Armenia’s ‘Assets-for-Debt’ Hinders Economic Decoupling from Russia (Part One)

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Executive Summary: The 2002 “Assets-for-Debt” agreement, concluded in exchange for settling approximately $93 million of Armenia’s external debt, marked the start of a gradual transfer of control of a significant portion of the country’s strategic infrastructure to Russia.

- The deal gradually expanded to include sectors such as natural gas, electricity, railways, telecommunications, and nuclear energy, laying the foundation for Russia’s economic influence in Armenia over the past two decades.
- This high level of Russian dependence, dominance, and monopoly over Armenia’s economic infrastructure has made Armenia’s exit from Russia’s economic orbit—including a potential withdrawal from the Eurasian Economic Union and expanded relations with the European Union—extremely difficult and complex.

Since Armenia’s independence in 1991, no government has made a greater effort than Prime Minister Nikol Pashinyan’s administration to reduce Russia’s geopolitical influence. On October 12, Radio France International published an interview with Armenian Prime Minister Nikol Pashinyan, in which he says Armenia’s relations with Russia will not be the same as before, especially as it moves forward with its peace process with Azerbaijan and seeks stronger ties with the European Union (Facebook/nikol.pashinyan; RFI, October 12). Over the past few years, Armenia has distanced itself from Russia’s security and political umbrella—including the suspension of, and possible withdrawal from, the Collective Security Treaty Organization (CSTO)—and sphere of economic influence. Withdrawing from the Eurasian Economic Union (EAEU) could lead it to pursue deeper relations and even membership with the European Union. This transition, however, is also influenced by the 2002 Assets-for-Debt Agreement—an arrangement under which, in exchange for settling approximately $93 million of Armenia’s external debt, ownership of a substantial portion of the country’s strategic assets and infrastructure in the energy, industrial, and technology sectors was transferred to Russia (Eurasianet, May 7, 2003; see EDM, June 4, 2006).

A large portion of this debt consisted of Armenia’s obligations to Russia, arising mainly from imports of nuclear fuel, natural gas, and other energy resources, as well as debts inherited from post-independence economic cooperation. Rather than repaying the debt in cash, Yerevan accepted Moscow’s proposal to transfer state-owned assets in exchange for debt settlement—a model Russia was pursuing in several other former Soviet republics to convert financial claims into strategic influence.

The final agreement was signed in November 2002 during the visit of then Russian Prime Minister Mikhail Kasyanov to Yerevan (Armen Press, October 7, 2002). Under the agreement, ownership of five major Armenian state assets was transferred to Russia, including the Hrazdan Thermal Power Plant (particularly its fifth generating unit, which was considered one of the country’s most important electricity-producing facilities), the Mars electronics factory, the Institute for

Mathematical Machines Research, the Institute of Automated Control Systems, and the Institute of Materials Research (Press TV am, August 4, 2025).

At the time, then-President Robert Kocharyan's government presented the agreement as an economic necessity and a practical solution to reduce debt pressures, stabilize the energy sector, and attract Russian investment and technology. Critics, both within Armenia and among external observers, warned that the agreement was not merely a financial transaction but the start of transferring control of a substantial portion of Armenia's critical infrastructure to Russia (see EDM, April 6, 2006). The Assets-for-Debt Agreement is not simply a short-term solution to Armenia's debt crisis. Rather, it marked the start of a broader process that gradually expanded to other vital sectors and strategic infrastructure, including telecommunications, railways, natural gas, electricity, and nuclear energy.

In the telecommunications sector, Mobile TeleSystems (MTS) OJSC, Russia's largest mobile telecommunications operator and the largest in the Commonwealth of Independent States, acquired an 80 percent stake in International Cell Holding Ltd., which held a monopoly over Armenia's fixed-line telephone and internet services. This company became the indirect owner of 100 percent of K-Telecom, Armenia's largest mobile telecommunications operator operating under the VivaCell brand (Azatutyun, September 14, 2007; ARKA News Agency, September 15, 2007). As a result, Armenia's largest mobile network operator remained under Russian ownership for more than fifteen years (until 2020). For the Kremlin, this development ensured an economic presence in one of the country's most profitable service sectors, including fixed-line telecommunications, internet services, and a substantial segment of mobile communications. It also provided Russia with influence over Armenia's digital communications infrastructure.

On February 13, 2008, Armenia signed an agreement transferring full operational control of the country's state-owned railway system to the South Caucasus Railway company for 30 years, a wholly owned subsidiary of the Russian state-owned company Russian Railways (RZD). (ARKA News Agency, February 10, 2008; Port News, February 13, 2008). Structured as a concession agreement, the contract transferred responsibility for operating, managing, investing in, and developing Armenia's railway network to the Russian side, with the option—by mutual agreement—to extend the concession until 2048. The Armenian government retained legal ownership of the railway infrastructure, but it effectively delegated operational control, investment decisions, tariff setting, and planning for the railway network's development to the Russian operator. As a result, without becoming the formal owner of this strategic infrastructure, Russia gained long-term effective control, consolidating its influence in one of Armenia's most vital transportation sectors.

The most significant expansion of Russia's influence, control, and dominance over Armenia's infrastructure occurred in the energy sector. Gazprom gradually gained full control over natural gas imports, transmission, distribution, and sales in Armenia. This process was completed in 2013, when the remaining 20 percent stake in ArmRosGazprom was transferred to Gazprom and the company was subsequently renamed Gazprom Armenia (Public Radio of Armenia, December 2, 2013). Since then, Gazprom has not only served as Armenia's exclusive supplier of Russian natural gas but has also owned the country's gas transmission network, pipelines, storage facilities, and domestic gas distribution system. In practice, the company controls every segment of Armenia's natural gas value chain. Russia supplies virtually all of Armenia's natural gas needs, exporting about 2.7 billion cubic meters (bcm) in 2025, which accounted for more than 82 percent of Armenia's total gas consumption (Interfax; The Moscow Times, September 14). By contrast, Iran's natural gas exports to Armenia under the "gas-for-electricity" agreement typically amount to around 300–500 million cubic meters (mcm) per year. Russian gas exports to Armenia are about five to seven times higher than Iran's (see EDM, November 20, 2024).

Armenia’s electricity sector also gradually became a principal arena of Russian economic influence, though this influence followed a different pattern than in the natural gas sector. This process began with the 2002 Assets-for-Debt Agreement (see EDM, January 4, 2002; Azatutyun, January 30, 2004). In the following years, Russian companies—most notably Inter RAO UES—acquired control over several hydropower plants as well as Electric Networks of Armenia (ENA), the country’s electricity distribution network.

During 2000–2015, Russian state-owned companies such as Inter RAO UES dominated Armenia’s electricity sector, a period marked by direct Russian influence. In 2015, Electric Networks of Armenia was acquired by Tashir Group. Tashir is private, but it is a Russian-based holding company owned by Samvel Karapetyan, an ethnic Armenian businessman with Russian citizenship (Civil Net, October 1, 2015). Russian influence did not disappear. Instead, control of Armenia’s electricity distribution network shifted from a Russian state-owned enterprise to a private actor closely connected to Russia’s economy. Tashir Group is a private Russian holding company, not a state-owned enterprise like Gazprom, Rosatom, or RZD. Nevertheless, Tashir Group’s extensive ties to the Russian market and financial system have kept Moscow’s economic influence over Armenia’s electricity sector substantial.

A similar pattern unfolded with the Hrazdan Thermal Power Plant, located in the city of Hrazdan, the administrative center of Kotayk Province, about 50 kilometers (31 miles) north of Yerevan. Built during the Soviet era in the 1960s, the plant is one of Armenia’s most important thermal power stations because of its central position in the country’s electricity grid. In 2015, Tashir Group acquired ownership of Units 1–4 of the plant from Inter RAO (Tashir, September 3, 2015; Azatutyun, December 6, 2019).

Ownership shifted from a Russian state-owned enterprise to a Russian-based private holding company. Gazprom Armenia still owns Unit 5 of the Hrazdan Thermal Power Plant. As a result, Russian influence over this strategic infrastructure did not disappear entirely. It has continued through a complex combination of a Russian private holding company and the state-owned company Gazprom.

Armenia’s dependence on Russia in the energy sector is not limited to natural gas or thermal power plants. It also has strategic dimensions in nuclear energy. The Metsamor Nuclear Power Plant, which supplies about 30–40 percent of Armenia’s electricity, operates two Soviet-designed VVER-440 reactors (Водо-водяной энергетический реактор-440, *Vodo-vodyanoi energetichesky reactor*-440) and remains dependent on Russia’s state-owned Rosatom and its subsidiaries for nuclear fuel, engineering services, major maintenance, spare parts, and safety upgrades. In 2014, Yerevan and Moscow signed an agreement to extend the operational lifespan of the plant’s Unit 2 until 2026. Under this agreement, Russia provided Armenia with a $270 million state loan and a $30 million grant to implement a modernization and safety enhancement program at the facility (Armen Press, November 1, 2017; Anadolu Agency, June 27, 2019). With the nuclear regulatory authority’s approval, the Armenian government extended Unit 2’s operational life until 2036 after completing a substantial part of the modernization program. The plant’s continued operation remains dependent on Russian supplies of nuclear fuel, technical services, and support.

This high level of Russian dependence, dominance, and monopoly over Armenia’s economic infrastructure has made Armenia’s exit from Russia’s economic orbit—including a potential withdrawal from the EAEU and expanded relations with the European Union—extremely difficult and complex. Without stable, reliable alternatives, reducing or ending Russia’s dependence, dominance, and monopoly over Armenia’s economic infrastructure could trigger significant consequences, including severe economic shocks, Russian sanctions, and pressure.

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