

*Emil Avdaliani*

## **Nobels' Activities in Georgia\***

In the 19<sup>th</sup> century Georgia the development of economic relations, based on the principles of capitalism, brought many foreign entrepreneurs and investor companies to the country. The following story is a perfect example of this process and concerns such giants of the financial world as Nobels, Rotschids (mightiest financial family in Europe) and Rockfellers (founders of the biggest American oil company “Standard Oil”) families. Quite often the competition was unfair and breaching of laws usually brought about long court litigations hindering business development in Georgia. Agreements were being made between Nobels and Rotschids, Rockfellers and Rotschids, and sometimes even between Nobels and Rockfellers. Everything was being done to destroy the third party. The battle of these three families has gone down into history as the so called “Thirty Years War”.<sup>1</sup> Yet, the most important thing is that the cause of everything was the Transcaucasian railway and the oil.

### **Nobels: Creation of the Business Empire**

Nobels started their business in Russia in the 1840s, which, however, turned out to be financially unsuccessful. With Emanuel Nobel leaving Petersburg, his sons Ludwig and Robert decided to remain (Alfred returned to Europe to work on nitroglycerin). The two brothers opened in the Russian capital a military factory meeting the tsars' orders by producing cannon shells, barrels and rifles. The industry was entirely dependent on foreign raw material and in order to find new resources and make the production cheaper Robert travelled in 1873 to the South Caucasus.<sup>2</sup>

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<sup>1</sup> R. W. Wolf. The Russian Rockfellers. 1976, pp. 84-96.

<sup>2</sup> D. Yergin. The Prize: the Epic Quest for Oil, Money and Power. 2003, p. 51.

The Georgian National Archives have a number of interesting documents concerning the Nobels and their activities in Georgia. One of them attests to how in March 1873 Robert addressed the local authorities in Tiflis (Tbilisi) persuading them what benefits the newly invented dynamite would have brought at constructing railroads, clearing rocky regions, or while using it underwater. Supporting his case by appealing to the Caucasus' rocky landscape and wide use of dynamite across the world, Robert was asking for the permission to import 500 pounds of dynamite to the Caucasus on a tax-free basis. Although Robert was the first of the Nobels visiting the Caucasus, it was not him, but Ludwig who eventually had become the founder of the Russian oil industry. In 1875 he bought in Baku a kerosene plant and oil-rich territories for 8000 rubles from the "Tiflis Society". In May 1878 by the special imperial degree of Alexander II the Petroleum Production Company Nobel Brothers, Limited, was formed, known as the Branobel, with an initial capital fund of 3 million rubles.<sup>3</sup>

During the 1880s Nobels transported oil and kerosene from Baku to Europe either via the small Georgian city of Poti or through the Baltic Sea ports. Using these routes involved huge financial costs and therefore oil industrialists had to find a new much cheaper way. Batum (nowadays Batumi) was considered the best option. However, until the city was in Turkish hands, the route could not be used. The situation changed dramatically after the Russo-Turkish war of 1877-1878 with Batum reintegrated to Georgia thus creating favorable conditions for oil export through the city.

The completion of the Batum-Samtredia railway connected Batumi directly to Tiflis considerably increasing the city's industrial and export growth prospects. The Berlin Peace Congress of 1878 also contributed to this process by declaring Batum as a "porto franco" – "free port". Nobels', Rotschids', German or English investments flowed into the city. (It is also worth noting that Baku's cheap kerosene made it eventually unprofitable to produce it in Georgia and, as evidence suggests, by 1902 this industry entirely disappears in the country).

### **"Thirty Years War"**

In the 1870s Russian industrialists Bunge and Palashkovsky began constructing the Baku-Astrakhan-Volga railway. Since the project was financially highly burdensome and the work was going quite slowly, Bunge and

<sup>3</sup> R. W. Wolf. *The Russian Rockfellers*, pp. 74-84.

Palashkovsky contacted the French branch of the Rotschild family. The latter being involved in railway business for decades (constructions of first railways in Europe were related to Rotschilds' names) not surprisingly responded positively. Sensing what could have brought these new sources of kerosene and oil it was in Rotschilds' immediate interest to connect Baku to Batum and use the latter as an extensive export route.

The Nobels too agreed to the idea. Ludwig was writing from Baku to his brothers Alfred and Robert in Petersburg: "From all the routes available for oil transportation from Baku I recommend, to choose the one through Georgia, because of friendship and mutual loyalty existing between Georgians and Azeris for centuries. For us, foreigners, this factor is of considerable importance. Since all other routes involve much more danger, and because there are no such favorable conditions elsewhere except for both Baku and Tbilisi, I'm sure that we should choose exactly this route." Finally, Ludwig triumphed. It was agreed to export hydrocarbons to Europe according to his plan - by Baku-Tiflis-Batum railway for the completion of which the necessary 10 million U.S. dollars were provided by Rothschilds. They also distributed small credits for the creation of oil refineries in Batum.

Nobels were well aware they would not be able to cope with Europe's biggest financial power. Rotschilds' interests were primarily in banking and investments, and less so in overall management. With Nobels being against such speculations, the clash of two business ideologies was inevitable. The situation came to a head in 1881, when after the assassination of the Russian emperor Alexander II, an imperial decree was issued prohibiting the Jews from buying or renting any land in Russia. However, the law did not hinder the Rotschilds from carrying on with their plans and in 1883 the Baku-Tiflis railway was opened. Rotschilds also established "*Société Commerciale et Industrielle de Naphte Caspienne et de la Mer Noire*", more known by its Russian abbreviation – БНІТО (BNITO) for more effective competition with Nobels.<sup>4</sup>

With "BNITO"'s successes and its establishment as a number two on the Russian oil market, Batum was transformed into a veritable business centre. British ships converted into tankers transported kerosene and oil to Fiume and Marseille. Rotschilds also owned the biggest factory in Batum producing cases for oil and kerosene transportation. Their business activities were partly hin-

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<sup>4</sup> <http://www.branobelhistory.com/themes/oil-production/the-war-over-the-oil-market/>.

dered by the imperial revocation of Batumi's "porto franco" status in 1886. The city once again had become a military port.

Nobels avoided engaging into a life-or-death war with Rotschilids. Alfred (living at the time in Paris) was well aware that his brothers could end up on a loser's side. By his initiative and support a conference was convened in May 1884, in Paris, where two families agreed to cooperate on vital business issues. It was in Rotschilids' direct interests to ship kerosene into Europe which for decades was a monopoly of Rockfellers' "Standard Oil". It coincided with Nobels' interests too. Therefore, their support for the enterprise was guaranteed. Ludwig also proposed to sell a part of the Branobel company shares to Rotschilids in order to buy with the received money "Batumi's Oil" and "Trade Company" from the Russian oil industrialists Bunge and Palashkovsky for 1,5 million rubles. Ludwig also intended to build a new factory for the production of oil and kerosene transportation cases and a pipeline through the Surami Pass. Although the Nobels were quite confident in the success of the proposition, Rotschilids refused. The ever ubiquitous Rockfellers sensing disagreements between their two main rivals entered the scene with the goal to further widen the gap existing between them by negotiating on the one hand with the Nobels and maintaining close contacts with the Rotschilids on the other.<sup>5</sup>

To effectively protect his company Ludwig signed new contracts and reinforced his positions in the Black Sea trade by bringing in a 286-feet-long tanker "Свет" (The Light) meant to ship 17000 tons of kerosene to England. It was a huge blow to the Rockfellers' "Standard Oil's" positions. The company, which controlled America's 90% of oil and kerosene export considered England's market as its monopoly. Nobels' product eventually took on 30% of England's oil market. The progress was stunning considering the fact that several years before the percentage was only 4%.<sup>6</sup>

It was also quite apparent for the Nobels that in order to successfully compete with such giant oil companies it was absolutely important to increase oil production output. Initially additional transport cars were used and several new refineries were built in Batumi, but it still could not provide the necessary output level. That is how the idea of constructing a pipeline came to a limelight.

<sup>5</sup> R. W. Wolf. The Russian Rockfellers, pp. 109-122; K. Fant. Alfred Nobel. 2012, pp. 150-182.

<sup>6</sup> R. W. Wolf. The Russian Rockfellers, pp. 109-122; K. Fant. Alfred Nobel. 2012, pp. 150-182.

The Surami Pass constituted the main hindrance for the pipeline. In 1883 Ludwig, during the works on Baku-Tiflis railway, proposed to the local authorities to build a pipeline. The authorities refused him the concession. The reason: the tsarist government feared the increased oil output and effective competition with the Rockfellers would make the Nobels to put a higher price on still very cheap Baku oil. Ludwig founded in Baku the first syndicate and demanded transporting the oil through the four-kilometer-wide Surami Pass. The Russian chemist Mendeleev too was an ardent proponent of the project. Eventually, the construction began but was only completed by 1903, constituting 835-kilometer-long pipeline with 19 pumping stations. The construction was largely done by handwork. Pipelines were connected with threaded clutches and anti-corrosive isolation was used for better protection. Along the main pipeline a telephone connection was also established. Across the river Kura (Mtkvari) the pipeline was suspended on one of the railways' bridges. Having the overall capacity of up to 900 000 tons of hydrocarbons per year the construction of the pipeline consumed 400 tons of Alfred's dynamite with the overall cost of the project reaching 12 million rubles.<sup>7</sup>

Nobels built a large oil terminal in Batumi. Some of the tanks created by them are still visible today after nearly 120 years. With many residential houses built by them for the managerial staff, the main building served also as a headquarters of the consulate of the United Kingdom of Sweden and Norway in the Caucasus. One document dated to June 5 1897, held in the National Archives of Georgia, attests to the approval by the local authorities of Gustav August Hager's appointment as a vice-consul of Sweden-Norway. Located on Leselidze Street in Batumi, the consulate was transformed in 2007 into the Nobel Brothers Batumi Technological Museum. Another interesting historical document is about the resolution of Nobel Oil Society to open a third-grade private school in the „Black Town“ (Baku) from 1886, as well as about the establishment of five scholarships in the name of Ludwig Nobel at the Baku Real School from 1890 onwards. Nobels continued their activities and were constantly on business trips to Georgia till the end of the Tsarist rule in 1917.

### ***The Batum Phenomenon***

*By 1899, 366 small factories were located in Batum. Their owners were Greeks, Turks, Persians, Poles, English, Germans, French and Italians. By*

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<sup>7</sup> R. W. Wolf. The Russian Rockfellers, pp. 109-122.

*1902, 285 either kerosene or oil full ships (constituting 57 573 000 pounds) aimed for export left Batum. By 1908 the port was the third largest in the Russian Empire after Petersburg and Odessa with the overall turnover reaching 42,9 million pounds.*

*By 1901 there were accredited consulates of England, Turkey, Greece, Italy, Japan and Persia. Its official representation had the United States, Belgium, Germany, Netherlands, Austria-Hungary and Sweden-Norway.*

*By 1902, 24 foreign shipping societies operated in Batum. Their absolute majority was of English, German or French provenance. But there were also the ones like “Anonymous Society of Belgium”, or Rotterdam located America’s kerosene shipping society.*

*By 1910 Batum’s export capacity was considerably restricted. In 1903 in Texas, US, new oil fields were discovered which enabled the United States to overtake Russia in oil production by 1907. Another important factor was the discovery of oil fields in 1903 in India, Burma and Assam (province in the north-eastern India).<sup>8</sup>*

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<sup>8</sup> I. Nemsitveridze. Foreign Capital in the XIX Century Georgia (In Georgian). Tbilisi, 2001, pp. 124-152.