Illegal Economic Activities in the Armenia-occupied Territories of Azerbaijan

Orkhan Baghirov*

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

* Orkhan Baghirov is a Leading Advisor in the Center of Analysis of International Relations.
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. 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 resources illegally, Armenia has become one of the world’s leading exporters of precious and rare metals.

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. According to calculations by the United Nations, the total economic damage that the war brought to Azerbaijan is estimated at around US$53.5 billion.

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3 Ibid.
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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.

Mining industry

Nagorno-Karabakh and the adjacent regions are rich in deposits...
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.\(^5\)

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

After the full exploitation of the Gyzylbulag 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.\(^9\) Vallex Group began work on the Kashen project before the exploitation of the Gyzylbulag mine and in 2012 acquired a 25-year license.\(^10\) 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

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10. Ibid.
facilities.\textsuperscript{11} 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.\textsuperscript{12}

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.\textsuperscript{13} 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.\textsuperscript{14}

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.\textsuperscript{15}

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.\textsuperscript{16} 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,

\textsuperscript{11} Ibid.
\textsuperscript{12} Ibid.
\textsuperscript{13} 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).
\textsuperscript{14} Ibid.
\textsuperscript{15} Ibid.
the Soyudlu reserve will be fully exploited by 2027.\textsuperscript{17}

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.\textsuperscript{18} 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.\textsuperscript{19}

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.\textsuperscript{20}

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.

\textsuperscript{17} Ibid.
\textsuperscript{20} 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 Azerbaijanis is 1.143 million hectares, more than 50 percent of which is suitable for agricultural activities.\(^{21}\)

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.\(^{22}\) 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.\(^{23}\)

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.\(^{24}\)

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

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\(^{22}\) 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. 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. 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
greenhouse infrastructure covering 480 m² in the occupied
Zangilan district for the cultivation of tomatoes. 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.”

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. 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. In addition, the “Support
Fund of Village and Agriculture” helps farmers to obtain loans at
low interest rates. By partially subsidizing interest rate payments

26 Ibid.
27 Ibid.
29 Ibid.
in the agricultural sector, the Fund supports illegal activities in the occupied territories.\textsuperscript{31}

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.\textsuperscript{32} In 2012, the company had annual sales of about US$1.2 million.\textsuperscript{33} The main buyers of the products are Russian, European, and United Arab Emirates companies (90 percent).\textsuperscript{34}

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.


\textsuperscript{33} Ibid.

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.