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Armenia's mining sector: state of play and recent developments

The metals and mining sector plays an important role in Armenia's economy, contributing to significant shares of export revenues as well as to the government budget through a mix of taxes and royalties received from mining companies. The mining sector however faces sizeable issues, including related to fiscal, environmental and governance aspects, but also to the inability to develop forward linkages and spur downstream resource-based economic development. Looking to address many of these issues, the government has recently promulgated the Mining Strategy 2035, which re-affirms the importance of the sector and aims to resolve many long-standing issues. As such, due to the persistent relevance of mining to the Armenian economy, this newsletter provides an overview of the current state of play within the Armenian mining sector as well as recent developments.

Introduction and sector overview

Armenia possesses a wide range of mineral reserves, with production primarily centred around copper, molybdenum and gold (among others). In 2021, on a global level, Armenia was a relatively small mining producer, contributing 4% of global molybdenum supply, but only 0.4% and 0.1% of global copper and gold production respectively. Armenia's mining sector is therefore clearly a price-taker, especially in the highly liquid and internationally traded copper and gold markets.

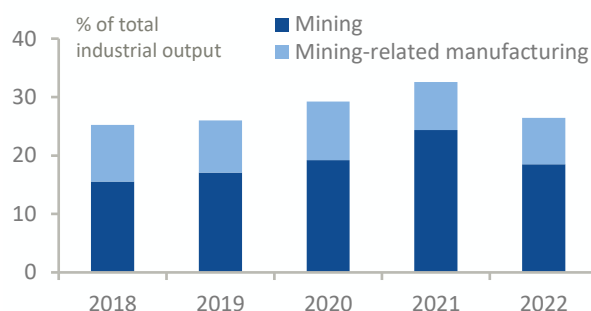
While the number of active mines differs by source, approximately 26 companies are present in the Armenian mining sector with the Zangezur Copper Molybdenum Combine (ZCMC) accounting for most of the total production in 2021. Many of the companies present in the Armenian mining sector are – in one way or another – owned by Russian entities. ZCMC is primarily owned by Geopromining Armenia and the Teghut mine is owned by Russian bank VTB. The government also has a stake in the mining sector, with shares of roughly 25% in ZCMC (which was partially gifted by the Russian-based majority owner) and the recently acquired 12.5% in Lydian Armenia's vast Amulsar gold mine.

In the more recent past, several issues have been observed in the sector, including work stoppages at various sites against the background of environmental and security-related issues (primarily due to proximity to war-impacted areas).

The economic contribution of the mining sector

The mining sector contributed 5.5% of GDP in 2021 and 3.8% in 2022, with mineral rents of roughly 6.8% of GDP in 2022 – significantly higher than the global average of 0.8%. Taking mining-related manufacturing into account, the whole sector accounted for an average of 28% of all industrial production between 2018 and 2022, reaching an output of USD 1.6 bn in 2022.

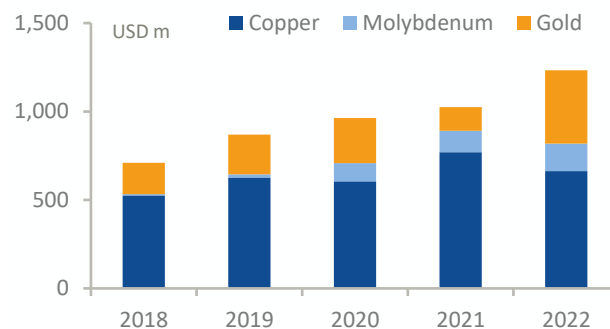
Share of mining and mining-related manufacturing



Source: Armstat; excluding non-metallic manufacturing

In terms of trade, the export of mostly raw, unprocessed minerals has traditionally dominated the export basket. Between 2018 and 2022, only copper, molybdenum and gold accounted for 30% of all export revenues, with exports of the three metals increasing from USD 700 m in 2018 to over USD 1.2 bn in 2022.

Armenia's exports of metals



Source: Armstat

The destinations of Armenia's commodity exports are not very diversified. In 2022, 42% of copper exports and 52% of molybdenum exports were to China, and over 61% of all gold exports went to the United Arab Emirates.

In 2022, the mining sector contributed USD 340 m or roughly 7% of Armenia's budget revenues. Of this amount, 55% stemmed from royalties and 27% from profit taxes on companies. Over 11,000 workers are employed in the mining sector (1.6% of total labour force), with average mining salaries over 210% higher than the national average, but still below international benchmarks.

Armenia's mining sector is also open to foreign direct investment and foreign investor ownership along all parts of the mining value chain. In 2022, the share of net FDI into the mining sector comprised 30% of all net FDI, but this is highly concentrated and dominated by Russia, which mostly re-invested earnings in the sector due to sanctions imposed due to its invasion of Ukraine.

Sector vision and regulatory framework

The mining sector, a pivotal component of Armenia's economic landscape, is steered by an array of crucial legislations. 2023 witnessed a significant development with the introduction of the Mining Strategy 2035, which sets out a vision for the sector. The strategy primarily focuses on 1) geological data improvement, 2) addressing gaps in environmental, technical and socio-economic aspects, 3) harmonization of land regulations, 4) ore classifications for tax purposes, 5) considerations of the creation of a mining revenue-based state fund and 6) general transparency and accountability.

This strategic initiative gains relevance in the context of escalating international demand for minerals such as copper, molybdenum, and zinc. This demand presents an opportunity for Armenia to capitalize on their resources. To achieve that, six focus areas are aimed at aligning sectoral operations with international standards. Despite these strategic directions, the Mining Strategy 2035 lacks specificity in certain areas. It falls short of providing clear targets, measurable objectives, a detailed roadmap, or timelines. Essentially, it acts as an umbrella to highlight existing challenges and general future directions.

The fiscal framework underwent a change in 2023, wherein export duties were abolished to compensate for a change to the royalty regime, which has already been criticized as complex, and which was further enhanced to include an additional tax on excess profits. In addition, mining companies are subject to a corporate income tax, VAT, excise tax and various other taxes, but in general, the tax burden on mining companies is broadly comparable to international levels. Multinational mining companies operating in Armenia may be affected by the global minimum 15% tax rate coming into effect in January 2024, which may however also improve the tax collection process.

Environmental, social and governance aspects

Armenia's mining sector has a mixed record on issues related to ESG. While Armenia joined the Extractive Industries Transparency Initiative in 2017, with Satisfactory progress status on implementing the EITI Standard received in 2020, the sector has not been without con-

trovery. Criticism has come from environmental organizations due to issues around several mine sites as well as the Alaverdi copper smelter. While some key mechanisms such as EIAs for new projects and regular monitoring of environmental losses, degradation and impacts must be conducted, there are few provisions corresponding for social impact assessments. As ESG considerations gain in importance, the mining companies' ability to ensure strong environmental and social governance will be even more fundamental to long-term economic sustainability.

Conclusions

Armenia's mining sector has and will in the future continue to play a key role in the country's economy. The adoption of the Mining Strategy 2035 and a general understanding of the potential of the sector should be channeled into the improvement of ESG standards and further examination of possible domestic downstream diversification and value-addition, especially given the opportunity that Armenia's critical minerals may provide.

This Newsletter is based on a forthcoming policy study on Armenia's mining sector.

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