

KYRGYZSTAN

By Interfax-CNA

Kyrgyzstan was the only CIS country to report a drop in GDP last year. The drop in industrial output, mostly in the mining and energy sector, had the greatest impact. A fall in gold production at Kumtor, and lower production and sales of electricity, pushed GDP down 0.5% from 2001. Electricity production was lower in response to lower from Kazakhstan and Uzbekistan. If those enterprises operating in the Kumtor goldfield are excluded, GDP expanded by 3.1% last year, reflecting higher output in the sugar, liquor, and textile industries. Agricultural production increased by 3.3% and the service sector reported a 4% increase.

Industrial production in Kyrgyzstan fell 13.1% in real terms in 2002. If those companies involved at Kumtor are excluded, production rose by 0.8%. Production in the extractive industries sector plunged by 27.1%, with mining of nonferrous metal ores accounting for 93.2% of this fall.

Foreign investment was down by 37%, and foreign loans fell by 47% to So1.8 million (US\$1 = So47). Foreign direct investment totaled So493.7 million (down 32.4%). The only increase was seen in foreign grants and humanitarian aid, up from So45.1 million in 2001 to So327.7 million in 2002.

The restructuring of Paris Club debt at the start of this year enabled Kyrgyzstan to lower foreign debt repayments from US\$78.8 million to US\$22.3 million, thereby freeing up money for economic development and social programmes. In 2003, Kyrgyzstan will have to pay US\$33 million on its foreign debt instead of US\$90 million. Foreign debt repayments will equate to about 11% of budget revenue as a result of the restructuring. However, foreign debt remains very large at more than US\$1.5 billion, which is almost equal to Kyrgyzstan's annual GDP.

The Government of Kyrgyzstan has approved a plan to reform the country's mining industry. Bills to amend the law on subsurface resources and the Tax Code have been drafted in order to attract investment to the sector. The reform plan is intended for the period to 2005. This is expected to help the country meet the target of increasing gold output to 30 t within two to three years. The plan will require investment in the Taldy-Bulak Levoberezhny gold deposit, the development of the Teraksay mine and the construction of a mining and treatment complex at the Jerooy deposit. Higher antimony prices will underpin efforts to expand the resource base for the Kadamzhay Antimony Combine. Meanwhile, the government is taking steps to ensure supplies of antimony concentrate from Russia and Tajikistan.

Foreign investment in geological exploration in Kyrgyzstan in 2002 increased by 130% to about US\$3.5 million, and according to the State Agency for Geology and Mineral resources, investments could exceed this amount during

2003. The largest foreign investment was directed towards gold (So117 million), with around So37 million spent on exploration for oil and gas. In addition, the government allocates about US\$500,000 annually from its budget for exploration, and the locally registered Renton Group, which is developing the Dzmamgyr gold lode, is raising a significant amount of investment.

Most of the increased investment in 2003, however, will be by foreign companies working on precious metals projects. Many of the major mining companies that had left Kyrgyzstan are expected to return and continue where they left off. For example, Japanese companies are set to return to a joint project with Australian companies to prospect and explore potential gold deposits in the south. Since 1997, Japan's Mindeco has been exploring the Alay property for new gold, ferrous and nonferrous metal deposits. It has also been appraising the Altyn Zhylga vein-type gold deposit located on the right bank of the River Sokh, Osh Region. The Japanese Government recalled the company in 1999 after Mindeco geologists had been seized by rebels who had crossed the border from Tajikistan.

The higher investment forecast is also being linked to the possible return to Kyrgyzstan of the North American companies, Newmont Mining Corp. and Teck Cominco. Both have already stepped up gold prospecting in neighbouring Uzbekistan. In addition, the government expects the return of the US company Apex Silver, which has been prospecting the Kumushtak lode occurrence in the Talas Region since 1996, and Phelps Dodge, which had in 2002, citing internal problems, discontinued prospecting at the Shakhimardan-Koksui area in the Osh Region last year, citing internal corporate problems. The area is estimated to contain as much as 250 t of gold.

Gold

In 2002, Kyrgyzstan's gold production fell to 18 t as a result of a pit wall collapse at the major Kumtor gold deposit. In the previous years, output had reached about 25.6 t. The country is expected to mine 22.7 t of gold in 2003 and the government's target is increase annual production to 30 t within two to three years.

The principal producer Kumtor Gold Co., a joint venture between Cameco of Canada and state-owned Kyrgyzaltyn, reduced output by 30% in 2002, to 528,550 oz (about 16.44 t), and contributed US\$54 million to government revenues. Its production target for 2003 is 20.9 t

The government intends to restructure Kumtor Gold Co. in a bid to speed up development of the gold-mining sector and generate more revenue. The creation a new public company to develop the Kumtor goldfield is under consideration in which Cameco's current one third stake would be increased to 90%, with Kyrgyzaltyn holding the remainder. All shares in Kumtor Gold Co. would be transferred to Cameco, and preferred shares would then be issued to make make up 10% of the charter capital of the new joint venture. Kyrgyzaltyn would receive these shares.

Elsewhere, under the Foreign Trade and Industry Ministry's plans to accelerate development within the gold sector, an underground mine could open this year based on the Makmal gold lode. Remaining open-pit reserves are expected to yield 1.35 t of gold. These, along with the processing of low-grade ores and tailings, could extend mine life a further seven to eight years. The subsequent prospects for Makmal hinge on the development of deep horizons where there are reserves of some 11 t. The operating company at Makmal, Makmalzoloto, began building the underground mine with its own money at the beginning of 2002. The deposit now has the necessary communications infrastructure, and work is under way on mine preparation and incidental mining. Ken-Too is developing a working plan to access the reserves. Makmalzoloto planned to produce 1.5 t of gold in 2002, 22.3% more than in 2001.

An investor will be selected this year to continue development of the Taldy-Bulak Levoberezhny gold lode. The project will cost about US\$50 million, according to preliminary estimates. Taldy-Bulak is located in the Kemin district of the northern Chui Region and contains reserves of some 56 t of gold in ore averaging 8.4 g/t Au. The completion of construction of the first phase and launch of facilities at the Taldy-Bulak gold mining combine are scheduled for the beginning of 2004. The project will be carried out by Kyrgyzaltyn's Directorate for Construction of the Taldy-Bulak Gold Mining Combine.

Kyrgyzstan plans to mine 250 kg of gold at the Kurandjailoo gold lode in the northern part of the country in 2003. The licence had been held since 1995 by the Kurandy joint venture between Kyrgyzstan's Kara Balta Mining Combine, Russia's Atomredmetzoloto and Switzerland's Andre & Cie S.A. No work has been carried out at the deposit for four years owing to financial constraints. The deposit contains 10 t of reserves. Israel's SHG Golden & Silver Ltd. received the licence to develop Kurandjailoo in June 2002.

A joint venture in which the Israeli company will own 69% and Kara Balta will be co-owner has been set up to develop the deposit. The Israeli company has transferred the licence to Ak-Tyuz (the former Kyrgyz Mining and Metallurgical Combine), of which SHG Golden & Silver owns 70%. Ak-Tyuz has spent US\$10 million renovating and upgrading its gold recovery plant which will have the capacity to process 25,000 t/y of ore.

Construction of a gold recovery combine at the Tereksay gold mine that is being operated by Kyrgyzaltyn will cost about US\$100 million. Outokumpu Oyj of Finland signed an agreement with Kyrgyzaltyn in December 2002 for the construction of the combine, and will also help design and equip the mill. Contracts are now being drawn up for research and pilot-scale testing. The mill is expected to process 750,000 t/y of ore and produce 2.5-3 t/y of gold. Total reserves are estimated at 150-200 t, according to preliminary data. In 2003 there are plans to re-equip the existing mill at the Tereksay mine, and to begin trial development at the Chapchama and Chaap sections. Building a gold mining combine in Tereksay will make it possible to increase annual gold production by 1.0-1.2 t.

The Government of Kyrgyzstan has decided to license activities related to placer gold mining by individual entrepreneurs. Mining of placer gold already takes place in remote areas, and the introduction of licences will make it possible to monitor miners' incomes and ensure that the government is paid its dues. The 'Gold of the Kyrgyz Republic' programme had targeted production of gold from the Kumbel, Susamyr and Chatkal placers at 311 kg between 1996 and 2000, but actual output was only 162 kg. According to state gold-mining company Kyrgyzaltyn, placer gold accounted for less than 1% of total gold production in Kyrgyzstan. However, the number of individual miners is increasing in line with the government's measures to liberalise the precious metals market.

The Kyrgyz Government annulled the licence to develop the Jerooy gold lode in the Talas district in May 2002. The license, originally valid until March 6, 2011, was withdrawn because the licence-holder, the Talas Gold Mining Co. joint venture, had not submitted a feasibility study on time and had not started to develop the Jerooy field within two years as stipulated under the terms of the licence. The JV partners are Norox Mining of the UK (66.67%) and Kyrgyzaltyn (33.33%). Australia's Snowden Associates has estimated that Jerooy contains 2.03 Moz (62.98 t) of recoverable gold in ore with an average grade of 5 g/t Au. Of this total, around 1.21 Moz (37.65 t) in ore averaging 3.86 g/t Au can be mined by open pit, and 815,000 oz (25.33 t) in ore averaging 8.92 g/t Au can be mined by underground methods.

Mercury

The state-owned Khaydarken Mercury Combine in the Osh Region is one of the former Soviet Union's biggest mercury producers. The combine was expected to produce 530 t of mercury in 2002, 4.7% less than in 2001. The decline was attributed to the exhaustion of core ore reserves, processing of low-grade ores with low metal content, and a deterioration in mining and technical conditions. In particular, output was badly affected by the flooding of the Vspomogatelnaya mine and a consequent reduction in mining capacity, with monthly output falling to 7,841 t of ore and 4.3 t of mercury in ore.

Furthermore, exports of mercury to China, the biggest market for Kyrgyz mercury, have been complicated since March 2001 by the lack of a permit from the Chinese side.

However, Khaydarken's output of fluorite concentrate more than doubled to 3,000 t. In 2001 the combine had reduced production of concentrates by 63.6% because of problems with sales, but in 2002 it signed contracts with Russian companies for the delivery of 2,500 t.

For the future, the combine plans to fine-tune and introduce technology to process arsenic-rich ores, and work will soon be completed to clean up damage done by mine flooding and remedy the disruption of power lines. These measures should boost mercury output. Khaydarken has sufficient reserves of mercury to maintain output at the current rate for six to seven years.

Antimony

The Kadamzhay Antimony Combine was operating at only 10-15% of capacity at the start of 2002 because of a lack of working capital. The combine processes raw material from the Sary Lakh and Adychan deposits in Yakutia, Russia, and from the Jijikrut deposit in Tajikistan. Kadamzhay produced 1,324 t of antimony in the first 11 months of 2002, 40% less than in 2001. Full-year output was expected to be 34% below the target of 3,000 t. The target for 2003 is 3,100 t of antimony.

State-owned Kyrgyzaltyn has a 70% interest in Kadamzhay and assumed management control early in 2002. It will continue to provide financial and management aid. Meanwhile, processing of raw materials on a tolling basis could be set up at the combine within five to ten years.

Coal, oil, and natural gas

In 2002, Kyrgyzstan's output of hard and brown coal rose by 4.5% to 497,500 t, output of natural gas fell by 10.7% to 29.3 million m³, and crude oil production remained unchanged at 75,500 t.

Given the country's insufficient resources of oil and gas, and an existing shortage of electricity, Kyrgyzstan's coal production is scheduled to rise sharply, and to exceed 1.0 Mt/y by 2005. The principal expansion will be at the existing Kara-Keche open-pit mine located in the Dzhumgal district of Naryn Region. The mine is based on Kyrgyzstan's largest coal deposit, and commercial development of Kara-Keche began in 1985. Of Kyrgyzstan's total explored coal reserves amounting to some 2,500 Mt, more than 500 Mt are located at Kara-Keche and of these 192 Mt are amenable to open-pit mining, according to the State Geology Agency. At present, the deposit is being mined by Razrez Ak-Ulak in which the state holds a 70% interest. A two-year management contract with Primex Center LLC of the US expired on November 1, 2002. The US company met all the obligations set out in the contract, including production targets – annual output was 150,000 t in 2000, rose to 200,000 t in 2001 and was expected to reach 250,000 t last year. Primex Center also delivered US\$2.2 million worth of special coal-mining equipment.

Ak-Ulak is the only state company of the five that are working Kara-Keche, and accounts for 53% of national coal output. Apart from the government's 70% controlling stake, private individuals hold 25% of stock, and employees 5%. According to the government programme, open-pit production at Kara-Keche is supposed to increase to 300,000 t in 2003, to 500,000 t in 2004 and to 550,000 t in 2005. By 2007, Ak-Ulak hopes that equipment upgrades, refurbishments and further foreign investment will raise annual output to 1 Mt.

In order to increase output from the Kara-Keche coalfield still further, and to meet growing demand for coal in northern Kyrgyzstan, the government invited tenders in 2002 for the rights to develop the central section of the deposit. There were four bidders, and a company called Besh-Sary submitted the winning tender. The State Property Committee has also called for tenders to manage, and subsequently buy out the government stake in Ak-Ulak.

Construction also continued in 2002 on the first phase of the Besh-Burkhan mine. According to the feasibility study, capital expenditure on the first phase of this new mine will total So37 million, and construction will take 22 months. A total of So23.1 million in funding was allocated for mine construction for 2000-2002, including So7 million in the form of equipment and supplies. Development work to date has included accessing the coal seams and sinking 950 m of permanent mine shafts. It is hoped to complete shaft sinking by July 2003 and to bring the mine on stream shortly thereafter.

Work is continuing on the development of the 2,100 m level at the Zhyrgalan mine. As of the beginning of December 2002, the So2.4 million worth of government funding earmarked for the project had been received in full.

In order to increase oil output, the national oil and gas company, Kyrgyz-neftegaz, signed a general agreement with the Chinese oil corporation Shienli Gunji in March 2002, to conduct capital repair work on oil wells at the Maili-Suu IV-Izbaskent deposits. Investment over the period from 2003 to 2005 is tentatively planned at US\$150 million. The Chinese company will conduct capital repairs at 40 idle wells at its own expense and will then produce oil and gas under a joint venture arrangement. Under the agreement, the Chinese company has already delivered US\$5.5 million worth of oil equipment. At the Izbaskent deposit, the company repaired well No. N78, which had been mothballed for more than 30 years, and it gushed oil with water at a rate of 15 t/d. The well is now producing steadily, and between August 14 and December 1, 2002, it produced 418,700 t of crude oil.

Kyrgyzstan plans to increase oil and gas production by 10% in 2003. The target should be met by expanding oil and gas production at Saryshtam, Sarytok, Sary Kamysh, Mailu Suu 4 and Vostochny Isbaskent fields. There could also be positive developments as a result of joint geological exploration, drilling and well repair work with investors from Canada, Australia and China.