
Armenia's Controversial Gold Rush

By Kieran Cooke
BBC NEWS - 9/1/2008

As the international price of gold touches record highs, the rush is on to find and exploit deposits around the world. Old mines are being revived: new ones are opening up.

In the town of Ararat - about an hour's drive south of Yerevan, Armenia's capital - investors from Russia have moved in to take control of what is believed to be one of the biggest gold-mining operations in the country.

The move has prompted concerns within Armenia over increasing Russian control of vital national economic interests.

In the South Caucasus, one of the world's most volatile areas, it is also raising the spectre of renewed regional conflict.

In a series of deft investment moves in recent years, Russia has used financial resources generated from sales of its vast oil and gas reserves to regain control of a number of enterprises in what were, before the early 1990s, territories of the Soviet Union.

We know the foreigners are after the gold Armen Gevorgyan, trader

Nowhere is this investment drive more evident than in Armenia. As a result of often secretive deals linked to the Armenian government's privatisation programme, Russian companies now control about 80% of the country's power generating facilities.

These even include a nuclear power plant at Metsamor, near Yerevan.

Gazprom, the Russian energy giant, has a majority stake in Armenia's gas network. It is also believed to have taken a controlling interest recently in a gas pipeline, now under construction, that will link Armenia with Iran.

Russian companies own most of Armenia's telecommunications network, while the country's railway system is about to be sold to Russia.

'Economic backbone'

In former Soviet times, Armenia was a centre of military-linked electronic industries. The majority of these are also now owned by Moscow-based companies.

President Vladimir Putin of Russia and his Armenian counterpart, Robert Kocharian, talked of "the truly allied character of the Russian-Armenian relationship" at a meeting in August 2007.

But critics in Armenia accuse President Kocharian and his ministers of accumulating vast personal wealth while selling off the country's most precious assets to Moscow.

"The Russians own what is the economic backbone of Armenia," says an opposition newspaper.

"Moscow is in control of virtually all our strategic resources."

Now, in a complex and little-publicised deal, one of Armenia's biggest mining concerns, the Ararat Gold Recovery Company (AGRC), has been purchased by Madneuli Resources, a mining company based across Armenia's northern border in Georgia.

Madneuli is ultimately controlled by Industrial Investors, a powerful group of Russian financiers headed by Sergei Generalov, a former Russian energy minister turned business mogul.

Disputed terrain

AGRC has a gold processing facility at Ararat, overlooking the majestic, snow-capped mountain of the same name, where Noah and his Ark are said to have finally come to rest after the Flood.

However, AGRC's most valuable asset is a large, open-pit gold mine at Zod, in eastern Armenia, close to the border with Azerbaijan.

Mining experts say Zod has some of the richest gold deposits in the Caucasus region.

In the early 1990s, Armenia and Azerbaijan fought a bitter war over the disputed territory of Nagorno-Karabakh.

More than 25,000 people are estimated to have died in the conflict and hundreds of thousands of people on both sides became refugees.

Nagorno-Karabakh, which has proclaimed independence, is now in effect controlled by Armenia.

Azerbaijan has raised objections with both the Georgian and Russian authorities about the purchase of the Zod mine, describing it as unlawful.

Azerbaijan says a considerable amount of the Zod mine is in its territory, at present occupied by the Armenian military.

"Any activity in occupied territories without the permission of the Azeri authorities is illegal," says Araz Azimov, Azerbaijan's deputy foreign minister.

While a ceasefire between Armenia and Azerbaijan has been in force for the past 13 years, there are still frequent outbreaks of fighting between the two sides. The border between the two countries remains sealed.

Recently, Azerbaijan is believed to have been using its new-found oil and gas wealth to beef up its armed forces.

Abandoned

The operations of AGRC have often been the subject of controversy. In the late 1990s, Azerbaijan protested when AGRC, at the time run by a Canadian company, started mining at Zod.

In 2002, AGRC was taken over by a company controlled by the family of Indian mining billionaire Aneel Agarwal. But its operations were closed down after the Armenian authorities accused the company of renegeing on various licensing agreements.

The company was charged with tax fraud and environmental violations

and ordered to pay millions of dollars in fines.

AGRC's Indian owners denied the charges: no details of court rulings have been released, but the company was put up for sale earlier this year.

At its headquarters in Ararat, the reprocessing facility is not working and the buildings look abandoned.

Locals are concerned that cyanide, used in the course of processing gold, has been polluting land and water.

They know little about what is going on. Poverty is still widespread in Armenia and jobs are scarce.

"People were promised jobs by the previous owners, but then Indian workers were brought in," says Armen Gevorgyan, a local trader.

"We know the foreigners are after the gold. If the new owners provide some work and decent wages, that's the most important thing for us."

<http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/7153794.stm>
