



Between a rock and a hard place

How local communities pay the cost of EBRD-financed gold mining projects

November 2009

Author list

Fidanka Bacheva-McGrath, CEE Bankwatch Network
Daniel Popov, Centre for Environmental Information and Education, Bulgaria
Inga Zarfian, EcoLur Information NGO, Armenia
Erkingul Imankozhoeva, Karek Public Association, Barskoon, Kyrgyz Republic

Editing

Pippa Gallop, CEE Bankwatch Network

Design

David Hoffman, CEE Bankwatch Network

Acknowledgements

Vladlena Martsynkevych, CEE Bankwatch Network

Cover photo

Kalia Moldogazieva - Kumtor Gold Mine, Kyrgyzstan.



CEE Bankwatch Network gratefully acknowledges financial support from the European Commission (DG Environment and DG Development). Sole responsibility for content lies with the authors of the report. Funders cannot be held responsible for any further use that may be made of the information contained therein. Bankwatch is also grateful to the following donors for their ongoing support of our work: Charles Stewart Mott Foundation, European Climate Foundation, International Visegrad Fund, Oxfam Novib, Sigrid Rausing Trust, VROM – Dutch Ministry of the Environment and Spatial Planning.



Contents

Introduction	4
Case study – Kumtor gold mine, Kyrgyzstan.....	6
Case study – Chelopech gold mine, Bulgaria	10
Case study – Deno gold mine, Armenia	15
Conclusions and recommendations.....	19

Introduction

The number of gold mining projects in the EBRD portfolio is insignificant in comparison to that of oil and gas projects, however, the Natural Resources web page of the bank boasts that: “The EBRD has provided financing for a wide variety of projects in this crucial sector, contributing to an increase in oil and gas activity and the development of a competitive gold mining industry.”¹

Press releases and project summary documents on mining projects never fail to promise the introduction of innovative technology, as well as setting high business and environmental standards. Transition impacts for those projects by default include promotion of transparency and accountability by the bank’s business clients in countries where a foreign investor with minimal effort can rank the “best and most responsible” in an industry characterised by opacity and lack of accountability.

This collection of three case studies presents local people’s experience with EBRD-financed gold mining projects from three countries in our region:

- Kyrgyzstan, where Centerra Gold operates the Kumtor gold mine;
- Armenia, where Deno Gold Mining, owned by the Canadian Dundee Precious Metals, operates the Kapan polymetallic mine in Kapan;
- Bulgaria, where Chelopech Mining, owned by the Canadian Dundee Precious Metals, operates the Chelopech gold and copper mine.

The three exhibit a variety of environmental problems reflecting the differences in geography, environmental legislation, and the scale and nature of the projects. With issues ranging from a cyanide spill and the loss of glaciers in the Tien Shan mountains of Kyrgyzstan to inadequate management of toxic tailings facilities in Armenia and

Bulgaria, what is common is the failure of these three investments to bring tangible improvements in the lives of communities affected by mining activities. From the case studies it is visible that the EBRD has failed to ensure that its clients pay due regard to public concerns and needs, and implement strictly national and international environmental legislation.

From experience with these projects it is apparent that the EBRD places unjustified trust in the responsibility of its clients and unconditionally supports their interests even when these do not correspond with, or when they contradict the interests of local and national stakeholders. A few examples illustrate this:

1) In the case of the Armenian polymetallic mine of Deno Gold in Kapan, following a fact-finding mission to the site bankwatch approached the bank with several worrying findings and questions regarding the operations of the mine. The bank replied by simply forwarding the response of Deno Gold, without referring to any of its own monitoring or evaluations that may have helped build its confidence in the trustworthiness of its client. The issue on the management of the Geganush Tailings Management Facility was not addressed properly, but instead the company discussed the difference between the Geganush and the Artsvanik facility that it has used in the past.

While the new (or up-graded old) Geganush closed-water cycle TMF of Deno Gold is regarded by the bank as a model of innovation, parts of its tailings are left uncovered so wind still blows them over the village situated above the valley. However in its communication the EBRD underlined the achievements of the company and underestimated the problems.²

1 EBRD’s Natural resources homepage: <http://www.ebrd.com/country/sector/natural/index.htm>

2 See communication at the Bankwatch website - <http://bankwatch.org/project.shtml?apc=147581-----1&x=2206221&d=c>

2) In the case of the Chelopech Mining operations in Bulgaria, Phase 2 of the project, involving the introduction of cyanide leaching of gold, has been delayed for more than two years as a result of opposition of the local Chavdar community, the potentially affected public downstream from the mine and environmental organisations. During this time EBRD staff repeatedly denied any consideration of Phase 2. At the same time disclosed documentation from a Canadian freedom of information request, passed to bankwatch Mail, presented evidence that at the highest political level the EBRD was putting pressure on the Bulgarian government to approve the project. E-mail communication from the office of the then Canadian Director of the EBRD to the Canadian Trade Ministry regarding mining firm Dundee Precious Metals flatly contradicts the EBRD's claims to bankwatch that the bank has had no bearing on Phase 2 of the mine's development.

The disclosed e-mail details how:

- former EBRD president Jean Lemierre pressed former Bulgarian prime minister Sergei Stanishev to approve the necessary permits, that would allow the use of cyanide leaching in Bulgaria for the first time, "and the reputation of [Bulgaria's] business environment will benefit";
- extensive lobbying and strategic voting from the Canadian office of the EBRD sought to raise awareness of "Dundee's situation" within the EBRD; and
- the underlying approach promoted by the bank's Canadian office "is to keep pressure on [the Bulgarian government] and ensure pressure comes from various angles".

3) In the case of the Centerra Gold project in Kumtor, Kyrgyzstan, rather than addressing the enduring controversies connected with Kumtor gold mine, the EBRD - together with the IFC and the gold mining company -

started the Sary-Chat Ertash initiative for the protection of the snow leopard in the neighbourhood of the mine. The project focused on local communities and the administration of the Sary-Chat Ertash Zapovednik nature reserve and aimed to show "an example of how the Kyrgyz Republic has to balance business and environmental interests" and "to improve Kumtor mining operations' long-term sustainable development". In view of the grave environmental and health impacts of the Kumtor project, focusing more efforts on improving the design and the management of the Kumtor mine would have demonstrated a more adequate and responsible role for an institution that "ranks sustainable development among the highest priorities in its activities"³.

The EBRD's approach in this case is extremely controversial, as the bank chose to work with the company to influence local stakeholders, instead of working with the local stakeholders to influence the company. This approach clearly shows how the EBRD perceives its role and leverage – more as a bank promoting its business clients in our region, rather than as a public institution with a mandate to help people in our countries in the transition process.

The EBRD is planning to develop a Minerals Mining Policy. As it does so, we hope that these case studies will be taken into account, the lessons will be learned, and that the policy will capture the need for the EBRD to act as a public institution serving the interests of local people and the environment in its countries of operation.

3 EBRD press release, "Kyrgyz nature reserve gets support from EBRD, IFC and Kumtor Gold", 3 August 2005, <http://www.ebrd.com/new/pressrel/2005/109aug3.htm>

Kumtor gold mine, Kyrgyzstan

Introduction

Cameco Corporation (Canada) is the world's largest uranium producer, accounting for 20% of global production. Cameco was formed in 1988 by the merger of two corporations: Saskatchewan Mining Development Corporation and Eldorado Nuclear Limited. In 1992, Cameco Corporation signed an agreement with the Kyrgyz government to take a stake in the Kumtor gold mine, as well as management control. Cameco and the Kyrgyz state company acquired one-third and two-thirds interests respectively in Kumtor Gold Company (KGC), the project promoter. Commercial production began in 1997. In 2004, Cameco and the Kyrgyz government agreed to transfer KGC to a new jointly owned Canadian-based company called Centerra Gold Inc. Kumtor's restructuring and the liquidation of shares left the Kyrgyz state holding a roughly 16 percent share of Centerra.

The total amount of capital construction investments was USD 452.5 million, of which loans total USD 392.5 m. A senior loan was provided by a syndicate of commercial banks:

- led by Chase Manhattan bank – USD 155 m

and the following financial institutions:

- Canadian Export Development Corporation – USD 50 m
- IFC – USD 30 m
- EBRD – USD 30 m

Total: USD 265 m

A subordinated loan was provided by:

- IFC – USD 10 m
- EBRD – USD 10 m
- Cameco Corporation (corporate loan) – USD 107.5 m

Total: USD 127.5 m

The rest of the capital construction costs were covered by:

- Investment by Cameco Corporation – USD 45 m
- Self-financing of the Kumtor project – USD 15 m

Construction cost total: USD 452.5 m.

The construction cost was confirmed by the State Commission and Government resolution No. 470 dated July 15, 1998. Gold mining operations started in November 1996. Commercial production of gold began in May, 1997. According to Centerra Gold Inc., from the beginning of its operations through 2006 (inclusive), Kumtor Gold Company produced 181.5 tons of gold.

Series of accidents and cyanide spill in 1998

Several accidents have occurred in the mine. In May 1998, nearly two tonnes of cyanide and sodium hypochloride spilled, poisoning the Barskoon river and leaving several people dead and hundreds seeking medical treatment. In July 1998, 70 litres of nitric acid spilled, and in January 2000, a mine truck dumped 1.65 tonnes of ammonium nitrate. In July 2002, a Kyrgyz worker was buried in the collapse of a 200 metre high pit wall at the mine. The accidents renewed calls for an independent, third party environmental and safety audit at the mine.

To investigate the highly dangerous cyanide spill accident of 1998, and to assess the resulting environmental and economic damage, on 22 May 1998 the Kyrgyz Government approved a resolution No. 289 "Formation of special governmental commission for investigation of the Dzhety-Oguz accident and assessment of the environmental and economic damage".

However, activists who try to protect the rights of the victims are harassed by the authorities. For example, a doctor from the local hospital, Baktigul Imankozhoeva, provided first aid to victims of the cyanide accident in the village of Barskoon and has championed the rights of the affected people, but has been pressured by the local authorities and law enforcement agencies. From 2002-2004 Ms Imankozhoeva was removed from her post and put on trial according to Article 304 of the Penal Code, on Abuse of Official Position, however the Supreme Court acquitted her. In 2008 a new criminal court case was brought against her. In spite of witnesses proving her innocence, and the fact that the complainant was pressured by police to provide a false statement - a fact also known to the regional judge - most likely Ms Imankozhoeva will still receive a conditional sentence.



Villagers demanding proper compensation for an old accident at the Kumtor mine during a blockade in August 2005

Since 1998 victims of the cyanide spill have been applying continuously to courts of the Kyrgyz Republic to get compensation for damage to their health. A new suit related to compensation for health damage was submitted to court in February 2009 and is still ongoing. So far people of five villages have been awarded compensation only for “economic” damage of 188 million KGS (about 4.4 million US dollars), however they have not received the money as the government signed an agreement with the company with no agreement from the affected people. Instead the compensation has been divided up between the Health

Ministry, different state funds, President’s Fund, and the state security service. A case is now in court, as the affected people allege that the state representative Mr Silaev could not represent the affected population in signing the agreement, because they did not give him authority to do so.

“Aid” to affected communities of 6 villages (as part of a special programme in 2006-2008) reached 50 million KGS (about USD 11.9 million), was distributed under a small credit line. All loans have been repaid, so this cannot really be regarded as aid.

Following the March 2005 revolution in Kyrgyzstan, protests against the 1998 cyanide pollution incident erupted and the period of 2005-2007 saw repeated protests by local people against the company’s non-transparent operations, negative impact on local environment, health and economy, and inequitable human resources policy.

In recent years many questions about Kumtor Gold mine have been raised in letters and appeals from the Kyrgyz Bureau on Human Rights and the Rule of Law and the Karek Public Association and they also have been presented to the EBRD during its annual meetings.

Public opinion about the Kumtor project

Since the very beginning of the Kumtor operations, the public has had a very negative opinion about the project due to:

- poor transparency in the selection of the strategic investor and adjustment of commercial and other terms and conditions of the Kumtor Project Master Agreement resulted in a governmental crisis and the dissolution of the Jogorku Kenesh (parliament) of the Kyrgyz Republic in 1994;
- lack of justification for the increase of the construction cost from USD 276.6 m stated in the 1993 feasibility study, to USD 452.5 m;
- 10-year exemption for value-added tax despite low tax income generated from the Kumtor project, as well as several other levies according to the contract;

- failure to provide equal employment conditions for foreign and local employees;
- questionable benefits for local people: USD 1 m paid to the regional fund in 1993 was not used in an efficient way, and later on these payments were small because of the project's lack of profit;
- the cyanide spill into the Barskoon River in 1998, as well as other accidents, resulted in massive damage to people's health and the region's economy;
- negative attitude of the Kyrgyz people towards the Kumtor project restructuring in 2003-2004 and the agreement between the company and the Kyrgyz Government reached in 2007-2008.
- an ongoing lack of information disclosure, the inadequacy of the government emergency response to the accidents and the corruption endemic among state officials have all contributed to the public's distrust of both the project and foreign-financed development.

Environmental problems and risks

Daily explosions at the mine have led to the destruction of glaciers, and their coverage with dust has led to acceleration in the thawing of eternal snows, irreversibly threatening clean water sources. The continuing practice of dumping dead rock on the Davidov glacier has also speeded up its thawing processes.

The visible acceleration in the thawing of the Petrov glacier also poses immense risks. Thermo-carstic processes are causing thawing of the hidden ice in the moraine dam of the lake of Petrov and thus a considerable increase in the surface area and volume of the water in the lake, which is located above the tailings dam. An increased volume of water, together with the weakened stability of the moraine may cause an outbreak from the Petrov lake. In a case of possible rupture of the tailings dam downstream, toxic emissions would contaminate a huge area within the valley of the Naryn river, including two big water basins, and could cause cross-

border impacts on the territory of neighbouring Uzbekistan.

The tailings of the Kumtor mine remain dangerous from the point of view of complying with ecological standards. In August 2006, the state inspectorate Gosgortekhnadzor of the Kyrgyz Republic carried out an in-depth inspection of industrial safety at dangerous facilities of the Kumtor mine and presented the "Results of inspection of the Kumtor mine dangerous facilities"⁴. The inspectors discovered 48 cases of non-compliance with industrial safety documents, issued 5 orders, and imposed fines on 3 officials. The inspection discovered filtration of the tailings ponds water into the grip wedge arrangement area designed to prevent the tailings dam shifting.



Spill near the Kumtor mine facilities

Results of the water test analysis downstream from the Kumtor tailings pond showed concentration of cyanides exceeding the permissible level by 17 times. This gives reason to believe that the watertight film screen on the tailings bed is not working properly. The tailings pond has been already located beyond the projected length of the watertight screen.

According to the report, "This may nullify all efforts made to prevent the dam shifting. In view of the planned operations in the Kumtor mine, the Gosgortekhnadzor of the Kyrgyz Republic suggested providing a new tailing construction plan within 6 months, and to

⁴ Federal Mining and Industrial Safety Supervision Office) of the Kyrgyz Republic, August 2006 (<http://www.ggtn.kg/ru/news/?numpages=1>)

use the recycling water supply from the tailings pond pumping the excess untreated water to the gold mining factory, not into the Kumtor River”.

Additionally, dust emissions from the passing multi-tonne trucks continue to destroy unique large forests of the Barskoon gorge, and inadequate management of used oil waste contaminates the lands that were used as pastures by the local community in the past.

Conclusions and recommendations

The Kumtor gold project is an infamous example of non-transparent, irresponsible and risky management of a mine in the Newly-Independent States by a foreign investor, with the strong backing of International Financial Institutions. The involvement of the EBRD and the IFC in the project has not contributed to significant improvements for the local community and for the environment. On the contrary, people affected by the cyanide spill in 1998 are still expecting compensation for the damage on their health, environment and livelihoods.

The risks for the future posed by the accelerated thawing of glaciers, located above the toxic tailings of the mine, only expose further the bad design of the project and the lack of adequate measures taken to address the problems.

In view of the above-mentioned problems, the EBRD is recommended to:

- make sure that the company provides constant access for monitoring of the ecological situation by state bodies and independent experts;
- carry out an independent ecological assessment, which will identify – in consultation with local stakeholders – urgent measures to be taken, in order to address the pressing threats related to toxic tailings management, the negative impact on surrounding glaciers and the risks of tailings dam rupture;
- provide a full package of project documents, including the Environmental and Social Action Plan (ESAP), to interested stakeholders,
- and to monitor the ESAP's implementation, taking into account also the view of the local community and its representatives.

Chelopech gold mine, Bulgaria

Introduction

The EBRD approved the Chelopech Mining project (no.4468) on 14 December 2004. The investor is Chelopech Mining EAD, a joint stock company incorporated in Bulgaria, which holds the mining rights and operates the Chelopech gold and copper mine in Bulgaria. Dundee Precious Metals Inc. owns, via its subsidiaries, 100 percent of the share capital of Chelopech Mining EAD.

The original USD 10 million EBRD loan was signed in April 2005 from a total estimated project cost of USD 46.9 million. The bank's funding was to be applied to as follows:

- USD 3 m senior loan in respect of environmental projects
- USD 7 m senior loan in respect of mine and mill improvement.

In July 2008 a USD 15 m increase to the original loan was improved with a revised estimate of the total project cost of approximately USD 140 m.

Description of the project

Phase 1 of the project consists of the environmental remediation, resource definition, refurbishment, modernisation and expansion of the Chelopech Mine and processing plant. The facilities have been expanded and the output increased from a mining and processing rate of 500,000 tonnes of ore per annum (tpa) at the time of Dundee's acquisition to approximately 906,000 tpa of ore in 2007 into gold/copper concentrates. This was part-financed with the bank's original loan of USD 10 m. The newer USD 15 m loan has financed the mine

upgrade and development programme through the exploration and expansion of ore mining and concentrate production capacity to approximately 1,500,000 tpa of ore into gold/copper concentrates.

The Phase 2 operation includes the possible production of copper metal, gold doré and sulphuric acid through the possible installation of a Pressure Oxidation facility ("POX") and related cyanide leaching processing capacity. The EIA procedure for the expansion project of Chelopech Mining was started in 2005 with public hearings taking place in Chelopech and Chavdar in December that year.

In the spring of 2006, following several protests by environmental organisations and local communities, the Chelopech Mining project was blocked for two years. In July 2008 the EIA was approved after the government and the company agreed to increase the concession fee and to build in partnership the cyanide installation. Environmental NGOs appealed against the EIA approval in the Supreme Administrative Court and in November 2009 the court ruled in their favour, cancelling the EIA. Meanwhile Chelopech Mining applied for a complex IPPC permit, which was granted in September.

At the time of writing the decision is subject to an appeal to the Administrative Court in Bulgaria and a complaint to the European Commission.



Overflowing tailings at the Chelopech facilities drowns vegetation

Problematic issues surrounding the project

The problems with the project are best divided into its two phases.

Phase 1

The project was categorised as Category B/1, thus allowing much lighter standards for monitoring and evaluation: the current operation of Chelopech Mining includes a processing facility for enrichment of the ore into concentrate (#14, Appendix 1 of the EBRD 2008 Environmental and Social Policy).

From documentation provided by the company, which is not publicly available, it is clear that a number of activities from so-called Phase 1 have been delayed because of the delayed administrative permitting process. The main problem is that significant parts of those permits are the subject of the EIA documentation for activities which belong to Phase 2. ie. parts of the environmental improvement envisaged under the original loan cannot be realized without the approval of the cyanide leaching facility and the attendant TMF for the cyanide waste.

As a result the EBRD financing for the environmental improvements strongly depends on the approval (at national level) of the cyanide installation and TMF thus involving the bank in a project which it has

not approved and which has not been even discussed within the institution.

One of the clearest examples is the non-compliance with the Water Discharge Permit. Since the start of the operations in 2005 several components of the permit have been breached on a monthly basis, thus leading to monthly penalties for the years 2005, 2007 and 2008 worth thousands of BG Leva, but the Company has always stated during this period that the only solution is the construction of the new TMF for cyanide and the introduction of the closed circuit waste water system related to it.

Phase 2 – introduction of cyanide leaching technology

The region of Chelopech and the Topolnitsa River is designated by a Decree of the Council of Ministers from 1994 as an environmental and health risk hot spot, re-confirmed by this highest governing body of the state at the end of 2008. These documents recommend investments only for environmental improvement but not further expansion of the mining industry, which would create additional risks and impact on the population.

According to the EIA documentation the cyanide installation is designated as BAT. In the IPPC documentation this claim is confirmed, but at the same time it is clearly stated that because of the extremely high content of arsenic in the ore, the only operating installation with such indices is the one of the company Dodge Phelps in Arizona, USA and this installation is an experimental one with the capacity of 16 000 tpa. The installation of Chelopech Mining is planned for a capacity of 220 000 tpa.



Members of the Petitions Committee visiting the Chelopech site in 2008

The November 2009 ruling on the decision on the EIA by the Supreme Administrative Court rejected the definition of the proposed cyanide leaching technology as BAT.

According to our understanding the EIA Report is incomplete and inaccurate. There are serious gaps in the scientific sources used for the assessment of the current environmental and health situation in the area. Also the increase of ore production to 3 m tpa is an essential part of the investment proposal but alternatives were assessed only for the processing of the ore. The zero alternative section is mentioned only in passing without the necessary elaboration and thus does not fulfill the requirements of the EIA Directive. The lack of careful analysis of the alternatives and the zero alternative demonstrates a bias towards the investment proposal and a disregard for the advantages of continuing operations with the existing technology. It underestimates the importance of significantly decreasing the operational life of the mine, which will have grave social impacts, namely unemployment in a region dependent on mining. While the current operation plan of the mine is planned at 900 000 tpa for a period of 25 to 28 years, with the increase of the ore production to 3 m tpa the deposit will be exhausted in 8 to 10 years.

The 2-year delay of the EIA permit was partially due to strong public opposition against the introduction of cyanide leaching technology. This opposition flared up additionally due to the lack of proper public consultations during the EIA process: the

public hearings were conducted only at the nearest two villages to the mine – Chelopech and Chavdar - with a total population of 3000 people, of whom a significant number depend on the mine for their work.

The Espoo Convention procedure of transboundary consultations with the Greek communities living on the Maritza River (named Evros in Greece) was totally neglected both by the Ministry of Environment and the Company.

At the end of 2007 a Petition regarding the lack of public consultations was submitted to the European Parliament. Another petition supporting the legislative cyanide ban was signed by 14 432 citizens from the capital Sofia and the cities Plovdiv and Pazardjik situated on Maritza River, downstream of the Topolnitsa River and Chelopech. The latter was submitted to the Bulgarian parliament in September 2008 and resubmitted in November 2009.

As a result of the aforementioned petitions, members of the European Parliament's Petitions Committee visited the tailings dam of Chelopech on 29 October 2008.

Kathy Sinnott, the Vice-chairwoman of the Petitions Committee stated at a press conference after the visit: "The local tailings dam is so overfilled that the first torrential rain might result in the dam's spilling and poisoning of the drinking water of two m people living downstream on the Maritsa River."

Despite the strong reservations of Chelopech Mining regarding the competence of the MEPs and the content of the draft report from the fact finding visit to Bulgaria, the final report was approved by the European Parliament after a review on 11 February 2009 with a recommendation that the Bulgarian Government evaluates and analyses the pollution problems and the impact on the health of citizens in the concerned regions.

The community of Chavdar already has two tailings ponds for mining waste within a 3

km radius. Phase 2 of the Chelopech mining project proposes the construction of a third one, for cyanide waste, at an unacceptable proximity (1300 m.) to the village and within the sanitary zone of its drinking water source. In 2005 the Municipal Council of village Chavdar issued a negative statement on the investment proposal mainly because of the close proximity of the cyanide TMF to the water source zone of the village.

The EIA approval by the Environmental Ministry followed a decision by the Health Ministry to reduce the required distances between industrial installations and settlements. The TMF proposed in the EIA fails to comply with Regulation 7 of the Ministry of Health on the required distances between industrial installations and settlements. The decision of the Health Ministry allowed a reduction of the distance, however, it involved a conflict of interest: – the same civil servants were first hired by the Company to write the section of the EIA about the health risks, and afterwards signed a positive statement on the EIA as state employees.

The public consultations on the IPPC permit in April-May 2009 were flawed again – the documentation was available only in two paper copies in Sofia and Chelopech. The electronic version was initially refused and was provided through the access to information procedure only 5 days before the deadline for statements. The interested public from the Maritza River valley had to travel 100 km to Sofia in order to access the documentation.

Despite the advanced stage of permitting, no Transport Plan for the cyanide has been presented. Bearing in mind that the majority of accidents concerning cyanide are due to transportation it is extremely necessary that this document is widely consulted with the communities along the route.

The EBRD's role in resolving the issues raised by the project

The EBRD has been informed about problems with the project since 2006 through several letters and issue papers to the management and Board of Directors. Presentations have been held at the EBRD AGMs in 2008 and 2009. Separate meetings with the Environmental and Evaluation departments and Country Directors took place at the EBRD headquarters in December 2008.

The Chelopech project was included in the 2009 list for evaluation and a visit by the Evaluation Department took place in July 2009. The evaluation team was open to discussion with civil society, however the EBRD's policy of non-disclosure of evaluation reports makes it difficult to assess the extent to which civil society comments have been taken into account.

Conclusions and recommendations

Chelopech Mining strives for a reputation as a responsible foreign company that invests in environmental and technological improvements. However, its present operations are not up to the highest standards and the delays in the permitting of the proposed expansion project cannot serve as an acceptable excuse for non-compliance with the discharge permit and the incomplete implementation of Phase 1 goals. Considering that the area where the company operates is an environmental "hot spot", polluting and paying fines for three full years cannot be underplayed and considered as responsible investor's behaviour.

The shortcomings of the EIA and the IPPC procedures of the cyanide project of Chelopech Mining also show that the company, with the blessing of the Ministry of Environment and Waters, has done only the minimum in regards to information and consultations with the public downstream from the mine. The recent ruling of the

Supreme Administrative Court confirmed that the scope of the public consultations on the EIA was too narrow. The limited and flawed public consultations on IPPC application are presently the basis of an appeal to the Administrative Court and a complaint to the European Commission.

In view of the above, the EBRD is recommended to sharpen the monitoring of the implementation of Phase 1 and to not invest in Phase 2 of the Chelopech Mining project.

Deno gold mine, Armenia

This report by EcoLur is a reflection of the public monitoring conducted in May 2009 by CEE bankwatch Network, and in November 2009 by Information NGO EcoLur, along with:

- *local non-governmental organizations "For ensuring environmental safety and the development of democracy" and "Khustup" Chairman of the Union of Greens of Armenia, Hakob Sanasarian,*
- *Seyran Minasyan, representative of the Center for Monitoring Environmental Impact of the Ministry of Nature Protection of Armenia,*
- *and with the assistance of the Kapan Aarhus Center.*

Introduction

Dundee Precious Metals holds 95 percent of Vatrin Investment Limited, which holds 100 percent of the Deno Gold company. On December 12, 2005 the Board of Directors of the EBRD approved a 4.5 million USD corporate loan to Deno Gold Mining Company (number 37490) "for equipment purchases as part of initial mining and environmental improvements"⁵. In 2006 Deno Gold proposed another project with a total cost of USD 75 million, USD 25 million of which was expected to come from the EBRD in the form of medium-term credit. The project passed final review, but did not get to the final Board approval stage.

Due to unfavourable metal prices, in early November 2008 Deno Gold temporarily suspended its operations. DPM's third quarter financial reports in 2008 stated: "Discussions with Armenian government officials and EBRD representatives are ongoing to ensure a smooth transition and to maintain positive and constructive relationships." On 31 March 2009 DPM

5 The PSD on the EBRD web site was removed from the Bank's web site in September 2009, after the project had no longer been active for 3 years.

announced the recommencement of its Armenian operations following "the very positive regulatory and operational advances made by Deno Gold Mining", among which were "the finalization of its agreement with the Armenian government on the extension of its Shahumyan mine license and other critical aspects of its License Agreement"⁶.



Dry tailings at the Geganush tailings facilities

Shahumyan community

The Shahumyan community is located right above the Shahumyan gold and polymetallic deposits exploited by the company. After exploration efforts confirmed the potential of the deposit at the start of 2008 the company confirmed its plans to start open cast mining there. The planning process for land purchase and resettlement was initiated, but then stopped later in 2008 following a drop in metal prices. Since then the metal prices have risen again, but the company continues to deny compensation to residents and to move forward with the resettlement process.

The open-cast mine has not yet been established, but underground mining is ongoing below people's houses, and Shahumyan people complain that their houses are being damaged by the underground explosions. The ground in the village has subsided, forming big craters and

6 Press Release of Dundee Precious Metals, Marketwire - March 31, 2009

damaging road and water drainage infrastructure. It is dangerous to walk in Shahumyan. "I do not like to walk here. You can be buried alive under a 30-metre layer of earth," says the chairman of the Khustup NGO, Vladik Martirosyan.

Shahumyan resident Seyran Hakobyan, who is handicapped, said: "We were given compensation for the garden, and we do not know if we will receive anything else, or not. We live in a house that is about to collapse. If something happens to the house we will be on the street."

In October the local NGO "For ensuring environmental safety and the development of democracy" filed a lawsuit in a court of general jurisdiction of the Syunik province against the company Deno Gold Mining, alleging a threat to human life, health and property, to protect the Shahumyan community's interests. The court refused to accept the suit saying that the materials provided were not sufficient to prove a threat to lives and health.

According to legal consultant Arthur Ghazarian, the court was put under pressure. "The court adopted a legally incorrect decision, as previously the same court, on the basis of the existing evidence, suspended the activities of the company in Shahumyan because of the threat to life and health", he said.

Seyran Avetisyan, representative of the regional administration has on the other hand tended to support the company, suggesting that the situation in the community Syunik is not that catastrophic, that the company has cooperated with the public, organized public hearings on the issue of building a new tailings pond in Geganush and paid compensation to residents of Shahumyan. However, to the question from the local organization on whether he considers that "there could be victims in Shahumyan", Avetisyan said: "Yes, there is such a possibility and the question should not be removed from the agenda."

Geganush village

The new Tailings Management Facility of Deno Gold Mining is in fact an upgraded old facility, regarded by the company as a temporary arrangement, which allows the company "to operate within good practice guidelines for several years depending on production rates"⁷. The facility with a closed water cycle is one of a kind in Armenia, setting a good standard for the industry, according to Deno Gold. Geganush people have questioned to what extent this 'new technology' is any good, any improvement: The bankwatch visit to the site in May 2009, observed that only about half of the tailings were covered with water, while the remaining part was uncovered. Geganush village residents complained that in dry and windy weather the uncovered toxic tailings contaminate their air, cover their gardens and cars, and settle in their homes and yards.

Kamo Avanesyan, head of the village administration of Geganush, believes that the company should take responsibility and eliminate these effects. "The tailings facility is new, but the situation has worsened. These tailings are dangerous for our community", he says.

"When a wind comes up, all the dust from the tailings is upon us and Kapan Look at the car. You see, after the rain the flying particles concentrate on surfaces... We all want to leave, but have no money .. 80% of our vegetables have failed. If you eat what is still growing - you might get sick ...", - say Geganush inhabitants.

Geganush residents were against the construction of the tailings facility and collected over 90 signatures (287 people live in the village) that were handed to the company representative during the round table discussions on the TMF upgrade. According to Ashot Avagyan, coordinator for the Aarhus Center in Kapan, the public hearings were not held properly, as no access

7 Reply from Dundee Precious Metals to a letter from Bankwatch to the EBRD, forwarded by EBRD on 28 September 2009.

to project documentation was granted, no protocol was kept and no commitments were recorded. Furthermore, the opinion of the Geganush villagers was not taken into account.

The Geganush community representatives complained further that compensation was received only by those owners whose land was directly under the tailings pond itself. There is a small buffer zone, and those who have land next to the pond are not able to earn their living. "We had thousands of walnut trees on these lands," the village head Kamo Avanesyan says.

"I've had three newborn calves this year, and all of them died - they could not stand on their feet and could not drink. I tried everything, but they died. I've kept cows all my life and have not seen such a situation before", said the farmer Hovik Emchyan.



Concerned villagers in the Geganush community

Syunik community

Before the upgrade of the Geganush TMF the company was dumping its tailings at the Artsvanik facility owned by the Zangezur Molybdenum mine. Accidental discharges of Demo Gold Mining's tailings into nearby streams took place several times. As a result, the land of the Syunik community were poisoned, village water was contaminated, livestock died, and local children started suffering from skin peeling off their hands. The State Environmental Inspectorate reacted only after the media raised the issue. Deno Gold Mining was fined 10 million Drams (about USD 25 thousand). The sum

was allocated to the state budget, and residents were left with their troubles.

The representative of the environmental state inspection Rubik Hovhannisyan acknowledged that, indeed, Deno Gold Mining was fined for the pollution of Syunik. Despite assurances from the inspectorate that the community also received compensation, discussions with residents during the November monitoring visit has shown that residents of the community have no idea about compensation, and do not want to talk about the case. "We do not know about any compensation" was a typical response by people from Syunik.

In addition to health risks, residents found themselves in dire economic straits. Agricultural products cannot be sold on local markets, as everyone knows about their origin and heavy metal contamination. "Who will buy our tomatoes? Only wholesale buyers. Everybody here knows us in person and does not buy them"- said a resident of the village. Residents are forced to give the harvest to wholesale buyers and canneries for the cheapest prices. These buyers are aware of its origins, but make use of the absence of state control over the quality of food.

No clean up was carried out after the discharges and within the community itself dry tailings are not covered, nor was any reclamation done in the area. According to data from the Eco-Noosphere Studies Center of National Academy of Sciences of Armenia soil samples taken in the area exceed the maximum permissible concentrations (MPC) of copper by 6 times, molybdenum by 4 times, nickel by 2.4 times, mercury by 30 times, and cadmium by 10 times. Norayr Aghaian, a representative of Deno Gold Mining plant has said that the company does not emit molybdenum and the data obtained are questionable.

Seyran Minasyan of the Monitoring Centre of the Ministry of Nature Protection has stated that it is difficult to determine now which company is responsible for the pollution. He noted that the community of Syunik is

influenced by accidental discharge from the Artsvanik tailings facility operated by the Zangezur Molybdenum Mine, tailings from the Shahumyan gold and metal fields developed by Deno Gold Mining and previous accidental discharges by Deno Gold Mining. At the same time, the Monitoring Centre itself has not analyzed samples of soil, but only air and water.

Public consultation and transparency

According to the EBRD⁸, “DGMC has also implemented a number of initiatives which target local social needs, engaging the local community, promoting entrepreneurship, regularly informing stakeholders on progress in the mine, promoting transparency and activity.”

Additional to equipment purchases the financial support from the EBRD covered the development of an Environmental Action Plan (EAP). DPM said that the “the EAP was developed with the financial support from the EBRD as a living document over the last two years”⁹.

On the other hand the EBRD said that “stakeholder engagement was part of the Environmental Action Plan (EAP) and it was verified, monitored and found fully satisfactory”.

However, information meetings organised by Deno Gold Mining in 2008 with local NGOs, local community representatives and media were based on presentations, but not on access to any project documentation or the EAP.

The NGO “For ensuring environmental safety and the development of democracy” eventually received what is said to be the

8 The PSD on the EBRD web site was removed from the Bank’s web site in September 2009, after the project had no longer been active for 3 years.

9 Reply from Dundee Precious Metals to a letter from Bankwatch to the EBRD, forwarded by EBRD on 28 September 2009.

EAP through an official request to the Ministry of Nature Protection.

However, according to this organization, and an assessment by the Union of Greens of Armenia, this document cannot be the EAP, mainly because there are no measures to reduce the impact on the environment. For example: Armenian environmental legislation obliges the company to carry out afforestation to double the amount of forest in the zone of the upgraded TMF. However, this was not included in the so-called EAP.

The consultation process with the local community cannot be regarded as a transparent and inclusive process. For example no minutes of the above-mentioned information meetings were kept, where any agreements between the public and the company would be written down as binding commitments. For example, the company promised that all compensation would be finished by the end of 2008, and that the 2007 environmental audit of the mine operations would be made public. Nonetheless, with the temporary suspension of the mine in November 2008, these promises were forgotten.

At the meetings, local people were sometimes represented by their elected officials, and not invited to attend and express personal positions. This practice reinforces the opinion that experts should decide for the non-educated population – an idea rejected by the principles of democracy that western business, national and local governments and IFIs, such as the EBRD, should promote in the transition period.

With the support of the OSCE, initiatives have been developed for the 30 rural communities, needs have been identified and the cost of financing by the company have been determined. However, in reality, the initiative has not been fulfilled: the company has refused to pay for the needs of communities.

EcoLur supports the local community and is conducting an information campaign in defence of the environmental and social rights of the local population (see www.ecolur.org, hot spot “mining”).

Conclusions and recommendations

In conclusion it should be stressed that communities dependent on mining and affected by historic mining activities during Communism had different expectations of the processes of democratisation and transition to a market economy. On one hand there are the severe environmental pollution and health problems in mining regions, and on the other hand is the need for significant investments for the modernisation of mining technology. On the side of investing in restructuring and innovations in order to ensure profitable operation and continued employment for mining communities, some efforts and progress can be seen. However, on the side of environmental remediation and improvement of the living conditions of local communities, the progress is less tangible due to the lack of clearly assigned responsibilities between the state and investors, and among investors that operate in the same area. The EBRD supports a number of projects involving environmental remediation and improvements, however, it has yet to clearly demonstrate the success of these investments.

Additionally, new technologies in gold mining bring new risks for the environment, as their primary purpose is the increased efficiency of metals extraction (i.e. profit for the mining company).

The cyanide leaching of gold technology is an example of an innovation that has proven benefits, but at the same time carries significant risks for the environment and human health. The 1998 accident when two tonnes of cyanide and sodium hypochloride spilled into the Barskoon river in Kyrgyzstan is only one illustration of these risks. The infamous Baia Mare cyanide accident from January 2000 in Romania, which devastated the Tisza river in Hungary, is another. Smaller accidents are another point of concern, as they may pass unnoticed by state authorities, thus preventing adequate

interventions for clean up, environmental and human health protection.

Other technological solutions in mining proposed by the EBRD's clients can also be deficient – eg. the flawed design of the Kumtor mine, and improvements can be limited by inadequate management – eg. dry tailings on the new model Geganush TMF of Deno Gold in Armenia.

Therefore it is in the interest of the EBRD to ensure that its projects – even when ranked as B category projects (though we still believe that this project should be categorised as 'A') – are subjected to the best possible scrutiny of state institutions, local communities and the interested public. All too often the EBRD relies on the imperfect decision-making mechanisms in our countries, which result in imperfect projects being approved without careful consideration of alternatives and without proper public information and consultation procedures.

Recommendations

As a result of the problems presented in the three case studies here, and as the EBRD moves forward with the development of its Minerals Mining Strategy it is recommended to incorporate the following points in its strategy.

The EBRD should:

- avoid the phasing of projects and combining environmental remediation with expansion in projects,
- review its environmental categorisation of extractive industries projects
- only finance projects for which formal information and consultations were carried out with all affected or potentially affected communities, according to the legal

requirements of national and international legislation,

- improve monitoring and reporting to the public on the benefits for affected communities from mining projects, including full disclosure of results to affected communities,
- reduce reliance on project promoters' information and actively seek more independent input,
- establish "no-go zones", eg. no mining projects on glaciers, Natura 2000 networks, IUCN Category I-IV protected areas, UNESCO

World Heritage Sites, ancient forests as defined by the FSC and areas identified in the World Bank Extractive Industries Review,

- not finance cyanide projects in countries with ineffective regulation, including capacities for handling large scale accidents,
- not finance projects where the EBRD is unable to demonstrate significant additionality in term of addressing environmental and social issues related to the project and/or where there is private funding available for such a project.

EBRD promotion of its gold mining projects promises the introduction of innovative technology, as well as setting high business and environmental standards. Yet experience has shown that local communities have paid a high price for the projects, especially in Kumtor, Kyrgyzstan, where several people died and hundreds needed hospital treatment after a cyanide spill in 1998.



CEE Bankwatch Network
Na Roczesti 1434/6
Praha 9, 190 00
Czech Republic
E-mail: main@bankwatch.org
<http://www.bankwatch.org>