



November 20, 2007

Mr. John J. Danilovich, CEO
Millennium Challenge Corporation
875 Fifteenth Street NW
Washington, DC 20005-2221

Dear Mr. Danilovich,

The Millennium Corporation Challenge provides mid- and lower-income countries noteworthy opportunities to decrease poverty through sustainable development. This upcoming December, the MCC Board of Directors will have the opportunity to ensure that the participating countries continue to meet the eligibility criteria set out by the 17 indicators.

On December 19, 2005, the MCC Board of Directors approved a five-year \$235.65 million Compact with the Republic of Armenia. Even at the initial signing of the compact, the MCC was concerned with irregularities regarding reforms to Armenia's constitution. The Corporation sent Armenian President Robert Kocharian a letter outlining the MCC's concerns and urging the Armenian government to ensure steps are taken to uphold the MCC's main pillars: ruling justly, investing in people, and promoting economic freedom.

Has Armenia taken the necessary steps to achieve high performance in the "Ruling Justly" theme? While the government may be striving to fulfill the standards and address issues of corruption, we are concerned about their adherence to the new Environmental Indicators.

As the MCC evaluates the country's adherence to the Indicators, we urge you to consider the following information about the Teghut copper mine, a huge open-pit copper mine that will threaten the small northeastern town of Teghut, Armenia.

Project approval granted, despite inadequate EIA

The Armenian Copper Programme (ACP), a privately owned company, was granted a 25-year license in 2001 to exploit the deposit with promises of economic development in the rural Teghut region. However, there are serious concerns about community health and safety and negative environmental impacts. Over 26 Armenian non-governmental organizations opposed the mine, but now some have received death threats and are concerned over personal safety.

In November of 2007, the Teghut mine was given the final approval to begin excavation. But only a couple of months ago, the new Minister of Environmental Protection recognized that the original Environmental Impact Assessment was biased and called for a new one to be conducted, yet ACP is now allowed to begin the excavation, without preparing a new EIA. This must urgently be investigated.

Questionable claims of significant job creation

The Armenian Copper Programme is promising long term economic development to the region -- 1,700 new jobs as a result of the mine. However, this company has over-inflated job claims in the past.

Previously, Mr. Valery Medzhlumyan, ACP's owner and president, promised Alaverdi residents 2,000 new jobs, yet barely 700 people are actually employed there. As a result, not all villagers in the Teghut region are excited about a slim possibility of employment opportunities in light of the resulting environmental degradation. In fact, over half of the neighboring villages of Teghut have refused to sell their lands to the mine for exploitation. Rather than job security, Teghut communities will be left with ailing health problems and a desecrated environment.

Potential non-compliance with international and national laws

Numerous international conventions, as well as Armenian environmental regulations and laws may be compromised when the Armenian Copper Programme Teghut copper-molybdenum mine advances. The Republic of Armenia has ratified the following international conventions:

- "UN Framework Convention on Climate Change", New-York, 1992 (Ratified 29.03.1993);
- "Convention on Combating Desertification" Paris, 1994, (Ratified 23.06.1997);
- "Convention on Biodiversity", Rio-de Janeiro, 1992 (Ratified 31.03.1993);
- "Convention on the Environmental Impact Assessment of in the inter-boundary context", 1991; and,
- "UNESCO Convention on Preservation of the Heritage of Art and Nature".

These conventions will be compromised at the Teghut mine. Extractive mining contributes to global climate change through deforestation and emissions of sulfur dioxide during the smelting process. The open-pit mine proposed by the ACP would destroy acres upon acres of significant forests, and could result in desertification, which is a growing problem in the region. Four hundred thirty three species in Armenia are on the International Union for the Conservation of Nature's "Red List" of endangered or threatened species. In particular, over 50 plant, fish and mammals found within the Teghut forest are listed as endangered or threatened, including the rare Caucasian persimmon and the Caucasian gray bear.

Relevant national laws

Aside from the international conventions, Armenia has numerous national regulations intended to protect the people's health and the natural environment. The Teghut mine may disregard these policies as well.

Article 33.2 of the 2005 Armenian Constitution plainly states: "Everyone shall have the right to live in an environment favorable to his/her health and well-being and shall be obliged to protect and improve it in person or jointly with others. The public officials shall be held responsible for hiding information on environmental issues and denying access to it." The Teghut mine may endanger people's health, rather than offer favorable conditions.

Furthermore, Armenia's Legal Principles on Nature Protection includes *Article 14. Development and Implementation of Economic and Other Projects Impacting the Environment*, which states: "In order to prevent a negative impact on the environment the projects on urbanization, economy, and other activities should have an ecological basis, which are presented to the authorized state body on environment protection by the Contractor before the projects are approved. The development and implementation of projects which can disturb the natural balance and ecological system, destroy genetic fund of the flora and fauna, or create irrevocable consequences for human health and the environment shall be forbidden." Threatened and endangered species will be destroyed if Teghut mine gets the go ahead.

The Armenian Law On Environmental Impact Assessment, (20 November, 1995) states in Article 3 that the objectives of environmental impact assessment are as follows:

- Analysis of intended activities, concepts and the possibility of their alternatives and expediency, taking into account all ecological restrictions.
- Appraisal of the possible effects and the degree of danger of the intended activity, concept and their alternatives;
- Inspection of the degree of the possible ecological effect of intended activities, concepts and the possibility of their alternatives; the integrity of consequence analysis and accuracy; the adequacy of measures for monitoring, prevention, elimination or minimization of consequences during operation and implementation processes as well as in emergency situations;
- Prohibition of any intended activity that can have an irreversible hazardous effect on the environment, unless otherwise stipulated in the Armenian legislation.

To date, the new Minister of Nature Protection has called for a new Environmental Impact Assessment, as he recognizes that the original ACP assessment was biased. Among other deficiencies, the original EIA lacks plans to mitigate environmental destruction, which would need strict oversight by the government.

Armenia's Land Code (02.05.2001), *Article 8, Section 2* prohibits land-use tools that result in decreased quality and fertility of the land or contamination of the environment. Specifically, the Article calls for implementation of measures that protect environmental systems and biological diversity and that protect agriculture, nature protection, historical and cultural values, according to laws and statutory legal acts of State governance and local self-governing bodies.

Aside from the environmental degradation described above, ancient artifacts in the Teghut region will be excavated during the excavation process for the mine, yet no protective measures have been identified to preserve those artifacts.

Armenia's Water Code (4 June, 2002), Article 103 specifically states, "While planning, construction, reconstruction, allocation for use and during utilization of constructive and other objects their impact on the environment should be taken into consideration both in the direct place of installation, and in the water basin as a whole." A pristine gorge near the proposed mine site would be used as a tailing dump for toxic molybdenum ore waste. Due to a low yield concentration of desired minerals, 98% of the ore will be dumped in the tailing pit of the gorge. The Shnogh River flows through this gorge and the impact the toxic sludge would have on aquatic life and water quality downstream will be devastating.

Armenia's Code on Underground Activities (18 November, 2002), Article 42: The main rights and responsibilities of the underground users states that the underground user is responsible for providing "protection of the underground, atmosphere, soil, forests, water and other objects of the environment, as well as buildings and other constructions from dangerous impact." ACP's environmental assessment did not adequately address their responsibility to adhere to the Code.

Armenia's Law on Flora (23 November, 1999), Article 17 simply states, "Any activity that results in decrease of the quantity and harm to the growing areas of the plant species registered in the Red Book of the Republic of Armenia is prohibited." Similarly, Armenia's Law of Fauna, article 18 states, "Any activity that will result in decrease of the quantity of animal species registered in the Red Book of the Republic of Armenia or will spoil their habitat is prohibited."

As mentioned above, deforestation has resulted in massive biodiversity loss in Armenia; the country lists 485 species in their "Red Book" of endangered, threatened or extinct species, of which 35 are already extinct and 160 are threatened. In 1999, the First National Biodiversity Report showed that 20 different plant species were endemic and there were 75 rare and endangered plant species to the northeastern Tavush region, where the mine is based. Over 50 plant, fish and mammal found within the Teghut forest are listed as endangered or threatened, including the rare Caucasian persimmon and the Caucasian gray bear.

Violations of 3 out of 4 MCC Natural Resource Management indicators

In July 2006, the MCC approved the Natural Resource Management indicator, which measures a government's commitment to sound management of water resources and water systems, proper sewage disposal and sanitary control, air quality standards, habitat preservation, and biodiversity protection. Out of the four indicators within the Natural Resource Management category, the Teghut mine project compromises three of them.

Eco-region Protection: Armenia is located at a unique convergence of three major eco-geographic regions with seven of the world's nine climate zones and over 8,800 plant varieties. If projects such as the Teghut mine copper-molybdenum mine continue to be permitted, and the rate of deforestation continues, by 2030 Armenia will have no more forests.

Access to Improved Water: Rather than improving the water quality for the surrounding communities, the Teghut mine compromises the water quality. Most likely the waste from the mine will be dumped in a pristine gorge, which Shnogh River runs through. In addition, the tailings dump will cause trans-border pollution of the Dbed River, which will most likely be the resting point of heavy metals.

Child Mortality: Pollutants from the mine's processing facilities would include carbon monoxide, nitrous dioxide, arsenic and lead. The ACP's Alaverdi smelter is linked to health problems amongst local communities. Although child mortality has not yet risen, the smelter has compromised child health. No birth anomalies were recorded in Alaverdi in 1992 when the factory was idle, but in 2001, 28 cases of birth defects were registered and 107 cases in 2004.

The Teghut mine proposal also stands to threaten the Land Rights and Access index. While the MCC compact with Armenia intends to improve rural agriculture, the Teghut mine proposal stands to threaten local communities and rural agriculture.

Teghut mine is located in Lori Marz, which covers over 14,000 acres (5,800 ha) in the north of the country. Surrounding forests and temperate elevations create good conditions for enhanced agriculture. However, due to deteriorated infrastructure, farmers are not able to irrigate their lands and currently only 1/3 of lands are irrigated. Not only do farmers face the lack of water infrastructure, but also their existing water supply may be compromised by potential pollution from Teghut mine. The Teghut mine is an example that the government of Armenia is not encouraging policies that contribute to “sustainable management of common property resources,” the fifth sub category of the Access to Land sub-indicator within Land Rights and Access Indicator.

We urge you to consider the impact the Teghut mine will have on Armenia’s sustainable development through natural resources management. If Armenia is not willing to prevent environmental destruction, then the success of rural development initiatives sponsored by the MCC will be compromised. For more information, please contact Andrianna Natsoulas at anatsoulas@earthlink.net. We would appreciate receiving your response to the concerns laid out in this letter.

Sincerely yours,

Brent Blackwelder
President

Cc : President Kocharian
 Prime Minister Serzh Sargsyan
 Representative Eschoo
 Representative Pallone