

# **Assessments Regarding Development Issues in the Azerbaijani Steel Industry in the Last 20 years of the 20<sup>th</sup> Century**

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## **Introduction**

Nowadays, when national economies integrate into the global economy more closely, there are still some resources that have not found their usage in production and consumption at the local level. However, nobody can deny the importance of the evaluation of such opportunities in the global market. Seen this way, Azerbaijan is a rich country, mainly known for its rich oil resources. Unfortunately, these opportunities have not been evaluated and used properly (though research on the existence and usage opportunities of these resources were conducted in the last century). If we observe historical processes of the last 20-30 years of the 20<sup>th</sup> century, we can see that after being isolated from the international community and suffering severe shortages of resources, the Soviet administration paid special attention to research on rational usage of resources in its outlying regions.

As Azerbaijan had been a colony of the USSR for many years, its economy was developed as part of a “united natural economy complex,” and its structure was adapted to the demands of the USSR economy.

## **Brief History of the Steel Industry in Azerbaijan**

The history of metal production in Azerbaijan goes back to ancient times. In the third millennium B.C. the people of early human societies coalesced in the territory of Azerbaijan, and were involved in the mining of iron and copper deposits located in Dashkesan, Gadabay and other areas. Other interesting facts in terms of the exploitation of metal deposits of local and regional importance in the territory of Azerbaijan occurred from 1628-1650. In these years gold deposits in the Kalbajar and Aghstafa regions were discovered and exploited. In the 16th and 17th centuries iron was found in Ganja, Lahij, Shamakhi and other regions. In the second half of

the 19th century, metal processing by factory methods was organized in Azerbaijan. From 1855-1856 local entrepreneurs for the first time established a copper smelting plant in Gadabay the annual processing capacity of which comprised 1200 poods and 14,100 rubles. The work in the plant was based on manual labor. Later, foreigners—Tanner from Hannover and Morits from Denmark—became shareholders in the Gadabay copper plant. However, later, they signed an agreement with the Prussian Walter Siemens. According to their agreement signed in 1864, Walter Siemens became the owner of the plant. Siemens established a new plant in Gadabay. For the construction of the plant 50 acres of arable and more than 16 acres of non-arable land were provided. Then the Siemens Brothers began the construction of a new plant. In 1883 a second copper melting plant was established near Galakend river (a tributary of the Shamkhor river), (Sumbatzade , 252-259).

Construction of new plants in Azerbaijan yielded a significant increase in the production of iron products. In 1884 26.5 thousand poods of metal were melted, and by 1900 this increased to 58.7 thousand poods. In 1906 26% of iron ore mine production in the Russian Empire was sourced to Azerbaijan.(History of Azerbaijan, 234-236).

The steel industry until the arrival of the Soviet government was in the hands of foreign monopolies, particularly the Siemens Brothers. In general, copper, cobalt, gold and silver were mined from deposits in the republic and exported to foreign countries. From 1864-1914 three tons of gold and 58 tons of silver, and from 1867-1916 640 tons of cobalt ore were exported to Germany.(Osmanli, 57).

After the establishment of Soviet power in Azerbaijan fields in Dashkesen and Gadabay were discovered and exploited. From 1922-1928 geological exploration was carried out by K.N.Paffenholts and D.L.Ortenberg in Azerbaijan, especially around the Dashkesan region.(Osmanli, 6-7).

In 1931, a plan was drawn up regarding construction in the mines of Dashkesen.[2]. At the same time, in 1930, a quartz plant was re-established and a Dashkesen ore mining department was organized (Huseynov, 58).

In 1933 a test plant producing aluminum was put into operation in Ganja. From 1933-1936 three blast-furnaces, 13 marten workshops and steel manufacturing plant were constructed, with annual production capacity of 600 thousand tons of pipe in Sumgait. (Mamedov , 5-7).

## **An Assessment of the Steel Industry in Azerbaijan**

Historical facts show that, the steel industry in the examined period was of interest as a traditional area in the economy of Azerbaijan. For this reason, since the beginning of 1920s, economists, party and economic leaders have expressed interest in the development of the abovementioned fields in periodicals and the scientific press. From the beginning of the 1920s, economists, party and economic leaders further developed this field.

The ideas of a professor of Baku State University, V.S.Udintsev, can be noted in this regard. Udintsev examined the regulation of legal issues in metallurgy and other production industry topics in his magazine, "Economic News of Azerbaijan." He wrote that when legal norms expire, they may have a negative effect on the development of economic relations. Currently, the laws in force in relation to the regulation of relations are outdated. On the other hand, there should be legal rules regulating the relationship between the state and various business entities, capital and financial resources within the framework of the New Economic Policy. Otherwise the parties will not know their commitment and obligations, and investors (equity holders) will not invest money in concessions because of uncertainty, and the restoration of the site will not be possible. In published material, it has been specifically recommended to take advantage of economic law practice of the RSFSR.<sup>1</sup>

Additional material was published on May 23, 1923, in the "Yeni Yol" (New Way) newspaper under the title of "The mineral resources." The author of the article Mir Baghirli brought up the issues of industrial exploitation of gold, oil, sulfur, and mountain crystal mines, which were used to meet the needs of amateurish production areas exploited by local populations, and identified as a result of geological studies conducted at different times, mainly in the Shamakhi territory.<sup>2</sup>

On June 9, 1923 in an article by M.Baharli, published under the title "The iron resources of Azerbaijan," the idea of using iron deposits located in the lands of Azerbaijan such as Dashkesan, Zangezur, Goycha, Lankaran and Javad for the purposes of the development of the steel industry in the republic was justified.<sup>3</sup> It is important to pay attention to an article with title "Works are on the eve of being stopped at Gadabay plant" by K.Anashkin, published in the "Bakinskiy rabochiy" newspaper on January 19, 1927. In the article specific attention is paid to the fact

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<sup>1</sup> Economic Messenger, (Weekly organ of the Supreme Council of ASSR), 1922, # 23, p.18-20

<sup>2</sup> "Yeni Yol" (New Way) #16 (31), May 23,1923

<sup>3</sup> Yeni Yol" (New Way) #18 (33), June 9,1923

that the factory was located in an area rich in resources, and it notes that although once 7,000 people worked in the factory, the number had dropped to 200. The factory building was in bad condition and would have been destroyed if it were not repaired. At the same time, based on information provided by former workers of the factory, it was noted that many of the mountains in Gadabay, e.g. Mt. Chalpan and Mt. Bitti Bulag were rich in copper reserves. The analysis revealed that 5-12% of copper ores was pure copper, and if 25-50 thousand manats were spent, the factory could have restored its work. The article also noted that there was a great demand for this natural resource in all the Union and, therefore, new copper reserves should be discovered.<sup>4</sup>

In the same year, 1927, an article dedicated to the problem of development of the steel industry in the region was published in the "Transcaucasia economic news" magazine by Chingiz Yildirim. The article focused on the selection of a steel plant to be established in the South Caucasus. Disputes surrounded the issue of the appropriateness to build the plant, whether in Samtredi, Poti, Ganja or Dashkesan city. In terms of protecting the economic interests of the country, Ildirim justified the idea of building the plant in Dashkesan. The idea that metal produced in Dashkesan would allow producers to meet the demand for metal products of the oil industry of the country was one of the main arguments. For instance it was indicated that annually 10.2 million poods of metal from outside was imported to Azerbaijan by rail, and nine million out of this was for the oil industry. Therefore there was a great demand for 90% of the plant goods in the country. If these goods were produced in the country, it would have been possible to achieve significant savings by reducing the costs for transportation of goods.<sup>5</sup>

It should be noted that close to the end of 1920s, in the context of development issues of mountain mining in the republic, arguments concerning the development of the steel industry, especially production of metal goods, were strengthened. In this case two ideas drew particular attention. Supporters of the first idea tried to justify the idea that a metallurgical plant should be established in the areas close to the coal fields. One of the main proponents of this idea was S.Naumov. However staff in the economic and party organs tried to justify the idea that the plant should be established in Dashkesan or Ganja city, with the appropriateness of creating proper infrastructure. Therefore, a series of articles was published in the press regarding this problem. For example, an article by S.Naumov, "Sultanov's planned

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<sup>4</sup> «Bakinskiy Rabochiy» 1927, №15

<sup>5</sup> The problem of the Transcaucasian metallurgy», magazine «Economic Messenger of Transcaucasia », # 23,1927 p. 13

mistakes,” published on January 3, 1928, in the newspaper “Bakinskiy rabochiy,” can be noted. However, a few months later S.Naumov also preferred the option of establishing the plant in Ganja or Dashkesan cities.<sup>6</sup>

As a result of the crisis in the Gadabay plant, and related to the inevitability of enterprise closure, arguments to resolve the Dashkesan problem with more consistent methods were published.<sup>7</sup>

Meanwhile, an article called “The state industry of Azerbaijan in 1928/29 years” by M.Vedernikov made attempts to substantiate the idea of technically feasible plans, in order to develop chemical, mountain mining and the metallurgical industry in the republic.<sup>8</sup>

Naturally, in that period of the USSR’s dominant administrative systems, always focused on economic contexts, all crucial decisions came from Moscow. Therefore, with the instructions of directive authorities of the republic, Eyhenson was sent on a business trip to Moscow. The issue became a subject of discussion in the State Planning Commission of the USSR and Supreme National Economic Council. Here the ideas expressed in the presentation letter sent from Azerbaijan to the authorities attract our attention.

It was noted that experts identified 180 million tons of magnetic iron ore in iron ore deposits in Dashkesan. The electricity supply problem of the plant was solved by coal deposits in Tkvarceli, which is located nearby. The plant can smelt 350,000 tons of steel. Another key issue that draws our attention is the preparation of proposals related to a number of infrastructure measures. In economic terms, 5,660,000 million rubles were needed to construct the Ganja-Dashkesan railway, 2,900,00 rubles were needed to prepare copper deposits to be useful for operation, 500,000 rubles were needed to continue exploration works for a joint venture of the enterprise with other organizations, and 940,000 rubles were needed for its purposeful operation. Taking into account all other expenses 10,000,000 rubles fund were needed.<sup>9</sup>

These ideas were expressed in the context of avoiding necessary expenses, while wholly removing fund wastefulness, including revenues of state enterprises directly within the central budget, and using the resources through other methods.

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<sup>6</sup> «Bakinskiy Rabochiy» 1928, No.2,199

<sup>7</sup> «Bakinskiy Rabochiy» 1929, No.43

<sup>8</sup> Economic Messenger of Azerbaijan» (authority of the Supreme Economic Council and the State Planning Commission of the Azerbaijan SSR), Baku, 1929 p.41

<sup>9</sup> «Bakinskiy Rabochiy» 1929, No.69

### Further remarks

As noted, in that period of the USSR's dominant administrative systems, always focused on economic contexts, all crucial decisions came from Moscow. The decisions were based on the implementation of the principle of lowest cost and maximum profit. However the profit and revenue obtained were not used for the needs of the country. In other words, as a result of the exploitation of mineral resources and other raw materials in the republic over a long period, and in spite of the large amount of money included in the budget of the USSR, the budget of the republic was incomplete. The industry was developed in a one-sided fashion, serving the needs of the Soviet Union. The ideas expressed in the economic literature were adjusted to those needs. Not even minimum attention was paid to the economic interests of the country.

At that time research and measures served USSR interests only. But nowadays, after achieving the independence of our republic, these resources can be used by foreign investors using advanced technologies, thus increasing the economic potential of the republic, and developing international cooperation with different institutions.

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## Summary

### **Assessments regarding the issue of development of the steel industry in the economic literature in the 20-ies of the 20<sup>th</sup> century Azerbaijan”**

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The article investigates the ideas expressed about the development of steel industry in the economic literature of Azerbaijan during the first 10 years of Soviet power. The subject is of interest from different aspects. In terms of exploring the economic history, the history of the development of different sectors of the economy of the Republic of Azerbaijan, the ideas associated with the development of non-oil sector are important for the study of the history.

**Key words:** steel industry, production industry, industrialization, economic history, economic literature