

ARMENIA

By Interfax-CNA

Armenia's GDP grew by 12.6% in 2002 and, at 14.2%, the country posted the highest industrial growth of any of the Central Asia and Caucasus countries. Investment rose by 43%. The greatest growth, of 180%, was in the jewelry industry, and there was a 50% growth for tobacco products. Armenia's mining and metallurgical sector posted growth of 21.8% and the sector exported more than 80% of its production.

The investment climate in Armenia is among the most favourable in Central Asia and the Caucasus, and the share of foreign capital in total investment has remained stable for the past few years at about 25%. Most is used to develop the real economy, namely production and manufacturing. In order to attract further foreign investment, the government is working to make the investment climate even more favourable. The law grants foreign investors the same terms as domestic investors. In the event that changes are made to legislation on foreign investment, the investor will retain the right to operate under the old law, existing at the time when the investment began, for a period of five years. Foreign investors can seek compensation for material losses, including loss of income resulting from illegal actions by government bodies or their officials, or as a result of improper fulfillment of their obligations stipulated by law.

Armenia has extensive and varied mineral resources awaiting development, including gold, silver, lead, zinc, copper, molybdenum and iron-ore. Some copper-molybdenum and polymetallic ore deposits are also rich in rare earths and elements such as bismuth, tellurium, selenium, gallium, indium, thallium, rhenium and germanium. The country also possesses substantial resources of industrial minerals such as salt, gypsum, zeolite, diatomaceous earth, limestone, granite and basalt.

Armenia has 33 mining and metallurgical enterprises. Most of them involve non-ferrous metals and many of them comprise complexes producing and processing ores of gold, copper and molybdenum. Ararat Gold Recovery Co. (AGRC) is one of the largest such enterprises, along with the Zangezur Copper-Molybdenum Combine, the Armenal foil mill, Armenian Copper Programme, Pure Iron Plant and other enterprises.

The laws governing Armenia's mining and metallurgical industry were changed in November 2002 when parliament passed legislation to regulate the production of minerals and make this area more appealing for investors. One of the main provisions of the law classifies the rights granted to the licence holder. It specifies the use of special and regular licences to explore and extract ore. The law also outlines activities that do not require licences. The law provides investors guarantees of stability. For example, the holder of a special licence for exploration can receive such guarantees through

agreements, and the holders of special licences for production can receive these guarantees through concession agreements. The law also introduces new financial mechanisms: instead of making payment for the use of natural resources, a royalty system is to be introduced for the development of metal deposits, in line with the generally-accepted world practice. The law also defines the concepts of bonuses and concession payments. World Bank analysts have said that the law on concessions should make Armenia's mining industry more appealing.

The Armenian State Repository periodically announces a price for each commodity, as the basis for the tax that will be levied on production. As of January 3 this year it increased the price for gold from US\$10.24 to US\$10.68/g, silver from US\$0.146 to US\$0.148/g and platinum from US\$17.83 to US\$19.15/g. There are new prices of US\$1,595.7/t (US\$1,478.7/t) for copper, US\$7,936.6/t (US\$10,471.9/t) for molybdenum oxide, US\$443.6/t (US\$421.3/t) for lead, US\$797.2/t (US\$756.2/t) for zinc and US\$1,375.4/t (US\$1,301.6/t) for aluminium. Prices were increased to US\$1,211.45/t for cadmium (US\$1,057.27/t) and US\$8,590.3/t (US\$7,929.5/t) for selenium. The price of rhenium was reduced from US\$1,651,982/t to US\$1,321,586/t. Prices for precious and semi-precious stones were left unchanged: agate US\$8.81/kg, obsidian US\$13.22/kg, jasper US\$6.61/kg and turquoise US\$92.51/kg. The tax on the exploitation of natural resources was introduced in Armenia in 1999. The tax rate is 1.5% for gold, silver and platinum, 1.3% for copper and molybdenum, 1.0% for lead and zinc, and 6% for precious stones.

Gold

Armenia's gold resource potential is considerable: overall gold reserves are now estimated at around 230 t. The Zod and Meghradzor gold lodes are the largest gold deposits in Armenia.

AGRC mined 3.2 t of gold in 2002. Output in value jumped 58% to almost US\$33 million. Last year, AGRC focused on the development of the Zod deposit, which has reserves of about 200 t of gold. The company also holds the development licence to the Meghradzor gold lode, which has reserves of about 30 t, and the tailings dump of the Ararat gold recovery mill, which held 12 Mt of tailings with an average gold content of 1.0 g/t when operations began in 1998. AGRC plans to produce about 4.0 t of gold in 2003.

The Ararat joint venture was set up in July 1998 with an equity of US\$44.2 million to mine the Zod and Meghradzor gold lodes, and recycle the tailings at the recovery plant. Canada's First Dynasty Mines (FDM) invested an initial US\$22.1 million in cash and equipment and the fixed assets of Armzoloto, judged to be worth US\$22.1 million, were entered into the joint venture's equity on Armenia's behalf. In February 2002, FDM bought out Armzoloto's stake for US\$2.25 million and became sole owner of the company. The controlling stake in FDM is held by Indian metals holding company Sterlite Industries.

Nonferrous metals

In 2002, Armenia's production increased 90% for aluminum foil, 45.6% for aluminum roll, 5.4% for copper in concentrate and 7.9% for blister copper.

The Zangezur Copper-Molybdenum Combine increased output of all products in 2002. The combine works the Kadzharan field 300 km southeast of Yerevan, the largest copper-molybdenum deposit in the former Soviet Union. The Kadzharan deposits are sufficient to keep the combine working at full capacity for 200 years.

In 2002, the combine produced 11,741 t of copper in concentrate (26-28% Cu), up 2.7% from 11,430 t in 2001, and 7,052 t of molybdenum concentrate (51% Mo), up 5.7% from 6,661 t in 2001. Output of molybdenum trioxide jumped 27% to 1,550 t from 1,220 t. The combine plans to bring ore production up to design capacity of 8.5 Mt/y in 2003. The combine produced 8.32 Mt of ore in 2002. The company has been selling its products through tenders since 2000. About 30% of products are bought by Armenian metals companies, and the other 70% is bought by foreign firms.

In January 2003, Zangezur Copper-Molybdenum Combine tallied the results of a tender for copper ore concentrates to be produced in 2003. Armenia offered to purchase 5,400 t of molybdenum concentrate (48-53% Mo), 1,500 t of molybdenum trioxide (57% Mo) and 13,000 t of copper concentrate (26-28% Cu). Pure Iron Plant won a tender to buy 2,800 t of molybdenum concentrate (48-53% Mo). A US company, Comsup Commodities Inc., will buy 1,300 t of molybdenum concentrate (48-53% Mo), as will Cyprus-based Greensard Trading. Comsup Commodities will also buy 1,500 t of molybdenum trioxide (minimum 57% Mo). Germany's Rangeburg Enterprises will buy 5,000 t of copper concentrate (26-28% Cu). Armenian Copper Programme, a joint venture between Armenian and Liechtenstein-registered interests, will buy 4,000 t of copper in concentrate and Glencore will also purchase 4,000 t.

Switzerland's Deno plans to invest approximately US\$8 million in Armenia's Kapan copper mining complex. In the first 12 to 18 months, the Swiss company will spend US\$1.0-1.5 million on a financial and technical audit and exploration of the Shaumian polymetallic deposit. During the second phase, Deno will spend about US\$3 million on upgrades which should enable the complex to double output within three years. A further US\$4 million will be invested in the construction of a gold and zinc concentrator. Armenia and Deno signed a deal worth US\$3 million, which includes US\$1.25 million for the Kapan complex's shares, US\$1 million to pay off electricity debts and US\$750,000 to pay off tax debts. The Kapan complex is situated 300 km southeast of Yerevan and has the capacity to produce 340,000 t/y of copper concentrate. The complex processes about 1.0 Mt/y of ore from the Central deposit and 300,000 t/y from the Shaumian deposit.

Armenian Copper Programme (ACP), formerly known as Manes & Vallex, plans to invest US\$12 million through 2002-06 to construct a mine and mill at the Drmbon gold-silver-copper deposit in the central part of the Nagorno-

Karabakh republic. The first, preparatory stage, to be completed by the middle of 2003, would cost US\$3.5 million. The Drmbon deposit contains 15 t of gold, 25 t of silver and 50,000 t of copper, as approved by the former Soviet Union's State Committee for State Reserves. The future mine will be able to produce 150,000 t/y of ore containing 800 kg of gold and 2,000 t of copper in concentrates. ACP was set up in 1997 following the liquidation of Alaverdi Mining and Metals Combine which was closed in 1987 under pressure from environmentalists. Capacity is currently 10,000 t/y of blister copper, 3,000 t/y of copper powder and 30,000 t/y of copper vitriol. Vallex FM Establishment, which is registered in Liechtenstein, owns 53.7% of the shares in ACP, with Elecom of Switzerland owning the remaining 46.3%.

The Government of Armenia decided to sell the Akhtala Mining and Beneficiation Plant (Akhtalsky GOK) in its entirety to Metal Prince Ltd of the US for US\$1.7 million. This sum corresponds to the book value of the plant's assets. Metal Prince must invest US\$2.6 million in the plant's development over the next few years. This includes US\$2.6 million in rehabilitating the second production line and increasing output. The other US\$1.22 million will be invested in the rehabilitation of the Shamlug copper mines, repairing the office buildings, setting up a timber-processing complex and other side interests. The plant currently utilises 32-37% of its projected capacity and produces around 800 t/y of copper concentrate (25% Cu). Metal Prince is owned by Serop Ter-Pogosian, an American citizen of Armenian extraction. The company was registered in Romania in 1988, but was re-registered in the US in 2001.

In 2002, the Armenal aluminum foil mill in Yerevan produced about 5,372 t of foil, almost twice as much as in 2001. The growth was achieved by optimising management and by upgrading six foil mills in conjunction with VAI of the UK. Design capacity is 42,000 t/y.

In December 2002, Russian Aluminum (RusAl) became the sole owner of Armenal, the Armenian Government having approved the direct sale of 26% in Armenal to RusAl last year, on condition that RusAl invests US\$34 million in the plant over ten years. The 26% share package was previously held by state-controlled Kanaker Aluminum Plant of Yerevan.

Armenal plans by 2008 to raise foil and strip output to 42,000 t/y. This year's target is 20,000 t. Output will grow in line with an investment co-operation agreement signed in January by RusAl and Kanaker Aluminum Plant, which hosts the foil mill. RusAl is due to invest in Armenal in three stages: US\$10 million by the end of 2005, US\$8 million in 2006-08 and US\$16 million by the end of 2013. The money for the projects will be used to eliminate production-related waste, upgrade equipment and create a research base for the production of foil and foil-based packaging materials.

Others

Armenian diamond cutters increased production by 120% by value in 2002. Production was raised primarily as a result of increased output at small cutting companies. The firms Shogakn, Lori, Andranik, DCA and Dimo Tech

accounted for 90% of total production. Armenian cutters purchased 366,000 ct of gem-quality rough diamonds from the Russian diamond producer, Alrosa, over an 11-month period. Armenia's agreement with Russia calls for the delivery of 400,000 ct in 2002.

Armenia exported US\$180 million worth of gem diamonds in 2002, up 80% year-on-year. Exports of gem diamonds accounted for 35.5% of overall exports in 2002. The biggest producer and exporter was Shogakn, owned by the Israeli businessman Lev Leviev, and accounted for 40% of output and exports of gem diamonds. The company purchased rough diamonds from Israel.