Alen Amirkhanian
Director, Center for Responsible Mining and Acopian Center for the Environment, American University of Armenia

AUA CENTER for RESPONSIBLE MINING

ON MINING, WHICH WAY ARMENIA?

Mining is among the industries that triggers highly divisive discourse around much of the world. The tensions between the real and perceived benefits and costs/harms of the mining sector lead to heated, often virulent, disputes between the proponents and the opponents of the sector. Armenian society has not been immune from such discord, particularly in the past fifteen years as major state-owned mining operations were privatized and a multitude of new licenses were issued.

ArmStat data shows that in 2018 the mining and quarrying sector constituted 2.9% of Armenia's GDP. This was down from 3.3% in the previous year. The decline could be explained by the early 2018 shutdown of the Teghut Mine in the Lori Region, reportedly due to serious environmental concerns. The prospects of the sector growing significantly are uncertain as the only new major mining project, the Amulsar mine, is tangled in a gridlock.

ArmStat data also show that mineral exports constitute a sizable portion of goods traded by Armenia internationally. Minerals formed about a third of the value of all goods exported. In 2018, this amounted to about US$800 million, with 99% as ores and related metals. The remaining 1% were stones, clays, and the like.

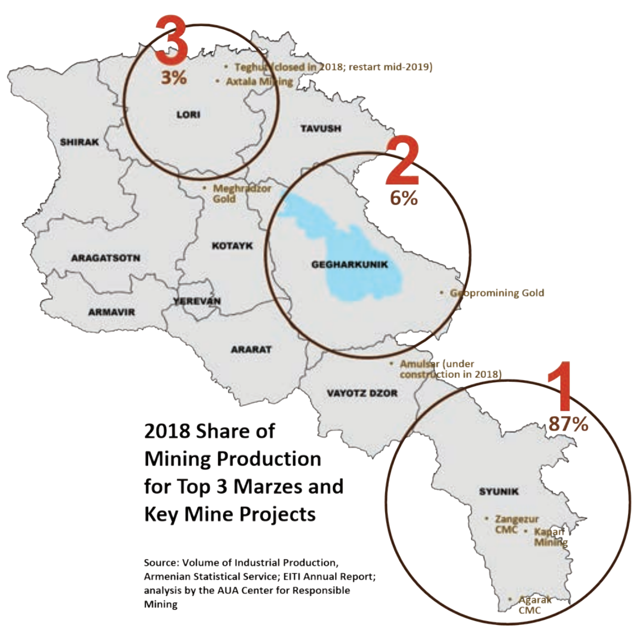
If we add export of services to the mix, the share of mineral exports will be smaller. Armenia's service exports—such as tourism, IT and arts and entertainment—are also sizable. Rough estimates suggest that in the context of export of goods and services, the share of minerals exports is about 15% of the total. Further analysis is needed to ensure that the typically underestimated tourism and IT sector exports are adequately captured.

The metal mining sector in Armenia is dominated by the Zangezur Copper Molybdenum Combine (ZCMC), a behemoth by Armenian standards, located in the country's southern region of Syunik. The company, in effect 75% owned by the German privately-held Chronimet Mining AG, accounts for about 70-80% of the country's total mining production and employs about 4,000 workers, or almost half of the 9,000 employed in the mining and quarrying sector in Armenia.

In 2017, there were about 6 other active metal mining operations in the country, though there were 23 active mining licenses (see EITI.am). The active mining facilities demonstrate a wide variety of operational sophistication. All, however, need significant upgrade in their environmental and social performance. Further, the state needs to aggressively improve its governance capacities in this sector to ensure that public interest is served.

A 2016 seminal study commissioned by the World Bank and conducted by the Swedish Geological AB pointed out that Armenia is missing a mining policy. The study also identified the major economic, environmental and social improvements needed for the sector.

Based on this study, the previous and current governments undertook two



major assessments, one focused on understanding mining's economic impact in Armenia (currently being led by the Armenian EV Consulting) while the other on assessing the environmental and public-health impact of the sector (being led by the German-headquartered DMT Group).

These studies should be completed early next year. With these and the Swedish Geological assessment in hand, by mid-2020 the government is slated to commence its mining policy and strategy development process. The outcome of the process will be critical to setting our expectations regarding mining's role in the country's future.

Much hangs on how the government conducts the process of developing this policy and its related strategy. If the process lacks transparency and inclusiveness, the outcome risks lacking legitimacy. This may be seen as a black eye for the government, with its aspirations for democratic and inclusive governance.

As there are widely divergent views on mining in the country, we should have no illusion—an inclusive process will be very complex. To conduct it properly, the government will need much attention and support.

The multi-stakeholder group of the Extractive Industries Transparency Initiative (EITI) is one platform where multiple views can be heard. Moreover, the strategic environmental assessment (SEA), mandated by law for any government policies and strategies, has public hearing requirements, offering another platform for public and stakeholder input.

The Government, however, should not limit itself to these. It should set up or encourage consultative hearings and deliberations outside of these formal processes, then offer a path for these inputs to be considered in the final outcome. There are a number of institutions and organizations in Armenia that can help in this process.

Importantly, all stakeholders should be prepared to engage in dialogue and not warfare. All sides should also show patience, as not all changes will happen overnight.

The list of topics around which constructive dialogues should be held is long. From the economic viewpoint, we could discuss sovereign wealth funds; having a system for verifying metals exported; increasing the sector's multiplier effect; better and more transparent approach to determining reserves; adding economic cost-benefit analysis as a decision making tool; to name a few.

From a social and environmental viewpoint, the topics are also numerous. They include improving occupational health and safety standards and enforcement; significantly improving the disaster prevention and readiness of mining communities; improving environmental and public-health governance; rooting out unacceptable practices common in mining such as discharge of polluted water and, in some cases, tailings into rivers; and the list can go on.

Armenia will have to deal with mining, both current and legacy, for a long time to come. Even if as a country we decide to disengage from this sector, it would take decades to do this. We would need to address significant closure, re-cultivation, cleanup and socio-economic transition challenges, particularly in the Syunik and Lori regions.

The upcoming policy and strategy development process affords us a unique opportunity to deeply search our souls as a country and decide which way we are going with this sector. Future generations will look at our efforts today to see if we made wise choices. My hope is that we will be seen as a generation that got it (basically) right.