement, signed in 1993, defined Kumtor's reserves as being 514 t of gold.

In July 2001, Kyrgyzaltyn received confirmation from the London Bullion Market Association (LBMA) on the re-registration of the 'good delivery' certificate for gold bullion, which was previously held by the Kara Balta Mining Complex. The latter has spun off its gold refining capacity to Kyrgyzaltyn in line with a presidential decree of March 15, 2001.

Elsewhere, output grew by 9.6% at the Makmal-Zoloto mine and by 295% at the Kadamzhay antimony plant, although it fell by 11% at the Solton-Sary mine. Kyrgyzaltyn controls all three enterprises and also refines gold mined by the Kumtor Gold Co. joint venture. Total output by value for Kyrgyzaltyn enterprises was up 19.1%, which was 11% more than targeted.

This year, Kyrgyzaltyn's enterprises are expected to reduce gold output. It is designing

and building a new mine at the Makmal deposit which should yield a further 10 t of gold and keep the existing open pit going until 2010. Kyrgyzaltyn is currently carrying out preparatory construction work at the Northern section of the Makmal open pit where there is thought to be some 11 t of mineable gold.

The company also plans to put the Terkan gold lode commercially on stream and to step up operations at the Tereksay field, where a planned gold recovery plant has yet to be built. Kyrgyzaltyn also expects to discuss options for forming joint ventures to mine the Jerooy and Taldy-Bulak Levoberezhny gold lodes with a number of foreign investors. Australia's Snowden Associates has estimated that Jerooy contains 2.03 Moz (62.98 t) of gold in recoverable ore at an average grade of 5 g/t for Au. Around 1.21 Moz (37.65 t) at 3.86 g/t Au is amenable to open-pit mining and around 0.8 Moz (25.33 t) averaging 8.92 g/t Au can be deep mined.

Taldy Bulak Mining Co., in which Kyrgyzaltyn owns 52% and MMC 48%, holds the licence to the Taldy Bulak deposit, which contains about 56 t of gold in ore averaging 8.4 g/t Au. The joint venture plans to produce about 20 t in a first-stage mining development.

In 2001, Renton Group began to develop the Dzhamgyr gold lode, which contains 14 t of gold. The deposit, in the Chatkala district of the Dzhalal-Abad region, contains a total of 701,000 t of ore and will have a mine life of 12-15 years. Renton, which is actually Kyrgyzstan's biggest producer of fruit juices and bottled water, is preparing to access deeper lodes, completing the construction of mine roads and installing a modular gold recovery plant. It is mining about 100 t/d of ore. The company recently introduced diesel-powered generators to feed the recovery plant, mining village and tailings dump. All of the work to date has on schedule, and has been carried out in conjunction with the North Kyrgyz Mining and Geology Expedition.

Mercury

The state-owned Khaydarken Mercury Combine in Kyrgyzstan's Osh region is one of the former Soviet Union's biggest mercury producers. The company produced 574.4 t of mercury in 2001, 4.5% more than it achieved in 2000. The combine also produced 1,175 t of fluorspar concentrate, down 63.6% from 3,000 t in 2000. By value, output fell by 5.1% to US\$2.5 million. The combine had trouble selling the product because prices were too high, as was the cost of transporting the product via Kazakhstan, Uzbekistan and Tajikistan. Now, the combine is trying to set up barter and direct supply deals.

Exports totalled 481.3 t of mercury, 8.4% lower than in 2001, and 1,888 t of fluorspar concentrate, a decrease of 42.9%. At the start of this year, stockpiles contained 189 t of mercury and 3,677 t of fluorspar concentrate.

Coal, Oil and Natural Gas

Kyrgyzstan is not self-sufficient in energy resources. It produces coal, oil and natural gas but only in small amounts. Coal production last year amounted to 477,000 t and is forecast to increase 15% in 2002 to 580,000 t. The coal-mining industry as of January 1, 2002, included 11 functional mines and two auxiliary companies. By 2005, the country's coal-industry development programme envisages an annual output of 1.0 Mt.

Kyrgyzkomur Corp. (Kyrgyzugol), the major coal producer, boosted production 12% year-on-year in 2001 to 387,000 t and met its targets despite various problems, which included a budget shortfall. Nevertheless, Kirgyzkomur plans to increase coal production this year by 41.3% to 547,000 t.

AO Kyrgyzneftegaz, the state oil and gas producer, identified 15 new oil and gas fields in southern Kyrgyzstan with reserves of 1.6 Mt of oil and 4.9 billion m³ of gas. The company produced 75,500 t of oil and 32.7 million m³ of gas, with marketable production down 1.7%.