

July 21, 2014

TO: Enery Quinones, the Chief Compliance Officer at the European Bank for Reconstruction and Development

We, the citizens of the Republic of Armenia and representatives of the public - EcoLur Informational NGO represented by Inga Zarafyan, "EcoRight" NGO represented by Arthur Grigoryan, "Save Teghut" civic initiative represented by Anna Shahnazaryan, "Pan-Armenian Environmental Front" civic initiative represented by Levon Galstyan, "Center for Jermuk Development" NGO represented by Vazgen Galstyan, Gndevaz villager Tehmine Yenoqyan, expert in environmental policy Sona Ayvazyan, "Center for Bird Lovers" represented by Silva Adamyan, "Armenian Women for Health and Healthy Environment" NGO represented by Elena Manvelyan - express our concerns with IFC support of Amulsar open-pit mining and heap leach facility construction, that put at risk the health and security of residents of Armenia and Caucasus.

Amulsar project is summarized on EBRD website as following:¹

Country: Armenia
Project number: 42182
Business sector: Natural resources
Public/Private: Private
Environmental category: B

Status: Signed
PSD disclosed: 27 Apr 2012

Project description

Amulsar is located in central Armenia, approximately 120 km south of Yerevan. The project covers a region of epithermal-type gold mineralization. The mining right is held by Geoteam CJSC, an Armenian registered closed joint stock company. Geoteam CJSC is owned 100% by Lydian International Ltd. Outstanding shares 6.9 % belong to IFC. The project is strongly supported by US and UK Embassy in Armenia.²

Essence of Grievance

Amulsar gold mining is promoted with gross violations of rights of citizens to health and healthy environment guaranteed by Article 32 of the Armenian Constitution as well as the related national legislation.

Additionally there are violations of the following standards of social and environmental responsibility, declared by EBRD:

Assessment and Management of Environmental and Social Impacts and Issues
PR 3 - Resource Efficiency, Pollution Prevention and Control
PR 4 - Health and Safety
PR 5 - Land Acquisition, Involuntary Resettlement and Economic Displacement
PR 6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources
PR 7 - Indigenous Peoples
PR 8 - Cultural Heritage
PR 10 - Information Disclosure and Stakeholder Engagement.
Substantiation of the mentioned statement is presented below:

¹ See <http://www.ebrd.com/english/pages/project/psd/2012/42182.shtml>

² <http://www.lydianinternational.co.uk/share-performance.htm>

Violations of Legislation

Water and soil: Amulsar deposit contains about 0.9 g/t gold, as well as admixtures, including highly toxic lead, cadmium, etc.³ Total concentration of toxic metals exceeds the concentration of gold and silver. Concentration of admixtures is detected in the ore sample analysis carried out by Radman Association upon the order of Lydian International Ltd. If 2.5 million ounces of gold is mined, 56 million tons of dumps with admixtures will be formed. Admixtures will contaminate the main water resources in Armenia - water basins of Vorotan and Arpa Rivers, Kechout and Vorotan reservoirs as well as Lake Sevan, grossly violating the **Water Code of Armenia**.⁴ Land areas - pastures, meadows and protected territories - surrounding Amulsar and the mentioned water resources will be exposed to pollution with toxic substances, too. Nevertheless, the Lydian International Ltd keeps silence about the presence of toxic admixtures and their impact on health and environment. Environmental impact assessment (EIA) report of Amulsar open-pit mining project submitted for environmental expertise of the Ministry of Nature Protection doesn't mention anything about the risks, which violates the requirements of **RA Law on Environmental Impact Expertise**.⁵ On our part, we regard it as intentional concealment of information from competent bodies, local population and general public.

Lake Sevan: Territory of Amulsar project, including its infrastructures - open-pit mines, roads, heap leach facility, waste and industrial tail disposal facilities, warehouse facilities, including the warehouse for explosives – is mostly are located in then catchment area of Lake Sevan in the immediate impact zone. Lake Sevan is a national and strategic priority in Armenia and Caucasus Region with its freshwater reserves of 37 billion cubic meters. According to **RA Law On Lake Sevan**, Kechout and Spandaryan reservoirs are a part of Lake Sevan catchment basin, as well as Arpa and Vorotan river catchment basins,⁶ meanwhile any activity having adverse impact on Lake Sevan ecosystem is banned in the central zone, in zones of direct and indirect impact.⁷ These restrictions were neglected within the EIA report of Amulsar project and did not consider the likely risks for Lake Sevan ecosystem.

In the meantime, Scientific-Expert Committee on Lake Sevan Preservation, established on the basis of RA Law on Lake Sevan, gave its negative opinion on Amulsar project.⁸ The Scientific-Expert Committee opinion (letter NE/18/2012) states: *“The place for tail accumulation at the height of 2570-2360 meters is located in a distance of several kilometers to the epicenter of a disastrous quake in 735. The project doesn't have any calculations and risk projections for a quake with a magnitude of 10... The territory of the tail accumulation has numerous outlets of ground waters, which will spread toxic substances from the tails to the Vorotan River, then through Vorotan-Arpa tunnel to Lake Sevan... Explosives may activate landslip processes with their unpredictable consequences....”*

Reports of Radman Associates show that radon concentration exceeds 400 Bq, but EIA report of Amulsar project did not say anything what measures shall be undertaken to reduce its levels⁹ that caused serious concerns of the Scientific-Expert Committee.

Uranium: According to studies, reserves of uranium in Amulsar are estimated to be up to 76 tons and those of thorium - 100 tons.¹⁰ Complainants think that Amulsar open-pit mining of gold quartzite may

³ H.Avagyan. “Ways and Prospects of Mining and Metallurgical Industries in the Republic of Armenia”, “Gitutyun” Publishing House, Yerevan, 2011

⁴ RA Water Code, Article 98 on Protection of Interconnected Ecosystems and Landscapes and Article 99 on Primary Requirements towards the Protection of Water Resources

⁵ RA Law on Environmental Impact Expertise, Article 5

⁶ RA Law on Lake Sevan, Article 3

⁷ RA Law on Lake Sevan, Articles 8 and 10

⁸ Authorities of the Scientific-Expert Committee are laid down in RA Law on Lake Sevan, Articles 19, 20 and 21

⁹ See

http://www.geoteam.am/media/documents/Technical%20Reports/Impact%20Assessment%20Reports/Radioactivity_Impact_Assessment_Radman.pdf

¹⁰ G.P.Aloyan, “Resource Potential of Radioactive Raw Materials in Armenia and Its Development Perspectives,” *Mining Journal*, Issue 6, Moscow, 2007

also touch uranium deposits causing radioactive contamination of the area, particularly affecting Jermuk resort, Gndevaz, Saravan and Gorayk villages. In order to avoid these risks, there is a need for mapping the precise borders of uranium reserves. Meanwhile, uranium is a strategic raw material and its exploration is the monopoly of Armenian-Russian Mining Organization under **RA Government Decision N234** dated on 06.03.2008.¹¹ So, Geoteam's statements on uranium cannot be considered reliable, unless the company applies to Armenian-Russian Mining Organization requesting to map borders of Amulsar uranium deposit.

Red-listed species: According to studies of WWF-Armenia in 2013, there are a number of Red Book species detected in Amulsar and its adjacent areas. Those include one species of plants - Potentilla Porphyrantha, two species of lizards, eighteen species of birds and four species of mammals. EIA report of Amulsar project fails to provide adequate information on endangered plants and animals, stating that the project territory contains only one species - the Caucasian brown bear.

Implementation of Amulsar project violates requirements of **RA Mining Code** that bans mining in habitats of red-listed plants and animals, as well as migration corridors for animals.¹² It also violates **RA Law on Flora** which states that *"any activity resulting in the reduction of red-listed plant species and deterioration of their growth places is banned,"*¹³ as well as **RA Law on Fauna** stating that *"any activity resulting in the reduction of red-listed animal species and deterioration of their growth places is banned."*¹⁴

Jermuk Resort: Amulsar project poses essential risks for Jermuk resort located in a distance of 12 km from Amulsar. Jermuk is rich in hot springs and mineral water and famous for health facilities and the production of "Jermuk" bottled mineral water, being exported by Armenia. By **RA Government Decision N1064-N** "On Declaring Jermuk Town as a Tourism Center" dated 18.09.2008, Jermuk was recognized as a tourism center. Under Jermuk Development Plan, the border of tourism zone approaches Amulsar in a distance of 2-4 km. Jermuk residents think that Amulsar project will have its adverse effects on Jermuk brand as a resort and they will get deprived of their income. Despite residents' demands, Jermuk was not included in Amulsar project affected zone,¹⁵ while residents' negative opinion on the project was not included in the list of the documents considered in EIA report.¹⁶

Heap leach Facility: Lydian International Ltd started buying land areas in Gndevaz Village for construction of the tailing dump. But the construction project of the heap leach facility does not mention any 'tailing dump', instead using another term - 'waste landfill.' By us this is regarded as another attempt to conceal information and real risks from the population.

Steps Taken to Solve the Problem

Representatives of the concerned public have applied several times to Lydian International Ltd and its Armenian subsidiary Geoteam CJSC for public consultations.¹⁷ Nevertheless, Geoteam CJSC not only did not take into consideration the concerns related to project risks, but also posed certain threats to its opponents. On 9 June 2012, "Jermuk Will Not Become a Mine" civic initiative organized a hiking to Amulsar with over 100 participants - representatives of the civic society. Geoteam CJSC did not allow entering the territory, but organized a rally of employees with offensive posters addressed to activists.¹⁸ Then, the company terrorized EcoLur NGO, followed by a public statement by the latter.¹⁹

¹¹ RA Government Decision N234 dated on 06.03.2008

¹² RA Mining Code, Article 26

¹³ RA Law on Flora, Article 17

¹⁴ RA Law on Fauna, Article 18

¹⁵ See the claim of Jermuk resident Victoria Grigoryan

¹⁶ See the letter of Jermuk Community Council <http://ecolur.org/hy/news/mining/open-letter-by-jermuk-mayor-varदान-hovhannisyan-to-geoteam-company/3911/>

¹⁷ See the respective applications dated 08.07.2011, 13.03.2012

¹⁸ <http://ecolur.org/en/news/mining/donvt-disturb-us-to-make-money-photos/3907/>

Several times the public has submitted the EBRD its substantiations on the incompliance of Amulsar project with a) environmental security of the country, b) EBRD standards and principles of environmental and social responsibility, c) the provisions of national and international environmental legislation in the course of annual meetings of EBRD in Astana (2011), London (2012), Istanbul (2013), Warsaw (2014), during the visit of EBRD experts in Armenia in June 2013 and in the correspondence with EBRD managers.

During this period new consequences have emerged, which directly affect on Amulsar project, in general, and require review of relationships with Lydian,

- Governmental program on community optimization, which resulted in Jermuk resort town, which was previously excluded from the project affected zone, to become the administrative center together with Gndevaz, Saravan communities, which are included in the project affected zone.
- In 2013 a new governmental resolution was adopted on specifying the borders of Lake Sevan basin, which directly affects on Amulsar project, the territory of which includes a part of Sevan basin (Vorotan river, Kechout, Kechout and Spandaryan reservoir).
- Under the light of increase in the water outlets from Lake Sevan, the public and MPs raised the issue of increasing water flowing into Lake Sevan not to have any negative balance and not to expose the lake to another disaster because of decrease in lake Sevan level. The public protested and demanded not to allow any decrease in the level, at least due to the water increase in Arpa-Sevan canal and Vorotan Tunnel. The threats to the integrity of Vorotan Tunnel should be considered, which runs through the area of Amulsar project caused by the explosions in Amulsar mine, which have been conducted previously. This problem becomes more acute under the light of the governmental resolution on the increase in water outlets from Lake Sevan by 40%.
- WWF-Armenia office accomplished its studies on the biodiversity in the territories, which can be potentially suitable for establishing Jermuk National Park and detected 22 red-listed animal species and 1 plant species inhabiting in the area of Amulsar project and adjacent zones. In this regard, public casts doubts on the studies on the biodiversity funded by Lydian, as independent studies are already available, which contradict to the studies of the company.
- The EBRD itself reviewed its policy of social and environmental responsibility, which was discussed with NGOs, particularly in the part of performance standards in mining sector.

It's obvious that currently the situation has become more complicated in the viewpoint of making responsible decisions. Nevertheless, the EBRD adopted a contradicting decision: it purchases additional shares of Lydian in the amount of US\$3 million, thus increasing its equity and enabling the company to continue running its policy on Amulsar project. It contradicts to the EBRD policy itself, which, in this case, turns out not to be responsible either in social or environmental aspects.

Taking into consideration the risks of Amulsar project, which, in most cases, are uncontrollable and pose threats to the strategic water resources, include most area of the country as project affected zone and the whole population of Armenia, as well as neighboring countries in trans boundary viewpoint, we think that negotiations about improving project design or risk minimization or promotion of social programs in the frames of Amulsar project have no sense.

As Lydian International Company has declared many times and continues declaring that IFC and EBRD are its main shareholders and refers to their standards for social and environmental policy, it should be acknowledged that EBRD together with IFC bears responsibility or the non-performance of these standards to a complete extent.

¹⁹ <http://ecolur.org/en/news/mining/ecolur-open-letter-to-quotgeoteamquot-cjsc/3924/>

We think that 1) EBRD hasn't conducted proper risk assessment, 2) EBRD provided funding to Amulsar project based on unreliable information about risks and economic benefits, 3) EBRD neglected numerous alarm signals raised by public and independent experts and started lobbying Amulsar project through embassies putting diplomats in ambiguous situation, 4) EBRD encouraged advertising costs for Amulsar project at the expense of EU public money instead of reasonably valuing disputable economic effects and indisputable environmental damage of the project.

Based on the aforementioned, we think it's necessary to conduct an audit and to assess the risks laid down in our complaint whether they EBRD actions are compliant to its own standards, where one of the standards is complete compliance of any implemented project to national legislation.

EBRD must:

- Recognize project risks as uncontrollable and to categorize project as A category, refuse from Amulsar project shares and to assess it in the viewpoint of compliance to the domestic legislation of Armenia and EBRD principles of socio-environmental policy, and not in the viewpoint of invested equity and income,
- Recognize the whole territory of Armenia as project affected zone because of the project impact on the strategic water resources ensuring the living of all the Armenian population, as well as because of the threats to biodiversity and cultural heritage, the extinction of which will violate Armenian people's right to development,
- Comply with the provisions of Aarhus Convention and to recognize public as a direct stakeholder, which should take part in decision-making process.

Please note that we have all the originals of documents mentioned in the grievance, which we may send in a scanned format upon your request. If you have a questions, please contact with Inga Zarafyan

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