



ARMENIAN MINING SECTOR AT A STRATEGIC CROSSROAD

Will Armenia move towards the path of developing its mining sector or will it halt the sector's expansion? Is there a third way?

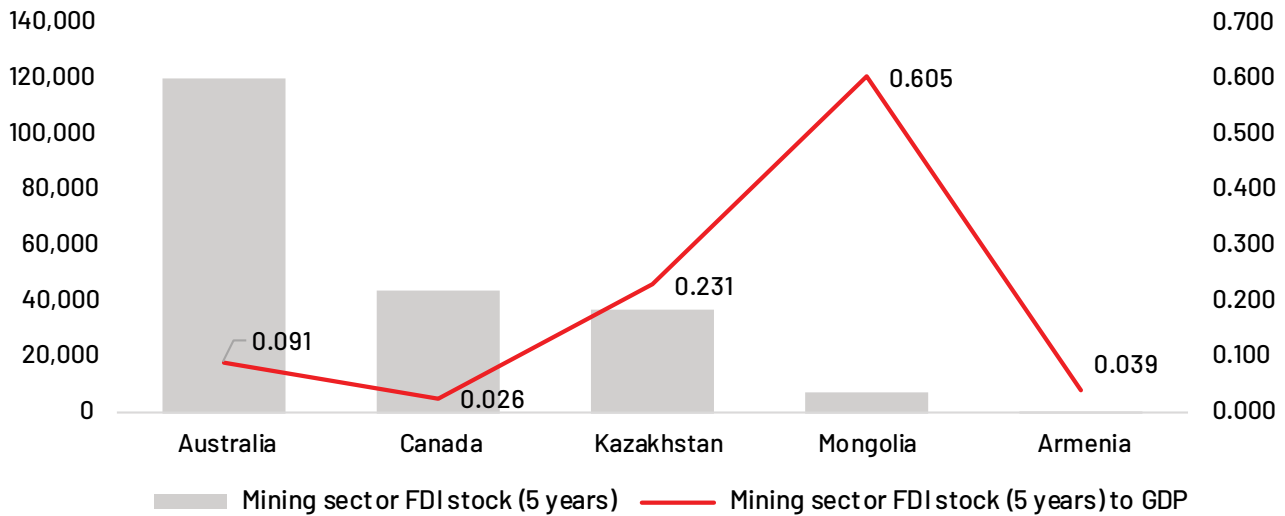
Armenian mining sector is currently at a crossroad, where the two extreme scenarios are to either move towards sector's extensive development or take a radical environmental position and eliminate mining operations in the country. While many developed countries in the world, such as USA, Canada and Australia, have embraced the vision of sustainable mining in their countries, the mining sector in Armenia is mainly perceived as a "black" or "white" issue, with few other definitions in between. And when the global mining and metals sector paused its growth momentum for a while, as a consequence of China-USA trade war and the global economic cooling, it seems to be the right time to grasp the role of the mining sector in Armenia's economy and where it can bring the country in the not very distant future.

For the comparison purposes, we can take developed countries with mature mining sectors (e.g. Canada, Australia) and countries comparable to Armenia (in terms of level of economic development or similar social-economic systems in the past e.g. Mongolia and Kazakhstan).

According to the Statistical Committee of the Republic of Armenia (SC RA), mining and quarrying sector contributes about 2.9% to GDP (in 2018) of the country. For comparison the identical indicator for developed countries such as Canada and Australia is in the range of 8% to 10%. The same range is in Kazakhstan and Mongolia. From this benchmarking it appears as if mining does not play a crucial role in Armenia's economy as it does in other comparable countries. While in reality, there is some nuance in methodological approach to estimate the size of the mining and quarrying sector output which can have its impact in the seemingly low GDP contribution of the mining sector as a whole in Armenia. Our Statistical Service separates a large part relating to mining sector - mining processing output and includes it in other classification (particularly - processing sector output of Armenia) It can be inferred that the mining sector in Armenia has larger impact on economy than just roughly 3% contribution to GDP. As of SC RA mining sector's production comprises about 30% of country's total exports, which indicates how heavily the country counts on its mining sector to earn foreign currency.

In 2017, mining and quarrying sector of Armenia attracted FDI of about 250 million USD, which seems high number when reviewed in comparison with Armenia's other sectors' FDI and the economy size overall. But in comparison with other countries, Armenia still has a lot of space for growth, especially if it can better integrate sustainable development policies. For comparison purposes we can look at each country's mining sector FDI stock (cumulative for 5 consecutive years, from 2013 through 2017) in proportion to its economy size (e.g. GDP). After this "normalization" Armenia still appears behind if not all but most of the benchmarked countries.

Mining sector FDI stock (5 years, in million USD) vs mining sector FDI stock (5 years) to GDP ratio, 2017



Source: Statistical Committee of RA, OECD Data, National Bank of Kazakhstan, Bank of Mongolia Source: Operators' official web sites

There are number of factors which make Armenian mining sector less appealing for the investors compared to Australia, Canada, Kazakhstan, Mongolia and many other countries with developed mining sectors:

- **Frequently changing laws and policies,**
- **Low level of investor protection,**
- **Lack of modern geological research.**

Many of us have heard about Amulsar case in Armenia. The Canadian listed company Lydian International obtained the right to operate Amulsar gold mine located near Jermuk city (best known for its mineral waters). But the strong opposition by environmentalists and population of the region have forced the Government to suspend the company's operations until an additional independent assessment of the safety of the mine's operations to the environment are verified. Amulsar mine's case became one of the proofs that our regulatory environment lacks mechanisms for assurance of environmental standards that can be widely trusted as well as investor protection. Moreover, it showed that there is increasing public concern regarding environmental aspects of mining industry and the public requires sound environmental standards be applied. Still unstable policy environment accompanied with weak geological research tend to hinder the potential money inflows to the mining sector of Armenia. The majority of developed countries with strong mining sectors have proved that geological research and geological science development, as well as creation of independent geological institution (e.g. Geological Survey of Canada) notably contribute to the mining sector development and consequent attraction of FDI.

There is space for further improvement of legal and regulatory environment governing the mining sector, as well as there are gaps in fiscal policy, but the question is if Armenia, represented by its Government and population, wants to develop mining sector or to cease the sector's operations once and for all. Developed countries like Australia, Canada rely heavily on their mining sectors and try to adjust laws and regulations for further improvement of mining practices in the countries. But the path they have chosen relates solely to "sustainable mining". Governments of those countries pay great attention to environmental damage caused by the mines, health safety at the workplace, mines rehabilitation plans, financial sustainability of mining projects, etc. Sustainability also relates to optimization of mining operations, through application of new technologies and methods. Autonomous tracks, 3D solutions and drones flying from mine mouth to deep hollow are not unusual anymore. And maybe Armenia, claiming to be on a high-tech development track, can easily integrate those modern technologies into its mining industry. So, will Armenia be able to follow the good examples of mining sectors' sustainable development or it will need to choose between "continue as it is" or "stop" options?



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Author Narine Poghosyan, Consultant