

# Illegal Economic Activities in the Armenia-occupied Territories of Azerbaijan

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The occupation of Azerbaijan's Nagorno-Karabakh region and seven surrounding districts by Armenia remains a key problem affecting the economic and political stability of the South Caucasus region. By occupying Nagorno-Karabakh and seven adjacent districts, Armenia has caused significant economic and social damage to Azerbaijan. In doing so, Armenia has also gained a chance illegally to exploit the vast natural resources of the occupied territories and to use them for the provision of economic and social stability in both Armenia and the occupied territories. Special focus has been given to the mining and agricultural sectors, as these are more advantageous for the implementation of the economic development goals of Armenia and the separatist regime created in the occupied territories of Azerbaijan. Using different economic indicators, this article examines how the natural resources in the mining and agricultural sectors in the occupied territories have become the main source for Armenia to maintain its economic and political influence over the occupied territories and to continue the occupation. By actively supporting illegal activities in the occupied territories, the Armenian government has freed itself from the financial burden that it would have to bear if the occupied territories did not have significant natural resources. Moreover, Armenia has not only freed itself from the financial burden of continuing occupation, it has also benefited economically from the exploitation of the resources in the occupied territories by importing more than 90 percent of the agricultural and mineral products from the separatist regime.

Keywords: Azerbaijan, Armenia, occupation, illegal economic activities, Nagorno-Karabakh region



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## Introduction

After the collapse of Soviet Union, Armenia began, based on historical claims to the territory of the Nagorno-Karabakh autonomous oblast (NKAO) of Azerbaijan, to conduct armed attacks on the NKAO, primarily on neighboring Azerbaijani-populated regions. It then escalated to full-scale war. As a result of the war, Armenian military forces occupied 20 percent of Azerbaijan's internationally recognized territories, including Nagorno-Karabakh, seven adjacent districts, and some small exclaves encircled by Armenian territory.<sup>1</sup> This armed conflict led to the expulsion of 700,000 Azerbaijani people to different regions of the country and to the deaths of 22,000 to 25,000 people.

War destroyed a significant part of the economic infrastructure in Azerbaijan and created severe economic and social problems. The occupation also prevented Azerbaijan from accessing its large natural resources situated in the occupied territories, and this enabled Armenia to use these resources for its own purposes. Since the end of the war, Armenia and the separatist regime in the occupied territories have continued to exploit rich deposits of mineral resources such as gold, mercury, chromite, lead-zinc, and copper in the occupied territories. Through using these

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resources illegally, Armenia has become one of the world's leading exporters of precious and rare metals.<sup>2</sup>

Moreover, after the occupation, Azerbaijan lost an important part of its agricultural output, as the occupied areas played a significant role in Azerbaijan's agricultural production during the Soviet era. Further damage to the agricultural sector came from the Armenian forces' destruction of irrigation system in the Nagorno-Karabakh region, which affected agricultural activities in the adjacent regions. As a result, 120 hectares of land in five regions of Azerbaijan outside the occupied territories were left without irrigation.<sup>3</sup> According to calculations by the United Nations, the total economic damage that the war brought to Azerbaijan is estimated at around US\$53.5

1 Abilov, S. and Isayev, I., "The Consequences of the Nagorno-Karabakh War for Azerbaijan and the Undeniable Reality of Khojaly Massacre: A View from Azerbaijan," *Polish Political Science Yearbook*, Vol. 45, No.1, December 2016, pp. 291–303.

2 Mustafayeva, A. and Garayev, R., "Legal aspects of reparation for damage caused to Azerbaijan as a result of Armenian aggression," *IRS Heritage*, No .14, 2013, pp. 51–61.

3 Ibid.

billion.<sup>4</sup>

Illegal extraction and export of valuable metals from the occupied territories bring substantial financial resources, which are directed toward the implementation of different projects in these territories. The mining and agriculture sectors have strategic importance for Armenia. Without the mineral and agricultural resources in the occupied territories, Armenia would not be able to finance the separatist regime there. It is important to determine how the illegal activities in the above-mentioned sectors favor Armenia in both economic and political terms. Thereby, using different economic indicators, this article examines how the natural resources in the mining and agriculture sectors in the occupied territories became the main source allowing Armenia to maintain its economic development.

### ***Illegal economic activities in mining and agriculture***

The scale of the economic damage of the Karabakh War on Azerbaijan proves that the occupied territories have huge economic potential and resources. By occupying these areas, Armenia gained an opportunity to use these resources illegally in order to develop its poor economy and meet the social and economic needs of the Armenian people. The occupied territories have huge economic potential in different economic spheres, such as mining, agriculture and food processing, construction, banking, telecommunications, tourism, energy, textiles, carpeting, jewelry, etc. In all these areas, Armenia implements illegal economic activities. However, natural resources including the mining and agricultural sectors in the occupied territories have greater strategic importance for Armenia's economic development. The abundance of natural resources in the mining and agricultural spheres has attracted both government and private companies to implement different projects in the occupied territories.

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### ***Mining industry***

Nagorno-Karabakh and the adjacent regions are rich in deposits

<sup>4</sup> United Nations Development Programme, (2001), *Azerbaijan Human Development Report 2000*, March 9. Available at: [http://hdr.undp.org/sites/default/files/azerbaijan\\_2000\\_en.pdf](http://hdr.undp.org/sites/default/files/azerbaijan_2000_en.pdf) (Accessed October 25, 2019).

of different mineral resources, such as gold, mercury, chromite, lead-zinc, and copper, and this creates opportunities to develop the mining industry and to obtain huge income from their exports. It is estimated that there are 155 deposits of different types of minerals in the occupied territories, and 15 metallic and 51 non-metallic mines are operating. In non-metallic mines, different construction materials, such as sand and limestone, are produced and mostly used for illegal infrastructure projects in the occupied territories.<sup>5</sup>

One of the biggest mines in the occupied territories is the Gyzybulag underground copper/gold mine. This mine is situated near the Heyvaly village in the Kalbajar district.<sup>6</sup> Since 2002, Base Metals CJSC, a Vallex Group subsidiary, has exploited the Gyzybulag mine, producing 20,000 tons of ore concentrates per year.<sup>7</sup> Most of the mining products are exported to Germany and other European countries.<sup>8</sup>

After the full exploitation of the Gyzybulag mine up to 2016, the Base Metals' operation declined substantially, creating unemployment and financial problems in the occupied regions. In order to prevent economic problems, the company began work on another project, the Kashen copper mine. The Kashen mine is situated in the occupied Aghdara (Martakert) province and contains an estimated 275,000 metric tons of copper and 3,200 tons of molybdenum.<sup>9</sup> Vallex Group began work on the Kashen project before the exploitation of the Gyzybulag mine and in 2012 acquired a 25-year license.<sup>10</sup> In 2015, Vallex Group inaugurated a new copper and molybdenum ore processing plant near the Kashen mine that will handle products from the Kashen mine. The company has invested US\$130 million in the new

5 Mfa.gov.az (2016), *Illegal Economic And Other Activities In The Occupied Territories Of Azerbaijan (Report by the Ministry of Foreign Affairs of the Republic of Azerbaijan)*. Available at: [http://mfa.gov.az/files/file/MFA\\_Report\\_on\\_the\\_occupied\\_territories\\_March\\_2016\\_1.pdf](http://mfa.gov.az/files/file/MFA_Report_on_the_occupied_territories_March_2016_1.pdf) (Accessed October 21, 2019).

6 Tallin.mfa.gov.az (2016), *Statement by the Press Service of the Ministry of Foreign Affairs on the anniversary of occupation of the Kalbajar district of Azerbaijan, 1993 and April escalation*. Available at: <http://tallin.mfa.gov.az/news/4/3133> (Accessed: October 21, 2019).

7 Azatutyun.am (2012), *Armenian Mining Giant To Expand Karabakh Operations*, 20 March. Available at: <https://www.azatutyun.am/a/24522183.html> (Accessed: October 26, 2019).

8 Mfa.gov.az "Illegal Economic And Other Activities...," *op. cit.*

9 Asbarez.com (2016), *New Mining Complex Inaugurated in Karabakh*, 5 January, Available at: <http://asbarez.com/143995/new-mining-complex-inaugurated-in-karabakh/> (Accessed: October 28, 2019).

10 Ibid.

facilities.<sup>11</sup> It is expected that new plant will be able to process at least 1.75 million tons of ore annually. Vallex Group received financial support for this project from the Russia-based VTB Bank to a total value of US\$36 million.<sup>12</sup>

Moreover, Base Metals received US\$100 million in soft loans for the exploitation of the Kashen mine. About US\$20 million was spent on infrastructure projects, including building the “Sotk–Haterk–Kashen” high-voltage power line to supply electricity for the works in the mines.<sup>13</sup> Also, part of the water in the Khachin (*Xaçın*) reservoir was provided to the company. Along with these measures, Base Metals also received tax exemptions for six years.<sup>14</sup>

Several other companies in the mining sector are undertaking illegal activities in the occupied regions. Beginning in 2014, the Armenian company Gold Star CJSC has been operating exploratory gold mines near Vejnali village in the occupied Zangilan district. Known as the “Tundurget” mine, its explorations were implemented using mining equipment supplied by the Russia-based Tigom CJSC and Mashzavod Trud OJSC companies. This project is mainly financed by the Swiss-Armenian business person Vartan Sirmakes.<sup>15</sup>

Another rich gold reserve in the occupied territories, called Soyudlu (“Zod”), has been exploited by the Armenian company GPM Gold since 2007. Situated in the occupied Kalbajar district, this reserve has deposits of 155 tons of gold. The company also owns the “Ararat” gold processing plant situated in Armenia that processes all the gold reserves extracted from the Soyudlu mine. In 2018, 3.7 tons of gold was processed in the “Ararat” plant.<sup>16</sup> Taking into account the international average price of gold in 2018 (US\$1,268 per ounce), by exporting the reported volume of processed gold, the company’s revenues from the “Ararat” plant were about US\$165 million. It is estimated that, at the current extraction rate,

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Lragir.am (2019), *State Revenues in “Artsakh” to Increase by 5 Billion AMD*, 9 January, Available at: <https://www.lragir.am/en/2019/01/09/70563> (Accessed: October 27, 2019).

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Geopromining.com (2019), *GPM Gold In Zod*, 1 January. Available at: <http://www.geopromining.com/points-in-armenia/> (Accessed: October 27, 2019).

the Soyudlu reserve will be fully exploited by 2027.<sup>17</sup>

It is also worth mentioning that GPM Gold is one of the biggest taxpayers in Armenia's mining sector. In 2015, GPM Gold was the fourth biggest taxpayer in the mining sector of Armenia, paying US\$1.7 million in tax in the first quarter.<sup>18</sup> GPM Gold carries out almost all (99 percent) of the exportation of gold from Armenia. The owner of the company is Russia-based Geo Pro Mining, which owns several international mining companies, including Sarylakh-Surma and Zvezda.<sup>19</sup>

Along with the main projects in the occupied territories of Azerbaijan discussed above, other different, smaller projects have also been implemented. Mostly financed by Western and Russian companies such as Mining and Metallurgy Institute CJSC, Strathcona Mineral Services Ltd., Flesh Ltd., Mika Cement CJSC, and Gold Star CJSC, these are projects for the extraction of different mining products such as copper, molybdenum, cobalt, nickel, mercury, and other nonferrous and rare metals. In addition, the natural resources of the occupied territories substantially contribute to Armenia's construction sector. There are different stone processing plants producing products such as marble, blocks, tiles, and others. These products are actively used for construction projects in both the occupied territories and Armenia.<sup>20</sup>

All the implemented projects show that economic activities in the mining sector are among the main sources of financing for different social projects in the occupied territories. Taking into account the limited potential of the Armenian economy, which does not have enough capacity financially to ensure the continuing occupation, illegal activities in the mining sector have become vital tools for Armenia to continue exerting influence over the occupied territories in both economic and political contexts. In other words, with its limited resources, Armenia would not be able to withstand the long-standing and resource-devastating war against Azerbaijan without the illegal exploitation of mineral resources in the occupied territories.

<sup>17</sup> Ibid.

<sup>18</sup> Hetq.am (2015), *Zangezur Copper Molybdenum Combine Largest Mining Taxpayer - \$839 Million*, 11 May. Available at: <https://hetq.am/en/article/60143>(Accessed: October 29, 2019).

<sup>19</sup> Geopromining.com (2019), *About GPM*, 1 January. Available at: <http://www.geopromining.com/points-in-armenia/> (Accessed: October 27, 2019).

<sup>20</sup> Ibid.

## *Agriculture*

Alongside the mining sector, the occupied regions are also subject to illegal activities in the agricultural sphere. The fertile soil and water resources of the occupied regions create lucrative conditions for agricultural production. The total land area of the occupied regions of Azerbaijan is 1.143 million hectares, more than 50 percent of which is suitable for agricultural activities.<sup>21</sup>

Before the occupation, these territories were one of Azerbaijan's main sources of agricultural production. During the Karabakh war in these areas, 7,000 establishments were closed that together had provided 24 percent of the grain, 41 percent of the liquor, 46 percent of the potatoes, 18 percent of the meat, and 34 percent of the milk produced by Azerbaijan.<sup>22</sup> The occupation led to the loss of one million hectares of agricultural land, including 127,700 hectares of irrigated land, 34,600 hectares of vineyards and orchards, and 70 percent of summer pastures. During the war, more than 200,000 sheep and 60,000 head of cattle were driven out of the occupied territories into Armenia.<sup>23</sup>

In subsequent years, after the Armenian government had implemented the illegal settlement of Armenians from Armenia and different parts of the world, the development of agricultural activities in the occupied territories intensified. Favorable climate and terrain condition for agricultural development attracted different organizations to illegal activities in the occupied territories. The occupied districts that are situated along the Araz River (Zangilan and Jabrayil districts and southern part of Hadrut region) have the most advantageous conditions for agricultural production.<sup>24</sup>

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The Tufenkian Foundation is the most active organization promoting the agricultural sector of the occupied territories. The foundation provided financial support for Armenian farmers settled in the occupied territories, financed the establishment of the new village of "Arajamugh" in Hadrut region in 2004, and

21 NKR National Statistical Service, (2018) *Statistical Yearbook of "NKR" 2018 – Agriculture*, pp. 185–186. Available at: [http://stat-nkr.am/files/yearbooks/2011-2017/15\\_selxoz\\_183-197.pdf](http://stat-nkr.am/files/yearbooks/2011-2017/15_selxoz_183-197.pdf) (Accessed: November 19, 2019).

22 Ibid.

23 Ibid.

24 Ibid.

supported agricultural projects. In 2000, with the support of the foundation, five hectares of land were allocated to pomegranate cultivation, and two more hectares were allocated in 2016.<sup>25</sup> In 2013, the foundation established a second pomegranate orchard covering seven hectares of land in the occupied Lachin district and established a trickle irrigation system.<sup>26</sup> The Tufenkian Foundation also actively participates in greenhouse cultivation projects in the occupied territories. In 2013, in partnership with the Armenian Community Council, the foundation implemented green house infrastructure covering 480 m<sup>2</sup> in the occupied Zangilan district for the cultivation of tomatoes.<sup>27</sup> According to the investment profile of the Tufenkian Foundation, in 2013 it also granted US\$35.7 thousand for another greenhouse project called “Yeritsvanq Green House.”<sup>28</sup>

In order to support agricultural production in the occupied territories, the “Support Fund of Village and Agriculture” was established in 2007. The main financial source of the fund is the loans obtained from “local banks” and the Hayastan All-Armenian Fund. The Fund participates in different illegal economic activities in the occupied territories, such as the establishment of enterprises involved in the producing agricultural equipment and the provision of agricultural services.<sup>29</sup> These enterprises include “Agriculture Number 1 CJSC,” “Machine and Tractor Station CJSC,” “Martakert’s Agricultural Services CJSC,” and “Greenhouse Farming CJSC.”

Along with the enterprises mentioned, the Fund established MTS (machine and tractor stations) to provide farmers with cheap agricultural equipment and allocated about US\$6 million for purchasing necessary equipment.<sup>30</sup> In addition, the “Support Fund of Village and Agriculture” helps farmers to obtain loans at low interest rates. By partially subsidizing interest rate payments

25 Tufenkianfoundation.org (2017), *Social and Economic Development*, 18 November. Available at: <https://www.tufenkianfoundation.org/our-work/our-work-in-artsakh/ongoing-projects/economic-development> (Accessed: November 15, 2019).

26 Ibid.

27 Ibid.

28 Bigdatabase.com (2017), *Tufenkian Foundation profile*. Available at: <http://www.bigdatabase.com/Big-DB/USFoundation-profiles/TUFENKIAN%20FOUNDATION%20INC-133976159.HTML> (Accessed: November 15, 2019).

29 Ibid.

30 Secretmag.ru (2015), *Made in Artsakh: Kak biznesmeny podnyali s kolen nepriznannuyu respubliku*, 14 October. Available at: <https://secretmag.ru/cases/stories/artsakh-epic.htm> (Accessed November 18, 2019).



in the agricultural sector, the Fund supports illegal activities in the occupied territories.<sup>31</sup>

The main player in the sector concerned with the production and export of canned vegetables and fruits is the company “Artsakh Fruit CJSC,” established in 2007. The company’s product line includes canned vegetables, pickles, preserves, jams, and fruit syrups, with an annual production capacity of about one million cans.<sup>32</sup> In 2012, the company had annual sales of about US\$1.2 million.<sup>33</sup> The main buyers of the products are Russian, European, and United Arab Emirates companies (90 percent).<sup>34</sup>

Agricultural activities in the occupied territories also have great economic importance in motivating the illegally settled population to stay in these territories. As in the mining sector, the illegal activities in the agriculture sector of the occupied territories support the sustainability of continuing Armenian occupation by providing financial gains from exports. This, in turn, eliminates Armenia’s financial and social burden for maintaining control over the occupied territories.

## **Conclusion**

All the illegal economic activities discussed above show that the Armenian government and the separatist regime have substantially benefited from the natural resources of the occupied territories for their economic gain and development. Taking into account that the Armenian economy does not have enough capacity sustainably to finance the continuing occupation, illegal activities in the occupied territories have become vital tools for Armenia to maintain its occupation and control over the occupied territories, in both the economic and political contexts. Special focus has been placed on

*...illegal activities in the occupied territories have become vital tools for Armenia to maintain its occupation and control over the occupied territories, in both the economic and political contexts.*

31 Armbusinessbank.am (2013), *Loans issued under Support Fund of Village and Agriculture of “NKR,”* 5 August. Available at: <http://www.armbusinessbank.am/uploads/attachments/article/Gyuxvark-LXH-gyugh-Subsid-eng.pdf> (Accessed: November 19, 2019).

32 Artsakhfruit.com (2019), *History*, Available at: [http://artsakhfruit.com/?page\\_id=194&lang=en](http://artsakhfruit.com/?page_id=194&lang=en) (Accessed: November 19, 2019).

33 Ibid.

34 Arka.am (2012), *“Artsakh” fruit plans to expand output by 40 percent.* Available at: [https://arka.am/en/news/business/artsakh\\_fruit\\_plans\\_to\\_expand\\_output\\_by\\_40\\_percent/](https://arka.am/en/news/business/artsakh_fruit_plans_to_expand_output_by_40_percent/) (Accessed: November 19, 2019).

the mining and agricultural sectors. Considering the importance of these sectors in the economic development and political stability of the occupied territories, the Armenian government has been active in supporting all illegal economic activities in the occupied territories. Its participation in illegal economic activities has helped to diminish the reliance of the separatist regime on the Armenian government. With limited resources, Armenia would not be able to withstand the long-standing and resource-devastating war against Azerbaijan without the illegal exploitation of natural resources in the occupied territories.

The Armenian government has not only actively participated in the formation of different enterprises in the occupied territories but has also imported the greater part of the products from these enterprises. By importing more than 90 percent of such products, Armenia has also used them to meet the domestic market demand of the Armenian population. This shows that the exploitation of natural resources in the occupied territories strongly supports the social and economic development of Armenia itself.

The natural resource advantages of the occupied territories reveal the economic motivation behind Armenia's interest in the occupation of Azerbaijan's territories, which was to obtain economic gain through the exploitation of natural resources. The rich natural resources of the occupied territories have brought plentiful economic advantages to support Armenia's development. By also bringing economic damage to Azerbaijan through the occupation and the exploitation of natural resources in the occupied territories, Armenia is attempting to ensure its continuing economic existence in the region.

The resources of the mining sector in the occupied territories substantially support economic development in Armenia. The companies operating illegally in the occupied territories extract and sell rich reserves of copper, gold, molybdenum, and other resources in international markets, generating substantial financial revenues.