

The Kumtor Gold Mine: Spewing Toxics From On High

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Introduction

Located at almost 4,000 meters in the remote Tien Shan mountains of Kyrgyzstan, the Kumtor gold mine is believed to be the eighth largest gold field in the world. As the largest foreign investment in this Central Asian country, it represents nine percent of Kyrgyzstan's GDP. In 1998, a cyanide and sodium hypochloride spill associated with the mine reportedly left several people dead, hundreds seeking medical treatment, and thousands evacuated. The defensive and evasive response from the IFC and its client in the aftermath of the spill, including an ongoing lack of information disclosure, and a community development process that is perceived to be contrived, have contributed to public distrust of the project and of foreign-financed development. Other conditions surrounding the Kumtor project, including the lack of adequate government emergency response and medical preparedness, also place in question IFC's willingness or ability to control impacts of its projects.

Project Background

The Kumtor mine and processing facility is a US\$360 million project of the joint venture, Kumtor Operating Company (KOC). KOC is two-thirds owned by the Kyrgyz government and one-third owned by the Canadian Cameco Corporation. IFC is providing a \$40 million loan; this is its first investment project in

Kyrgyzstan. IFC is a lead partner in a cluster of public international financial institutions (IFI's) supporting the project, including the World Bank Group's Multilateral Investment Guarantee Agency (MIGA), the European Bank for Reconstruction and Development (EBRD), US Overseas Private Investment Corporation (OPIC), and Canadian Export Development Corporation (EDC).

The support of so many IFIs is explained by the high risks inherent in such a large-scale project involving a strategic resource in an unstable former Soviet Union country. The support of the public IFIs helped leverage private bank involvement in the project, which in 1995 reportedly included Chase Manhattan Corporation, Republic National Bank of New York, ABN AMRO-Bank of Canada, Bank of Nova Scotia, Chemical Bank, Royal Bank of Canada and Credit Lyonnais.

Regarding the potential development impact of Kumtor, IFC states:

"Gold mining is one of the most promising areas of economic development in the Kyrgyz Republic and, potentially, the largest source of export earnings. The mine, with access roads, power transmission lines, an airstrip to transport the gold, and other associated infrastructure, will help open up a remote and inaccessible part of the country. The project will have a positive

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developmental impact through employment and transfer of management and technical skills.”

However, despite the size of the Kumtor gold field, the rate of mining is so high that at the time it was opened its mining reserve life was just over 11 years, and it is expected to begin closure sometime around 2008.

Overview of Key Problems

On May 20, 1998, a KOC transport truck carrying potentially lethal sodium cyanide crashed through a bridge en route to the Kumtor mine, plunging into the Barskoon river and spilling nearly two tons of cyanide into the river. The company did not immediately inform people living in a village downstream despite the potential harm to human health from cyanide poisoning. Approximately five hours after the spill, a Russian border guard patrolling the area finally discovered the accident. He ordered the company to notify the downstream community, which uses this water for drinking and irrigation.

Several weeks after the spill, the U.S. Government-supported Radio Free Europe/Radio Liberty consistently reported that several people were killed by the poisoning, several hundreds had sought medical attention and several thousand were evacuated. Weeks after the cyanide poisoning, villages exposed to cyanide and sodium hypochlorite (applied to the water and soil after the spill) poured into local hospitals with skin rashes, sores and other ailments. Panic ensued due to a lack of reliable public information on the impacts of these chemicals. In one village pregnant women reportedly induced abortions because they believed their fetuses to be poisoned. Villagers also suffered loss of subsistence income when they were unable to sell vegetables from the area, because potential buyers the vegetables were poisoned. Downstream at Lake Issy Kul, Kyrgyzstan’s leading tourist attraction, revenues plummeted as vacationers cancelled trips amid fears that the lake might also be poisoned. Regardless of whether all these fears were

warranted, the social and economic consequences of the panic were quite real.

Following the accident, KOC responded by disputing its magnitude, although it later acknowledged that it failed to notify downstream communities in a timely manner. IFC also acknowledged this shortcoming and made public assurances that this and similar scenarios could be prevented in the future with a revised Emergency Response Plan. However, on January 20, 2000, a KOC truck carrying 1,500 kilograms of ammonium nitrate, used as an explosive at the mine, crashed, spilling its contents. Despite the revised Emergency Response Plan, which IFC said would result in “immediate notification of nearby communities (and) Ministry of Emergency Services and Civil Defense,” NGOs report that Kyrgyz authorities were not informed of this spill until the following day.

Company officials and some members of the Kyrgyz government dispute links between the cyanide spill and the reported deaths. Dismissive of the potentially deadly effects of cyanide poisoning, a May 29, 1998 Cameco press release states that cyanide “occurs naturally in most stone fruits.” In a June 22, 1998 letter to several financial institutions backing the joint venture, KOC’s then-President Len Homeniuk described the local reaction to the spill as “...media sensationalism, political opportunism and medical misstatement.”

IFC itself added to such finger pointing by stating that an international scientific commission’s assessment that was done weeks after the spill could confirm no direct link between the cyanide spill and reported deaths. However, according to the IFC and other documents, the results were inconclusive, because the Kyrgyz government limited access to autopsy and medical records from outside parties. Meanwhile, the International NGO, Mineral Policy Center, recorded on film a physician who was on duty at the Barskoon hospital, saying she was directed by higher government authorities to limit the number of documented cyanide-related deaths to four.

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Data later collected by Kyrgyz scientists on mortality and morbidity rates in Barskoon showed a doubling in the death toll in the year following the spill as compared to the previous four years.

Company officials claim that cyanide at the site dissipated rapidly into the environment, suggesting that the skin rashes, sores and other ailments reported for weeks after the spill in fact could not be attributed to the spill. However, it was later stated in the Opinion of the Special Government Committee investigating the accident that, following the spill, Kyrgyz government authorities applied excessive amounts of calcium hypochloride to the main irrigation canals in an attempt to neutralize water and soils. According to the Opinion, “there were cases of indiscriminate usage of calcium hypochlorite mixture for soil decontamination,” and “residents could have been poisoned by cyanogen chloride which could have been formed as a result of the treatment of watered plots with calcium hypochloride.” The Kyrgyz State goldmining company, Kyrgyzaltyn responded to the opinion, stating that “10% calcium hypochloride solution, and not (the usual) 1% solution” was applied, and that in places “20% solutions, and later 50% solutions were prepared, and in some places even dry lime of chloride was scattered around. It was an inadmissible overdose.” A lack of adequate government medical preparedness in dealing with such an accident also has been alleged: In a June 22, 1998 letter to financial institutions, KOC’s then-President Homenuik stated that Kyrgyz authorities’ “improper administration of (cyanide) antidote” was to blame for many of the reported ailments.

In January 1999, it was reported that KOC reached an agreement to pay the Kyrgyz government \$4.6 million in compensation for the estimated costs of the spill. However, in 1999, Deputy Prime Minister Boris Silayev was reported to say that this estimate does not cover agricultural and tourism losses, and others place the tangible financial losses from the spill much higher, closer to \$20 million. Government estimates of the cost of the spill are as high as

\$42 million. Whether complete compensation from KOC ever fully reached the affected institutions and individuals remains in question: In May 1999, a local government official was charged with embezzling portions of the funds intended for affected villages.

NGO and Community Response

Feeling frustrated, isolated and powerless in the aftermath of the accident, local villagers took matters into their own hands. Between July 10 and 12, 1998, residents of the villages of Barskoon and Tosor reportedly blockaded a road to the Kumtor mine, seized company vehicles, and clashed with Kyrgyz militia as they demanded that the government’s contract with the mining companies be cancelled. Periodic demonstrations in front of the company and government offices in Bishkek also ensued.

After the spill, Kyrgyz non-governmental organizations (NGOs) specializing in rural community health visited local villages to ascertain the impact of the accident and assist with community support efforts. They also contacted international NGOs to research the role of IFIs, like IFC, in supporting the Kumtor project. They continue to petition these institutions to address ongoing project problems, and hope for a productive intervention by IFC’s new Compliance Advisor Ombudsman. These NGO partnerships also resulted in independent experts coming forth to monitor other environmental problems thought to be occurring at the mine site, such as the potential increase in toxic discharge into the watershed. However, KOC has consistently denied access to the mine site to these independent NGOs.

Since the accident, elements of civil society that speak out against the KOC project face repression. For example, in January 1999, International University of Kyrgyzstan pathologist Dr. Kalia Moldogazieva was summarily fired and her Institute of Human Ecology at the Institute closed after the results of a study she conducted on the impact of the Kumtor accident, which differed from the

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official State position, were published in the Kyrgyz national press. In response, an international NGO letter of protest was sent to Kyrgyz President Askar Akayev and International University of Kyrgystan President Asylbek. However, Dr. Moldogazieva was never reinstated. Her capricious termination and the closure of her institute raises serious questions about whether IFC's development mandate is achievable when free speech and legitimate academic are crushed.

Reacting to civil society's growing concerns about the KOC mine, in 1999 EBRD (with financing from the UK Department of International Cooperation) assisted in the creation of the Community and Business Forum (CBF). The CBF community development project is managed by the international consulting organization, Flora and Fauna International. According to EBRD, the CBF was created because "limited access to reliable information, the erosion of trust and a high level of public concern showed that further efforts were needed to establish communication and cooperation between business and the community." According to the CBF: "Access to appropriate information was identified as a priority issue in the inception phase of the project."

However, many NGOs have grown skeptical of the CBF, pointing out that government officials have outnumbered NGOs on the CBF by two to one, and that the CBF might foster divisiveness and conflicts of interest by deviating from its priority of information disclosure and selectively providing grants to some NGOs and community members. Moreover, some NGOs contend that instead of encouraging access to information, the CBF shields the company from civil society and helps KOC to constrict the flow of information to them and the general public. This fear is reinforced by KOC itself: In a June 23, 2000 response from an inquiry for environmental information including the revised Emergency Response Plan by the international NGO CEE Bankwatch Network, KOC refers to the CBF and states, "Thank you again for your inquiries; however, as we have committed ourselves to

working with the local coalition of NGOs we ask that future inquiries be made to them." IFC is expected to assume oversight over the CBF starting September, 2000.

IFC Response:

Since the original accident, IFC insists it is improving the Kumtor situation through project monitoring, on-site inspections and audits, the development of the revised Emergency Response plan and proactive engagement of the KOC. However, despite the need to rebuild public trust in the safety of its projects, IFC consistently supports KOC's refusal to publicly disclose the revised Emergency Response Plan. According to the Kyrgyz NGO, Bureau for Human Rights and Rule of Law, this is a violation of the country's freedom of information law. But in refusing to disclose the plan, IFC cites its information disclosure policy which allows project sponsors to withhold documents they deem to be of a business confidential nature. IFC also refuses to disclose its own project monitoring documents and consultants' reports, upon which some of its assurances of project improvements are based.

IFC says it has improved KOC's emergency response capabilities, an assertion not supported by the lack of immediate notification of Kyrgyz authorities following the January 20, 2000 spill. Moreover, IFC has not addressed some of the underlying weaknesses in the government's emergency response and medical services which are necessary to ensure a project as risky as Kumtor operates safely—for example, those that led to the excessive application of sodium hypochlorite and cyanide antidote following the spill. With regard to the latter, IFC has stated:

"(KOC) has pointed out to us that they know of no jurisdiction in the world that permits a corporation to interfere with the independence of government-operated medical services or to dictate the level, method, or training of medical professionals within that jurisdiction. Therefore the medical training of Kyrgyz authorities was not, nor could it be part of the Kumtor's

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emergency response plan. In the days and weeks following the spill, specific advice, support, and resources were offered by Kumtor to the medical community in Kyrgyzstan. In most cases, however, these were rejected as interference...”

This begs the question of whether the IFC should have approved a loan for a project subject to catastrophic accidents, if the appropriate infrastructure to deal with the consequences of such accidents was not in place.

Conclusions/Recommendations

The Kumtor mine has increased export earnings, employment opportunities, and has led to the transfer of some management and technical skills. However, given the estimated 11 year lifespan of the mine, this development does not appear to be sustainable. Some citizens argue that the majority of project benefits flow to the Kyrgyz government in Bishkek and the Cameco corporation in Canada, and that any positive local development impact is coincidental. IFC should support projects that have more long-term benefits and fewer environmental impacts if it intends to achieve truly responsible and sustainable development.

A project that poisons citizens and then conceals from them important information on their safety and well being offsets any positive development impacts. Indeed, IFC's and KOC's defensive and evasive response after the spill probably contributed to local hostilities and an environment of distrust that increases project risks and that can potentially have a chilling effect on future development projects. IFC should recognize how its response to the Kumtor accident simultaneously increased public opposition and project risks, and identify ways to avoid this in the future.

Positive private sector development impacts do not happen in a vacuum. Indeed, private projects depend on the adequacy of the government infrastructure surrounding them to ensure that they operate safely and in a way that contributes to the broader needs of society. This

infrastructure is more than road networks and transmission lines. It can and should include adequate educational, medical, social and other services and facilities. In the case of Kumtor and other industrial operations of its scope, it most definitely should include emergency response and medical facilities to prevent or adequately respond to industrial accidents. The IFC's and KOC's statements place responsibility for much of the bungled response to the cyanide spill on the Kyrgyz government, but it does not appear that IFC has been able to ensure that adequate government infrastructure is in place to operate the project in a developmentally positive way.

IFC responds that it cannot “dictate” or “impose” upon governments the kind of services government must provide in order to make projects safe and viable. However, IFC has every right to condition its involvement in a project on the existence of adequate development infrastructure, or to decline support when conditions that are necessary to ensure safe and responsible development do not exist (just as it has a right to decline support when its prerequisite financial requirements are not met). When it is willing, IFC can exert significant leverage to persuade governments to agree to necessary development infrastructure around projects, especially when the government is a significant partner in the project seeking support (as is the case with the Kumtor mine). Moreover, IFC is supposed to act in concert with the other agencies of the World Bank Group that exist precisely to make loans to governments to create such development infrastructure. IFC must do a better job internally, and in collaboration with the other World Bank Group agencies (including through its Global Products Group), to ensure that the development infrastructure necessary for the safe and responsible operation of its projects is a condition of project approval.

Perhaps a more vexing issue is that IFC may be in conflict of interest with its clients when it promotes a more adequate development infrastructure. This is because, if the Kyrgyz government provides necessary improvements in

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the emergency response and medical infrastructure surrounding Kumtor, it could potentially raise costs for the Kumtor project. If this conflict of interest keeps the IFC from ensuring that the development infrastructure necessary for the mine's safe operation is in place, then the ability of IFC to achieve its development mandate is in question. IFC's new Conflict of Interest Officer should investigate and remedy this predicament.

As the notoriously dangerous industrial operations created under the Soviet Union have demonstrated, the lack of adequate transparency and public participation and support for projects also contributes to irresponsible development. IFC's refusal to disclose key documents, such as its own project environmental monitoring documents and revised Emergency Response Plan, mimics the Soviet pattern. Yet, IFC's information disclosure policy stipulates that project documents, however important to the public, can be concealed if the project sponsor declares them to be business confidential. If the World Bank Group hopes for its projects to contribute to a level of transparency expected in open, democratic societies, IFC will need to revise its information disclosure policy to ensure that all project-related documents that contain information about environment, health and public safety are publicly available.

Finally, given Kyrgyz civil society's level of distrust and suspicion of KOC, the Kyrgyz government and IFIs stemming from the Kumtor episode, a healthy debate that incorporates critics from all sides, and that protects them from repression, is needed. However, if IFC supports public participation processes that are widely viewed as contrived and controlling of information, while critics of the project are fired or their voices are otherwise squelched, it will not have positive development impacts.

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