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British Business in Russia, 1892- 1914

Submitted for the award of PhD in Modern European History

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Declaration

I, Thomas Jones confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.

Signed:

Acknowledgements

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Abstract

This thesis explores British direct investment in Russia 1892-1914, in order to answer the following research question: to what extent did the Russian government adhere to the rule of law and regulations in its relationship with British business interests undertaking foreign direct investment in Russia?

In order to answer these research questions, this thesis begins by analysing Russian commercial law and economic policy towards foreign companies before 1914. It finds that Russian commercial law legislated for a high level of arbitrary control over foreign companies by multiple sections of the Russian government. On the other hand, economic policy changed between 1900 and 1904 towards more lawful regulation of the affairs of foreign companies.

It then analyses patterns of British investment in Russia and investor perceptions of the Russian market. It finds that British investment between 1892 and 1914 can be divided into two distinct phases either side of the industrial downturn of 1900-1904, with more modern and dynamic investment patterns in the latter period. Russia was seen to be profitable purely because of the natural resources found there as opposed to Russian government policy.

Finally, this thesis examines incidences of conflict between British business interests and the Russian government. It finds that the shift in government policy towards closer regulation after 1900-1904 was reflected in how it dealt with the provision of redress for British companies, although considerations of state interests over the rule of law resulted in British companies being unable to form stable assumptions about the Russian government.

Taken as a whole, these findings indicate that although the Russian government attempted to reform its relationship with foreign capitalists over the period 1892-1914, its efforts produced little effect on British business interests, who displayed little trust in the Russian government to follow regulations and the rule of law.

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Abbreviations

Business History Review	<i>BHR</i>
Economic History Review	<i>EHR</i>
Journal of Economic History	<i>JEH</i>
Polnoe Sobranie Zakonov Rossiiskoi Imperii (Complete collection of laws of the Russian Empire)	<i>PSZ</i>
Russian Review	<i>RR</i>
Slavic Review	<i>SR</i>
Slavonic and East European Review	<i>SEER</i>
Svod Zakonov Rossiiskoi Imperii (Code of laws of the Russian Empire)	<i>SZ</i>

Introduction

The influx of foreign capital into Russia during the 1890s is usually associated with Sergei Witte's policies to encourage foreign investment as the Minister of Finance from 1892 to 1903, such as tariff reform and the attainment of the gold standard. As a result, it is estimated that foreign investment in Russia increased from 214.7 million roubles in 1890 to 911 million roubles by 1900, and reached 2,000 million roubles before the outbreak of the First World War.¹ In contrast, this thesis will argue that the economic incentives offered by the Russian government formed only a part of the experience of foreign companies in the Russian business environment, and that alongside these policies there was an equally important change in the relationship between foreign businesses interests and the Russian government. This occurred through gradual change throughout the period 1892-1914 in the way in which the Russian government adhered to legal norms and regulations in its treatment of foreign business interests, despite significant continuities in the general structure of Russian commercial law.

Closer analysis of the pattern of British foreign investment in Russia from 1892 to 1914 shows that foreign direct investment was not solely determined by the economic policies of Witte; British investment shows a more pronounced disparity with Russia's economic policies. The major influx in British investment occurred from 1900, and it was only at this point that British companies in Russia began to adopt more modern financial structures, such as the publicly listed joint-stock company, and abandon the traditional family-orientated management and financial structure.² These patterns contrast substantially to the pattern of French investment, which only substantially increased after 1894 in response to the industrial boom in France and the political stimuli of the Franco-Russian entente.³

¹ John McKay, 'Foreign Enterprise in Russian and Soviet Industry: a Long Term Perspective' *BHR* Vol. 48, No. 3 (1974), 345; *Pioneers for Profit. Foreign Entrepreneurship and Russian Industrialisation*, (London: University of Chicago Press, 1970), 25; statistics from M. Falkus, *The Industrialisation of Russia, 1700-1914* (London: Macmillan, 1970), 70.

² N. Gurushina and I. Potkina, "'Angliiskie kapitaly i chastnoe predprinimatel'stvo v Rossii', in B. Bovykin (ed.), *Inostrannoe predprinimatel'stvo i zagranichnye investitsii v Rossii* (Moscow: ROSSPEN, 1997), 107-108.

³ Olga Crisp, *Studies in the Russian Economy before 1914* (London: Macmillan, 1976), 159.

The pattern of British investment also does not adhere to the economic cycle of Russia, given that the period 1900 to 1906 was marked by a significant industrial decline, especially in the extractive industries that were a major recipient of British capital.⁴ The thawing of Anglo-Russian relations towards the outbreak of the First World War will be explored below, but at the time of the significant influx of British investment into Russia Anglo-Russian relations had not improved, and did not do so significantly until the conclusion of the Russo-Japanese war in 1905.⁵ British investment in Russia was therefore sensitive to changes beyond those of Tsarist macro-economic policy, economic cycles and diplomatic relations, and therefore represents an important component for the study of the Russian government's relationship with foreign industrial interests.

Through study of this relationship, this thesis will investigate the extent to which the Russian government fostered a stable business environment through adherence to the rule of law and defined legal standards. Firstly, it will set out the commercial legal framework in Russia, and how it applied to British companies operating in Russia. Secondly, it attempts to map out the geographical pattern of British investment in Russia through the use of British consular reports and stock market data in order to identify geographical trends in British penetration of the Russian market. It will then attempt to establish how Russian economic policies and the Russian government more generally fostered perceptions among British businesses about the Russian business environment, through an analysis of British financial and business literature, and their use of British diplomatic and consular services. Finally, it investigates the extent to which the Russian government adhered to the rule of law through an analysis of how British diplomats and consuls acted on behalf of British business interests, the successfulness of British companies in gaining redress from the Russian government, and the legal and structural precautions taken by British companies investing in the Russian market.

As the following literature review indicates, British businesses in Russia possessed a strong knowledge of the Russian market, and possessed increasingly strong links to

⁴ Peter Gatrell, *The Tsarist Economy 1850-1917* (London: Batsford, 1986), 167.

⁵ Keith Neilson, *Britain and the Last Tsar: British Policy and Russia, 1894-1917* (Oxford: Clarendon Press, 1995), 268.

the Russian government. British companies tended to undertake investment as a result of pre-existing trade relationships with Russia, and were more likely than their international counterparts to maintain managerial control over their investments. At the same time, changes in the diplomatic service towards professionalism and concern with commercial assistance, as well as the thawing of diplomatic relations between Britain and Russia, meant that British companies had access to a group of knowledgeable officials with increasingly strong connections within the Russian government. The relationship between British business interests and the Russian government therefore forms an important part of the wider picture of state tutelage of Russian industry, and the emergence of cooperation or conflict between the Russian government and the emerging Russian civil society.

Chapter 1 will outline the basis of Russian corporation law and economic policy, which formed the basis of Russian government interaction with foreign companies. Chapter 2 will look at how Russian economic policy concerning foreign companies changed over the period in question, in order to analyse changes in the Russian government's priorities and attitudes towards foreign investment, as well as the legal and policy basis of its relationship with them. Chapter 3 examines the structure of British investment, charting the development of British investment in Russia over the time period, by the number of companies, their corporate structures, and the industries in which they were engaged in. Chapter 4 looks at how Russian investments were portrayed in the British financial press, in order to assess the effect of the Russian government's interaction with foreign business on the perceptions of British companies, as well as some of the preconceptions that these companies may have had when undertaking these investments. Chapter 5 investigates how these preconceptions worked in practice when British companies attempted to use the British diplomatic and consular service in order to protect or further their interests in their dealings with the Russian government. Finally, chapter 6 seeks to examine how the Russian government engaged with British businesses in disputes between itself and these companies, in order to understand whether the Russian government became more consistent in its approach to foreign companies before 1914.

i. British direct investment in Russia before 1914

In order to illustrate that the study of British assumptions about the Russian regime will yield valid conclusions about the development of legal standards and accountability in the Russian government's dealings with business interests, this section addresses three key questions. Firstly, to what extent does the current literature suggest that investment decisions were based upon informed assumptions of the profitability of Russian enterprises, or based upon wider stereotypes and beliefs about the Russian business environment? Secondly, to what extent did British business interests retain control through ownership over their Russian investments, and thus have sound commercial knowledge of Russia? Finally, where this control can be established, did British businesses retain adequate managerial control over their investments?

The export of British capital overseas

The assumption that attracted British firms to Russia in the first place was that returns from investment in Russia would in general be higher than exporting to Russia. The current literature suggests that this assumption was often the result of experience through a previous export relationship with the Russian market, and the fact that British capital was simultaneously 'pushed' out of Britain by low domestic returns, and 'pulled' overseas by higher returns in less industrialized economies. Recent revisions of investment decisions by British multinationals have also highlighted the importance of information about the destination of investment in investment decisions. This section also compares existing literature on the perceptions of Russia among British companies and wider society.

Early research into the flow of British capital abroad before 1914 suggested two different models for explaining the outflow of capital from Britain before 1914. The first theory, originating from a contemporary study by the statistician John Hobson, suggested that due to the pace of British industrialization, British savings increased while the outlets for, and returns from, domestic investment decreased. This had the

effect of ‘pushing’ British capital abroad.⁶ Conversely, a second school of thought holds that capital was exported from Britain because technological superiority over competitors in developing economies would prevent falls in rates of return, thus ‘pulling’ British capital abroad.⁷ Research into the development of British multinational enterprises conducted in the 1980s concluded that companies decided to undertake foreign investment when it had an advantage over foreign domestic companies, such as access to cheap capital, technology, market skills and managing ability.⁸ The ‘push’ theory has been recently reevaluated by Rota and Schettio, who find that British FDI responded more significantly to falls in British GDP than portfolio investment by moving abroad, but within a pre-existing network of international trade which entails a significant bias in favour of the profitability of the destination of the capital.⁹ Therefore, for both schools of thought the profitability of the foreign investment destination played a significant role in investment decisions.

As Rota and Schettio suggest, prior experience of a particular overseas market was an important determinant for British FDI decisions. Earlier analysis of the investment decisions of British multinationals suggests that information about overseas markets before 1914 was often obtained as a result of a pre-existing export relationship with the host market. British manufacturing companies from 1880 commonly followed the model whereby firms would dispatch commercial travelers to gain information about a particular market, establish branch offices, and finally establish production plants in order to ensure supply and maximize efficiency.¹⁰ Recently, this approach has also been applied to the retail industry.¹¹

⁶ P. Cotrell, *British Overseas Investment in the Nineteenth Century* (London: Macmillan, 1975), 27.

⁷ M. Edelstein, ‘Foreign Investment, Accumulation and Empire 1860-1914’, in P. Mathias and M. Postan (eds.), *The Cambridge Economic History of Europe Vol. 7, The Industrial Economies: Capital, Labour, and Enterprise* (Cambridge: Cambridge University Press, 1978), 196, *Overseas Investment in the Age of High Imperialism*, 73.

⁸ G. Jones, ‘Origins, Management and Performance’, in G. Jones (ed.), *British Multinationals: Origins, Management and Performance* (Aldershot: Gower Publishing, 1986), 6.

⁹ M. Rota and F. Schettio, ‘The Long-run Determinants of British Capital Exports, 1870-1913’, *Financial History Review* vol. 18 (2011), 53, 67.

¹⁰ A. Chandler, ‘The Growth of the Transnational Industrial Firm in the United States and the United Kingdom: A comparative Analysis’, *EHR*, vol. 33, no. 3 (1980), 401; S. Nicholas, ‘Agency Contracts, Institutional Modes and the Transition to Foreign Direct Investment by British Manufacturing Multinationals Before 1939’, *The Journal of Economic History*, vol. 43, no. 3 (1983), 677-83.

¹¹ N. Alexander, ‘British Overseas Retailing, 1900-60: International Firm Characteristics, Market Selection and Entry Modes’, *Business History*, vol. 53, no. 4 (2011), 533.

Recent research into investment decisions of British multinationals before 1914 has shown that a company's preexisting information about the target market was also a determining factor behind investment decisions. As a result, due to its familiar laws, administration and customs, the British empire received a disproportionate amount of investment from Britain.¹² This approach has also been applied to British merchant houses that diversified their interests into production and extractive industries in the period. These merchant houses took advantage of their market knowledge and contacts with resource owners from previous financing and shipping activities in order to establish overseas ventures, especially in Russia where trade was previously dominated by a small group of British merchant houses led by the Cattleys, and including other families such as the Hubbards and the Cazalets.¹³

In Russia, McKay has demonstrated the importance of Russian government propaganda that cultivated a favorable investment image of Russia in the investment decisions of foreign multinationals, which promoted the image of the potential for foreign firms to make large profits in Russia.¹⁴ However, Carsten's study of British industrial enterprise in the textile and agricultural machinery industries indicates that companies extended their manufacturing operations to Russia in order to exploit markets already known to them, rather than due to encouragement from the Tsarist government.¹⁵ Similarly, Gurushina and Potkina have recently argued that British enterprises in Russia across all its different organizational forms and sectors were the logical results of long standing trade ties with Russia.¹⁶ It has also recently been argued that many free-standing British companies in Russia often represented one facet of a much larger investment group, often arranged around existing shipping or

¹² G. Magee, *Empire and Globalisation: Networks of People, Goods and Capital in the British World, 1850-1914* (Cambridge: Cambridge University Press, 2010), 182.

¹³ Julia Mahnke-Devlin, *Britische Migration nach Russland im 19. Jahrhundert: Integration – Kultur – Alltagsleben* (Wiesbaden: Harrasowitz Verlag, 2005) 46-55; Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries*, (Oxford: Oxford University Press, 2002), 45-9, 54; S. Chapman, *The Rise of Merchant Banking* (London: George Allen & Unwin, 2010), 144.

¹⁴ McKay, *Pioneers for Profit. Foreign Entrepreneurship and Russian Industrialisation, 1885-1913*. Chicago: University of Chicago Press, 19707), 8.

¹⁵ F. Carsten, 'Foreign Participation in Russian Economic Life: Notes on British Enterprise, 1865-1914', in G. Guroff and F. Carsten (eds.), *Entrepreneurship in Imperial Russia and the Soviet Union* (Princeton: Princeton University Press, 1983), 158.

¹⁶ Gurushina and Potkina, '“Angliiskie kapitaly i chastnoe predprinimatel'stvo v Rossii”, 108.

trading companies with an existing relationship with the Russian market.¹⁷ This pattern is repeated in the oil industry. Although British capital only moved in to Russian oilfields in large amounts around 1900, British connections with Russian oil interests, in areas such as shipping and procurement predated this date.¹⁸

While the formation of these assumptions through experience could be seen as the norm for British companies operating in Russia, other research indicates that wider societal perception of a host country played an important part in investment decisions made by British companies. A recent approach to studying foreign investment decisions in terms of information asymmetries asserts that the role of the press in relaying important news on political developments within the host country played an important role in investment decisions, and that bad press often decreased the amount of British capital that would enter a particular country.¹⁹

British perceptions of Russia during the period in question has received scholarly attention, as there were several significant changes. In particular, Neilson has documented how late nineteenth century adventure and spy novels feature the recurring theme of an arbitrary Russian regime in its treatment of foreign spies, and was portrayed as the antithesis of everything English.²⁰ Recurring literary tropes existed such as the close association of Siberia with the brutal Tsarist penal system.²¹ Although terrorism was not seen as legitimate in Britain, there were marked sympathies shown for the actions of Russian anarchists due to the repressive nature of the Russian regime.²² Politically, Russia was viewed as the antithesis of British values, and closer relations with Russia in the aftermath of the Russo-Japanese war were virulently opposed by the radical section of the Liberal Party, as well as in

¹⁷ Jones, 'British Overseas Banks as Free-standing Companies, 1830-1996.' *The Free Standing Company in the World Economy, 1830-1996* (Oxford: Oxford University Press, 1998), 345.

¹⁸ G. Jones, *The State and the Emergence of the British Oil Industry* (London: Macmillan, 1991), 53.

¹⁹ Magee, *Empire and Globalisation*, 188.

²⁰ Neilson, *Britain and the Last Tsar*, 91-3; L. Magill, 'Joseph Conrad: Russia and England', *Albion* Vol. 3, No. 1 (1971): 3-8.

²¹ Collins, 'British Interest and Interests in Siberia, 1900-1922' *Revolutionary Russia* Vol. 9, No. 2 (1996), 207.

²² Neilson, *Britain and the Last Tsar*, 88; M. Hughes, 'British Opinion and Russian Terrorism in the 1880's,' *European History Quarterly* Vol. 41, (2011), 255-77.

certain regions, such as Tyneside, which demonstrated a particular anti-Russian political trend from the accession of Alexander III.²³

Other approaches have highlighted how British perceptions of Russia seem to have improved somewhat over the period in question. While the surge in popularity of Russian cultural exports in the period may well have coincided with an increased interest in Russia among members of high society, travel literature presents a wider reimagining of Russia, such as Stephen Graham's works such as *Undiscovered Russia*, which emphasized the Russian peasant's underlying godliness, as opposed to the traditional focus upon Tsarist tyranny.²⁴ However from these surveys of both negative and positive British stereotypes about Russia, it is difficult to extrapolate the perception that British investors held about Russia, beyond Neilson's assertion that Russia's image improved among this group with the dispatch of the commercial attaché to Russia and the founding of the Anglo-Russian chamber of commerce in 1908.²⁵

Other studies into British direct investment in Russia have highlighted negative attitudes held by British business interests in the Russian environment that can be compartmentalized into problems caused by the Russian legal system. There is little to link these perceptions with the somewhat broader perceptions of Russian arbitrariness and savagery found in wider British society. In a study of British business interests in Russian Asia, White has argued that British business interests missed important business opportunities due to an aversion to Russian investments that arose as a result of the tangle of prohibitive laws and the confusing administration, as opposed to a perception that the authorities were acting against the rule of law in a similar manner to the liberal opponents of the Russian regime in Britain.²⁶

²³ David Saunders, 'Tyneside and the Making of the Russian Revolution,' *Northern History* Vol. 21 (1985), 262.

²⁴ Michael Hughes, *Beyond Holy Russia: the Life and Times of Stephen Graham* (Cambridge: Open Book Publishers, 2014), 33.

²⁵ Neilson, *Britain and the Last Tsar*, 102.

²⁶ C. White, 'British Business in Russian Asia Since the 1860s: an Opportunity Lost?,' in R. Davenport-Hines and G. Jones (eds.), *British Business in Asia Since 1860* (Cambridge: Cambridge University Press, 1989), 68.

The Extent and Proportion of British Foreign Direct Investment in Russia

The outflow of British capital that occurred before 1914 took two different forms: portfolio investment and foreign direct investment. Portfolio investment took the form of British capital being used to buy foreign government and railroad securities, but was also present in the formation of overseas production centres, in the form of shares in various overseas companies. As opposed to foreign direct investment, the British parent company retained no managerial control over their investments through portfolio investment. It is important, therefore, to ascertain the proportion of British foreign direct investment in Russia as opposed to portfolio investment, in order to assess the extent to which assumptions made by businesses about the Russian business environment were ascertained through direct experience of managing investments in Russia.

The most recent estimates of the composition of foreign capital entering Russia for the period 1865 to 1914 indicate that Russia was the recipient of 4.2 per cent of the total export of British capital.²⁷ However, there have so far been no estimates that break down this figure into portfolio investment and foreign direct investment. This exercise has been undertaken only with reference to the total outflow of British capital to the rest of the world. Earlier estimates from the 1960s and 1970s that rely heavily on data from the London Stock Exchange place portfolio investment as 70 per cent of the total capital outflows from Britain from roughly 1870 to 1914, with a particularly significant increase between 1893 and 1913.²⁸

Interpretations of the proportion of portfolio investment should be treated with caution because of their reliance on London Stock Exchange figures. Platt drew attention to these problems before figures on the proportion of foreign direct investment were revised, stating that often direct investment circumvented the London Stock Exchange due to the use of personal or company wealth to set up overseas ventures and the profits from these ventures being plowed back into further

²⁷ Magee, *Empire and Globalisation*, 173.

²⁸ I. Stone, *The Global Export of Capital from Great Britain, 1865-1914, A Statistical Survey* (Basingstoke: Macmillan, 1999), 29.

investment.²⁹ Earlier classifications of direct investment generally assumed that companies could only retain managerial control of their enterprises by retaining fairly large proportions of the shares. Edelstein's study of British foreign investment utilizes a fairly arbitrary benchmark of 30 per cent of shares held by the parent company to indicate control and management.³⁰ More recently, Corley and Jones have argued that overseas subsidiaries have often been mistakenly labelled as portfolio investment, when in actuality they represented direct investment because the financing of the projects was spread over the stock exchange and a variety of investment trusts and speculators, so that the parent company could retain control with a very small stake in the business. As a result, these historians argue that foreign direct investment with managerial control represented some 45 per cent of British overseas investment by 1913.³¹ According to them, managerial control of foreign investments was much more pervasive than earlier interpretations might suggest.

Free-standing companies also represented foreign direct investment that was obscured by a reliance on stock market figures. Real economic strength was concealed from the public, and also from historians, by the practice of preserving the parent organization as a partnership or private company, while the assets it owned or controlled were often registered abroad and run by junior partners or managers there, sometimes under different names.³² However, historians who have argued that portfolio investment made up some seventy percent of British overseas investment also argue that the parent company exercised very little managerial control over the free standing company beyond the initial investment phase, often sub-contracting the management of their operations.³³

In response to this assertion, Hennart and Jones have pointed towards the development of the free standing company as part of an investment group, arguing that they represented the internalization of the market within the group, and that in

²⁹ D. C. M. Platt, *British Investment Overseas on the Eve of the First World War: the Use and Abuse of Numbers* (Basingstoke: Macmillan, 1986), 55.

³⁰ Edelstein, 'Foreign Investment, Accumulation and Empire,' 195.

³¹ Corley, 'Britain's Overseas Investments in 1914: Revisited,' *Business History*, Vol. 36, No. 1 (1994), 72-84, Jones, *Merchants to Multinationals*, 52.

³² S. Chapman, 'British-Based Investment Groups Before 1914,' *EHR*, Vol. 38, No. 2 (1985), 231; Jones, 'Origins, Management and Performance,' 3, 11.

³³ M. Casson, 'Institutional Diversity in Overseas Enterprise: Explaining the Free-Standing Enterprise,' *Business History* Vol. 36 (1994), 101.

most cases strategic control was still asserted from London.³⁴ Casson, although arguing that the majority of free-standing companies were not controlled from London, does acknowledge that industries that involved the use of advanced manufacturing or extracting techniques tended to opt for managerial control from London as the use of these technologies engendered complex managerial decision making.³⁵ In Russia, British investment tended to go into manufacturing and extractive industries, where managerial control from London would have been most advantageous for free-standing firms.³⁶

This argument is supported by studies into the evolution of British enterprise in Russia. By the end of the nineteenth century British enterprises in Russia had transformed from being run and financed by a small family circle to possessing larger, more complex organizational and financial structures as joint-stock companies, drawing capital from a range of new sources.³⁷ Although many more independent bodies became involved in financing these enterprises, British involvement in the management of their Russian companies went well beyond the financing stage, and only a small number of enterprises were controlled through Russian sources of capital.³⁸

Nonetheless, portfolio investment made up a substantial proportion of British overseas investment in the period, and it is important to recognize that British capital involvement in overseas ventures did not necessarily result in managerial control of the company. Economic conditions in Britain pushed British capital overseas due to low domestic returns, and was invested more commonly in portfolio investments. However, recent revisions suggest that the proportion of direct investment was much higher than previously estimated, and importantly for this study, especially in contexts where companies relied on superior technology and pre-existing trade

³⁴ J. Hennart, 'Free-standing Firms and the Internalisation of Markets for Financial Capital: a Response to Casson,' *Business History* Vol. 36 (1994), 118-123, Jones, 'British Banks as Free-Standing Companies', 345.

³⁵ McKay, *Pioneers for Profit*, 62.

³⁶ McKay, 'Foreign Enterprise in Russian and Soviet Industry,' 345: *Pioneers for Profit*, 34-5.

³⁷ McKay, 'Foreign Enterprise in Russian and Soviet Industry,' 345; Gurushina and Potkina, 'Angliiskie kapitaly i chastnoe predprinimatel'stvo v Rossii,' 107-108.

³⁸ N. Guruschina, 'British Free-Standing Companies in Tsarist Russia', in M. Wilkins and H. Schroter (eds.), *The Free Standing Company in the World Economy 1830-1996* (Oxford: Oxford University Press, 1998), 193.

relationships that led to the internalization of markets. Due to the reliance on superior technology and that free standing companies in Russia generally existed within the framework of an established investment group, managerial control from London was more likely in Russia. As a result, one could conclude that assumptions made by British businessmen about the Russian environment resulted as a direct consequence of managerial activity in Russia, and the study of these assumptions and activity can provide valid insights about the ways in which the Tsarist government interacted with business interests between 1892 and 1914.

The Quality of British Managerial Control in Russia

Although this review of the literature on British companies has demonstrated that British parent companies generally retained control through formal ownership over Russian investments, there exists a debate surrounding the successfulness of British companies operating overseas. This debate has a bearing on the hypothesis presented by this study. If overseas ventures were administered poorly, then their assumptions about the Russian business environment might have been incorrect due to a lack of knowledge, and poorly administered ventures may have attracted a disproportionate amount of difficulty with the host government.

In terms of global multi-nationalism, British business has been accused of failure in comparison to American investment because it possessed underdeveloped managerial structures. This failure is identified in terms of a reduced rate of production and the tendency for British investment to be concentrated within the empire as a symptom of its lack of competitiveness.³⁹ Due to the size of the UK domestic market, British businesses did not develop management hierarchies that could effectively control overseas assets, unlike their American counterparts who had a much larger domestic market in which to develop their management structures, and family interests in the running of British businesses which were often incompatible with the development of advanced management structures.⁴⁰ These issues, and the

³⁹ N. Crafts, 'Victorian Britain Did Fail,' *EHR*, Vol. 32, No. 4 (1979), 533-537. J. Stopford, 'The Origins of British-Based Multinational Manufacturing Enterprises,' *BHR* (1974), 333. Stopford and Turner, *Britain and the Multinationals* (Chichester: Wiley, 1985), 62.

⁴⁰ Jones, 'Origins, Management and Performance', 14.

lack of control that they engendered, have led historians to assert that British businesses failed to deploy resources correctly in response to international opportunities, and avoided joint-stock arrangements.⁴¹

Such interpretations suggest that where direct managerial control was established from London through ownership or majority shareholding, the quality of the managerial control that was exercised meant that micromanagement of the business from London was impossible. Jones' study of British multinational enterprises found that generally managers abroad were given a fairly free rein in the day to day running of the overseas subsidiary or free standing company, leading to disruptive management practices.⁴² This issue has been associated with failures in British multinationals' selling and marketing strategies overseas. Chandler has argued that British multinationals failed to develop advanced selling and marketing techniques as a consequence of their failure to develop advanced management structures, a phenomenon which Kirby has argued was key in British economic failure in the period.⁴³

However, these failure may not have been as a result of particularly British instances of failure in management of overseas enterprises. McCloskey has challenged the assumption that British production fell behind their competitors, arguing that production was proportional to the amount of available resources.⁴⁴ This has implications for the successfulness of British enterprise overseas, as it suggests that British overseas production was proportional to the amount of available capital. Nicholas has also argued that there has been little direct comparison between British firms and their French, German and American competitors, and that the lack of managerial structures did not necessarily mean that British multinational enterprises did not develop new forms of control.⁴⁵ In particular, in the mechanical engineering

⁴¹ W. P. Kennedy, 'Foreign Investment, Trade, and Growth in the United Kingdom. 1870-1913', *Explorations in Economic History* (1973-4), 440, J. Wilson, *British Business History* (Manchester: Manchester University Press), 87.

⁴² Jones, 'Origins, Management and Performance', 13.

⁴³ Chandler, 'The Growth of the Transnational Industrial Firm', 410, M. W. Kirby, *The Decline of British Economic Power since 1870*, (London: Allen & Unwin, 1981), 8.

⁴⁴ McCloskey, 'Did Victorian Britain Fail?', 446; 'No it Did Not- a Reply to Crafts,' *EHR* Vol. 32, No. 4 (1979), 539.

⁴⁵ S. Nicholas, 'The Expansion of British Multinational Companies: Testing for Managerial Failure,' in J. Foreman-Peck (ed.), *New Perspectives on the Late Victorian Economy: Essays in Quantitative Economic History 1860-1914* (Cambridge: Cambridge University Press, 1991), 141.

sector, Saul argues that British companies dominated the world market up to 1914.⁴⁶ Accusations of British failure in marketing and selling strategies have been disputed by Nicholas and Saul who found little evidence of poor selling, and suggest that the archives of French and German consulates indicate that poor selling was also true of Britain's competitors.⁴⁷

The picture of British managerial control in Russia is very mixed. British multinationals reacted slowly to the discovery of new business opportunities in Siberia at the beginning of the twentieth century. Historians who have investigated this area have found that British multinationals rapidly fell behind their American and German competitors in the race to exploit these new regions.⁴⁸ This lack of ability to take advantage of new opportunities is also made clear by the remarkable rate of failure of British subsidiaries in the oil industry. For example, the failure rate of British companies operating in the Maikop region of Russia was around 50 percent.⁴⁹ Among the merchant houses operating in Russia that played a major role in British investment there was a very high business mortality rate.⁵⁰ Historians have also found a general failure of British companies to adapt to Russian business practices such as buying on credit and processing small orders. British companies also did not take into account the needs of individual Russian consumers, with very few companies developing cheaper goods for the Russian market, and converting their weights and measures into Russian measurements.⁵¹

However, studies into the commercial organization of British companies in Russia have shown that over the period in question, British companies adopted more

⁴⁶ S. B. Saul, 'Mechanical Engineering Industries' in Britain, 1860-1914', in B. Supple (ed.), *Essays in British Business History* (Oxford: Clarendon Press, 1977), 32.

⁴⁷ Nicholas, 'The Expansion of British Multinational Companies,' 130; 'The Overseas Marketing Performance of British Industry,' *EHR* Vol. 37, No. 4 (1984), 493; Saul, 'The Mechanical Engineering Industries', 38.

⁴⁸ Collins, 'British Interest and Interests in Siberia', 216.

⁴⁹ Jones, *The State and Development of the British Oil Industry*, 60.

⁵⁰ S. Thompstone, 'British Merchant Houses in Russia Before 1914', in Edmondson and Waldron, *Economy and Society in Russia and the Soviet Union*, 107.

⁵¹ White, 'British Business in Russian Asia', 79.

complex management structures and came to rely on a wider variety of sources of capital and credit.⁵²

Case studies of British companies engaged in agricultural machinery and textiles indicate that British companies were relatively successful at adapting to Russian business and agricultural conditions and dominated the market for certain agricultural products.⁵³ This suggests that British enterprise in Russia was not wholly dominated by managerial failure.

Due to the tendency for British companies to undertake direct investment with managerial control in Russia, it is likely that British companies at least attempted to supervise their investments closely, and the evidence suggests that in Russia their management structures improved throughout the period, and there are many examples of companies that were very successful. Although many companies did not take advantage of new business opportunities in Russia and did not adapt to Russian business practices like their international counterparts, this does not necessarily indicate poor management, but a certain conservatism in the way in which they undertook foreign direct investment. It is therefore a reasonable conclusion that a substantial number of British business interests in Russia possessed adequate managerial structures in order to be able to form reasonably well informed assumptions about the Russian business environment and the Tsarist authorities.

The literature surrounding British multinational enterprises indicates that British business interests engaged in Russia would have been able to form reasonably well informed assumptions about the nature of the Russian business environment. Investment decisions by multinational companies were made on the basis of the amount of information on the investment destination, which was commonly developed through a prior export or trading relationship with Russia. Upward revisions of the levels of foreign direct investment also indicate that British investors generally retained managerial control over their companies, which indicates that the parent companies would have had an awareness of the particular problems faced by

⁵² Gurushina and Potkina, 'Angliiskie kapitally i chastnoe predprinimatel'stvo v Rossii', 107-8; Guruschina, 'British Free-Standing Companies in Tsarist Russia', 160.

⁵³ Dong-Woon Kim, 'J. & P. Coats in Tsarist Russia, 1889-1917', *BHR* Vol. 69, No. 4 (1995), 465-493; R. Munting, 'The Ransomes in Russia: An English Agricultural Engineering Company's Trade with Russia to 1917,' *EHR* New Series, Vol. 31, No. 2 (1978), 257-269.

these ventures. Although British companies did not develop the sophisticated managerial hierarchies of their American counterparts, accusations of managerial failure were not universal for British ventures in Russia. This indicates that British business interests were competently managed, and would have supplied reasonably accurate information about their activities.

ii. Anglo-Russian relations, 1892-1914

Throughout the period in question there was a development of closer Anglo-Russian cooperation on various international issues. Both British and Russian foreign policy evolved over the period to become more reconciliatory and to involve closer cooperation between the two empires, culminating in the 1907 Anglo-Russian agreement, but this did not result in completely stable relations.

In the 1890s Britain was forced to reassess its policy of 'splendid isolation', as British foreign secretaries were confronted by the rise of powerful European power blocs that threatened the isolation of Britain from Europe and her imperial vulnerabilities such as the defence of India.⁵⁴ As a result, Britain engaged in a more active form of diplomacy with her later entente partners, France and Russia, while maintaining the semi-alooft position of maintaining the European balance of power. Thus threats to Britain and her Empire, precipitated by her poor performance in the Boer war, were predominantly solved through the diplomatic strategy of the British Foreign Secretary Sir Edward Grey that consisted of limited support for Russia and France to contain Germany.⁵⁵ A group of officials who were anxious to strengthen Britain's ties with France and Russia, while avoiding close continental

⁵⁴ Christopher Howard, *Splendid Isolation: a Study of Ideas Concerning Britain's International Position and Foreign Policy During the Later Years of the Third Marquis of Salisbury* (London: Macmillan, 1967); Neilson, *Britain and the Last Tsar*, 49; K. Wilson, 'British Power in the European Balance, 1906-1914', in D. Dilks, (ed.), *Retreat From Power: studies of British Foreign Policy of the Twentieth Century* (London: Macmillan, 1981), 33.

⁵⁵ Zara Steiner, *The Foreign Office and Foreign Policy, 1898-1914* (Cambridge: Cambridge University Press, 1969), 47; 'British Power and Stability: the Historical Record,' in Goldstein and McKercher (eds.), *British Power and Foreign Policy, 1865-1965*, 25.

entanglements, rose to prominence under Grey, however, suggesting an improvement of Britain's stance towards Russia towards 1914.⁵⁶

In terms of the corresponding Russian foreign policy, much has been made of the manner in which the regime's prestige was linked to a successful foreign policy.⁵⁷ Russia therefore followed an expansionist foreign policy in the Far East that eventually led to the opening up of China by other foreign powers in response to Russia's aggressive expansion in this area.⁵⁸ In particular, Geyer maintains that Russia was unable to pursue a Far Eastern strategy based wholly on informal influence due to her relative economic backwardness, and her expansion necessarily had political and military implications, such as the occupation of Port Arthur in 1897 and the occupation of Manchuria in the wake of the Boxer Rebellion.⁵⁹

However, Russian foreign policy in the areas where it would have caused friction with Britain had begun to become more passive by the 1890s in comparison to the preceding decades. Russian policy objectives in Asia by this time, partly due to the threat of foreign competition, became more concerned with integrating pre-existing areas more closely with central Russia.⁶⁰ The military and entrepreneurial adventurism in Manchuria that eventually provoked the Russo-Japanese war was a significant but exceptional departure from this general pattern, and the Russian defeat and revolution of 1905 resulted in a more passive and reconciliatory policy being followed by the new Minister of Foreign Affairs, Aleksandr Izvol'skii.⁶¹ The threat to India, which dominated British foreign policy making, was viewed by the

⁵⁶ Steiner, *The Foreign Office*, 70.

⁵⁷ Dominic Lieven, *Empire: the Russian Empire and its Rivals* (London: John Murray, 2000); Derek Spring, 'Russian Imperialism in Asia in 1914,' *Cahiers du Monde Russe et Sovietique* 20, 3/4, (1979), 305; A.V Ignat'ev, 'The Foreign Policy of Russia in the Far East at the turn of the Nineteenth and Twentieth Centuries,' in Hugh Ragsdale (ed.), *Imperial Russian Foreign Policy* (Cambridge; Cambridge University Press, 1993), 255; V. M. Khvostov, *Istoriia diplomatii*, 2nd ed., Vol. 2 (Moscow: Gospolitizdat, 1964), 548, 549; David McDonald, 'A Lever without a Fulcrum: Domestic Factors and Russian Foreign Policy, 1905-1914,' in Ragsdale (ed.), *Imperial Russian Foreign Policy*, 273.

⁵⁸ John Fairbank, Edwin Reischauer, and A. Craig, *A History of East Asian Civilisation*, vol. 2, *The Modern Transformation* (Boston: Houghton Mifflin, 1965), 468-70.

⁵⁹ D. Geyer, *Russian Imperialism: The Interaction of Domestic and Foreign Policy, 1860-1914* translated by B. Little (Leamington Spa: Berg, 1987), 196.

⁶⁰ Spring, 'Russian Imperialism in Asia', 306.

⁶¹ McDonald, 'A Lever without a Fulcrum', 282; Ignat'ev, 'The Foreign Policy of Russia in the Far East', 264, 266; Neilson, *Britain and the Last Tsar*, 267.

Russian government as a useful diplomatic tool with which to influence British foreign policy but was never seriously considered.⁶²

The most significant result of this new situation for both British and Russian foreign policy was the signing of the 1907 Anglo-Russian agreement. Most importantly, it set the definition of spheres of influence in Persia that insulated the strategic area of Seistan from Russian influence. The agreement also established that Afghanistan would be situated purely within Britain's sphere of interest. Both of these matters were seen as vital for Indian defence planners.⁶³ This agreement has been set in the context of Britain's recognition of her limited capabilities to defend India, and to be able to successfully mount an amphibious attack on Russia.⁶⁴ However, Nish also places the agreement in the context of increasing cooperation between Britain and Russia in Asia up to 1907, such as Anglo-Russian cooperation during the 1894 Sino-Japanese war, and the peaceful coexistence of British and Russian railway building and investment in the area.⁶⁵ This is supported by Anglo-Russian cooperation had occurred in 1907 over the proposed loan to the Persian government in an attempt to exclude German influence in Persia.⁶⁶

The agreement also had the effect of allaying fears among potential British investors in Russia of a potentially disruptive war between the two countries, and thus could be seen to have acted as a stimulus for British investor confidence in Russia.⁶⁷ Reports from the financial press from the period of the 1907 agreement certainly indicate that the Russian government began to view British capital favourably, for example *The Times* stated that, 'Russia had innumerable resources, but money was required to work them; and if friendly foreign capital were embarked in them the Russian

⁶² Beryl Williams, 'The Strategic Background of the Anglo-Russian Entente of August 1907,' *The Historical Journal* Vol. 9, No. 3 (1966), 363.

⁶³ Neilson, *Britain and the Last Tsar*, 287; Johnson, R. A. '“Russians at the Gates of India”? Planning the Defence of India, 1885-1900', *The Journal of Military History* Vol. 67, No. 3 (2003), 697-743.

⁶⁴ Keith Neilson, 'Greatly Exaggerated': the Myth of the Decline of Great Britain before 1914', *The International History Review*, 13, 4, (1991), 712; David Sweet, 'The Balkans in British Diplomacy before the First World War' *The Historical Journal*, Vol. 13, No. 3 (Sep., 1970), 485.

⁶⁵ Ian Nish, 'Politics, Trade and Communications in East Asia: Thoughts on Anglo-Russian Relations, 1861-1907', *Modern Asian Studies*, 21, 4 (1987), 667-678.

⁶⁶ Wilson, 'Creative Accounting: The Place of Loans to Persia in the Commencement of the Negotiation of the Anglo-Russian Convention of 1907' *Middle Eastern Studies* Vol. 38, No. 2 (2002)

⁶⁷ R. J. Barrett, *Russia's New Era: Being Notes, Impressions and Experiences- Personal, Political, Commercial and Financial- of an Extended Tour in the Empire of the Tsar.* (London: Financier and Bullionist Ltd, 1908), 41.

government would certainly accord all possible facilities for ensuring success.’⁶⁸

This agreement was also preceded by the Anglo-Russian agreement for the mutual recognition of joint-stock companies in 1904, which allowed judgements in Russian and British courts cases between companies to be valid in both Russia and Britain.⁶⁹

Although the 1907 agreement was clearly the culmination of increased Anglo-Russian cooperation and British engagement with her entente partners, it is important not to overestimate its significance. Anglo-Russian cooperation on a range of international problems, such as influence over the Persian government, remained limited even after tensions between Britain and Russia over India and the Far East had broadly dissipated.⁷⁰ The continuation of Russian railway building that extended towards Persia also excited the traditional British fear of a threat towards India.⁷¹ Anglo-Russian rivalry in Asia has also been credited with leading to the formation of a veiled protectorate in Tibet in 1912.⁷² This was further exacerbated by significant concerns surrounding the public’s reaction to cooperation with Russia given the activities of the Tsarist regime, which to an extent precluded increased cooperation, as well as an unwillingness among British diplomats to antagonize the liberal sections of the Duma from 1906 through cooperation with the Tsarist government.⁷³

The increase in international Anglo-Russian cooperation had important implications for British business interests in Russia. As conflict between Russia and Britain became less likely with the formation of the triple alliance and entente towards 1914, Russia may have become a more attractive destination for British capital and companies, as the threat of war and subsequent confiscation of property and associated losses became less likely. This thesis will examine whether this change in international relations played a role in attracting British companies to Russia, or

⁶⁸ ‘Public Companies. The Russian Mining Corporation’, *The Times*, 15 February 1907, 15.

⁶⁹ TNA, 93/81/60, Mutual Recognition of Joint Stock Companies, Britain and Russia, 16 December 1904.

⁷⁰ Neilson, *Britain and the Last Tsar*, 315.

⁷¹ Derek Spring, ‘The Trans-Persian Railway Project and Anglo-Russian Relations, 1909-14,’ *SEER* Vol. 51, No. 1 (1976), 82.

⁷² Ira Klein, ‘The Anglo-Russian Convention and the Problem of Central Asia, 1907-1914,’ *Journal of British Studies*, 11, 1 (1971), 126.

⁷³ Olga Crisp, ‘The Russian Liberals and the 1906 Anglo-French Loan to Russia’, *SEER*, 39, 93, (1961); Neilson, *Britain and the Last Tsar*, 84-108.

whether other factors, such as the Russian government's treatment of foreign business interests, played a more significant role.

iii. Industrial paternalism, the Russian Government and the Modernisation of Russian Society

The Russia that British investors and diplomats observed in the period 1892-1914 was a country undergoing rapid political change. There is still significant uncertainty in historical interpretations of the stability of Late Imperial Russian society; the main point of contention being whether Russia was evolving towards a peaceful constitutional society along European lines or whether the contradictions between constitutionalism and autocracy made revolution in 1917 inevitable regardless of the destabilizing effect of the First World War. A central theme to these interpretations is the relationship between the autocracy and the emergent civil society in Russia. This section will then make the case that the economic policies of the Russian government and its economic tutelage of private enterprise played a significant role in Russia's industrialisation in the period. Just as the Russian government attempted to harness civil society while maintaining political control over the input of society into governance, so it attempted to harness the power of private enterprise to stimulate its industrial growth while attempting to retain paternal control over its activities.

The Russian Government and the Emergence of a Civil Society

More than fifty years ago, Leopold Haimson argued in a seminal article that Russian society in the decades before the revolution had become increasingly polarized on two levels: the urban workers had become estranged from the intelligentsia, and more importantly for the current work, both of these groups had become estranged from the bureaucratic state. A later revision to this work emphasised the inability of the principal actors and groups, including those in the state, to react to this crisis.⁷⁴ In these and later arguments, the role of the Russian state in suffocating the emergence

⁷⁴ Leopold Haimson, 'The Problem of Political and Social Stability in Urban Russia. Part One', *SR* Vol. 23, No. 4 (1964); 'The Problem of Political and Social Stability in Urban Russia. Part Two,' *SR* Vol. 24, No. 1 (1965); 'The Problem of Political and Social Stability in Urban Russia. Revisited,' *SR* Vol. 59, No. 4 (2000).

of a Russian civil society and excluding it from politics played an important role in this polarization.⁷⁵ Reform directed towards the creation of a law governed state by Stolypin failed because of the lack of a politically empowered middle class and the entrenched interests of the autocracy.⁷⁶

This behaviour had serious repercussions; arbitrary government treatment of worker industrial action and unions effectively validated the argument of the Bolsheviks among the workers that democratic worker demands would always be opposed by the power of the autocracy; thus government intransigence played a significant part in working class radicalism.⁷⁷ For some, part of this problem lay in the fact that the Russian autocracy failed to adopt a consistent policy of political reform.⁷⁸ In attempts to preserve its autocratic privileges by excluding civil society from government, the government also failed to address serious socioeconomic problems that arose from Russia's modernisation, such as a growing agrarian crisis.⁷⁹

More recent interpretations challenge this pre-existing assumption of the unbridgeable gulf between state and society in Late Imperial Russia, highlighting an emerging cooperation between state and society. They emphasise the importance of cooperation between emerging civic bodies and civil society and the Russian government across a number of fields, that, according to these interpretations, presaged the emergence of a law governed constitutionalist state.⁸⁰ For example, the Russian government became more tolerant of charitable institutions with ambitious social agendas after the constitutional reforms of 1905 and 1906, and public and

⁷⁵ Michael Hamm, *Kiev: a Portrait 1800-1917*, (Princeton: Princeton University Press, 1993), 233.

⁷⁶ Peter Waldron, *Between two Revolutions: Stolypin and the Politics of Renewal in Russia* (London: UCL Press, 1998), 183-185.

⁷⁷ Heather Hogan, *Forging Revolution: Metalworkers, Managers, and the State in St. Petersburg, 1890-1914* (Bloomington: Indiana University Press, 1993), 3; Tim McDaniel, *Autocracy, Capitalism and Revolution in Russia* (Berkeley: University of California Press, 1988), 55.

⁷⁸ Valentina G. Chernukha and Boris V. Anan'ich, 'Russia Falls Back, Russia Catches Up: Three Generations of Russian Reformers', in T. Taranovski (ed.), *Reform in Modern Russian History: Progress or Cycle?* (Cambridge: Cambridge University Press, 1995), 96.

⁷⁹ Larissa Zakharova, 'From 'Revolution from Above' to 'Revolution from Below,' in Taranovski (ed.), *Reform in Modern Russian History*, 124.

⁸⁰ Most recently, Wayne Dowler, *Russia in 1913* (DeKalb: Northern Illinois University Press, 2012); William Wagner, 'Ideology, Identity and the Emergence of the Middle Class' in E. Clowes, S. Kassow and J. West (eds.), *Between Tsar and People: Educated Society and the Quest for Public Identity in Late Imperial Russia* (Princeton: Princeton University Press, 1991); see also Theodore Taranovski, 'Sudebnaia reforma i politicheskaiia kul'tura tsarskoi Rossii' in L. G. Zakharova, B. Eklof and J. Bushnell (eds.), *Velikie reformy v Rossii, 1856-1874* (Moscow, 1992), 301-17, who contrasts Russian bureaucratic reformism with Central European liberalism.

judicial debate surrounding marital and family law had a significant effect upon the drafting of marital law, and the decisions of the Civil Cassational department of the Senate.⁸¹

Due to the significance of the relationship between state and society, historiography has focused upon the emergence of *obshchestvo*, or ‘society’, broadly defined as educated society opposed to the bureaucratic state and who possessed a certain public mindedness. This approach has been taken to study of the zemstvos, the creation of which devolved significant local responsibilities to elected institutions, albeit those that were dominated by the nobility.⁸² The zemstvos in many ways came to form an early nucleus of private civil initiative, especially when they were authorised to form national congresses such as in response to the famine of 1891 and the Russo-Japanese war in 1904.⁸³ They have also been studied as a locus for liberal opinion before the twentieth century giving rise to organisations such as Bethesda and the Union of Zemstvo Constitutionalists whose members would later go on to form the Kadet and Octobrist parties.⁸⁴ However, historians have maintained that the zemstvo was flawed by the way in which the government maintained supervision over the zemstvos from their inception, through restrictions on their activities and discussions, and the lack of a zemstvo institution above that of the provincial level, leading to the charge that the zemstvos were a ‘building without a roof’, and that their influence was effectively curtailed by later restrictions.⁸⁵

⁸¹ Adele Lindenmeyr, *Poverty is not a Vice: Charity, Society and the State in Late Imperial Russia* (Princeton: Princeton University Press, 1996); William Wagner, ‘Civil Law, Individual Rights and Judicial Activism in Late Imperial Russia’, in P. Solomon (ed.), *Reforming Justice in Russia, 1864-1996. Power, Culture and the Limits of Legal Order* (Armonk: M. E. Sharpe, 1997).

⁸² Dorothy Atkinson, ‘The Zemstvo and the Peasantry’, in Terrence Emmons and Wayne Vucinich (eds.), *The Zemstvo in Russia: an Experiment in Self-Government* (Cambridge: Cambridge University Press, 1982), 117-8.

⁸³ Joseph Bradley, ‘Voluntary Associations, Civic Culture, and Obshchestvennost in Moscow’, in Edith Clowes, Samuel Kassow, and James West (eds.), *Between Tsar and People: Educated Society and the Quest for Public Identity in Late Imperial Russia* (Princeton: Princeton University Press, 1991), 141; Roberta Manning, *The Crisis of the Old Order in Russia: Gentry and Government* (Princeton: Princeton University Press, 1982), 70.

⁸⁴ M. M. Pirumova, *Zemskoe liberal'noe dvizhenie* (Moscow, 1977); Gregory Freeze, ‘A National Liberation Movement and the Shift in Russian Liberalism, 1901-1903’, *SR* vol. 28, no. 1 (1969), 82; Becker, *Nobility and Privilege in Late Imperial Russia* (DeKalb: Northern Illinois University Press, 1985), 157.

⁸⁵ George Fischer, *Russian Liberalism: From Gentry to Intelligentsia* (Cambridge, Mass: Harvard University Press, 1958), 11; Theodore Weeks, *Nation and State in Late Imperial Russia: Nationalism and Russification on the Western Frontier, 1863-1914*, (DeKalb, IL: Northern Illinois University Press, 1996), 137.

Joseph Bradley and other historians have traced the development of voluntary and professional associations in Russia, which formed an increasingly important component of private public initiative in Russia. Yet, in a similar fashion to the zemstvos, these associations faced severe governmental interference. They were forced to provide agendas to the Ministry of Internal Affairs, faced police supervision of the topics of discussion of their meetings, and operated on the basis of government approved charters which severely limited their activities to those prescribed by their charter.⁸⁶

Despite these government limitations, professional and voluntary associations dynamically competed with the government for legitimacy over their particular field, from the provision of technical education to workers to the training of pharmacists.⁸⁷ In these endeavours the voluntary associations possessed many similarities with zemstvo professionals such as teachers and agronomists, who became increasingly active and assertive in defence of their prerogatives in their respective fields against bureaucratic interference.⁸⁸ However, this was not a relationship based purely upon conflict; in particular, charitable organisations that were created in response to specific socioeconomic change in the period, such as for the provision of unemployment and homelessness relief for migrant workers in cities, enjoyed a broadly positive relationship with the autocracy.⁸⁹ Research into these issues has recently moved into different areas, for example the increasing importance of public property in Russia, with a newly conceptualised aim of benefiting the public good, which was applied to state rivers and forests.⁹⁰

⁸⁶ J. Bradley, *Voluntary Associations in Imperial Russia: Science, Patriotism and Civil Society* (Cambridge, Mass.: Harvard University Press, 2009), 262; J. Bradley, 'Russia's Parliament of Public Opinion: Association, Assembly, and the Autocracy, 1906-1914,' in T. Taranovski *Reform in Modern Russian History*, 217-20.

⁸⁷ Bradley, *Voluntary Associations*, 209; Mary Conroy, 'P.A. Stolypin, Marxists, and Liberals Versus Owners of Pharmacies and Pharmaceutical Firms in Late Imperial Russia' in Conroy, ed, *Emerging Democracy in Late Imperial Russia* (Colorado: Colorado University Press, 1998), 122.

⁸⁸ Porter and Gleason, 'The Zemstvo and the Transformation of Russian Society', in Mary Conroy (ed.), *Emerging Democracy in Late Imperial Russia: Case Studies on Local Self-Government, State Duma Elections, the Tsarist Government and the State Council before and during World War One* (Colorado: Colorado University Press, 1998), 67.

⁸⁹ Lindenmeyr, *Poverty is not a Vice*, 231.

⁹⁰ E. Pravilova, *A Public Empire: Property and the Quest for the Common Good in Late Imperial Russia* (Princeton: Princeton University Press, 2014), 128.

The relationship between this nascent civil society and the Russian government was significantly affected by the revolution of 1905 and the resulting promulgation of the October Manifesto and Fundamental laws. The creation of the Duma and the obligation to pass legislation through it resulted in the removal of the legitimacy of the Tsar's unlimited autocratic power; Stolypin and later government ministers were forced to construct right wing coalitions in the Duma and the State Council to push through legislation.⁹¹ Arbitrary government treatment of extra governmental organisations was also restricted by the promulgation of the fundamental laws in 1906 which guaranteed the freedom of association, as well as the freedom of the person from arbitrary arrest and punishment. Mironov argues that these provisions fundamentally altered the relationship between the state and the rest of society through this conferment of rights and by changing the basis of law in Russia.⁹²

However, there still exists substantial debate as to the effectiveness of these reforms in altering the relationship between the state and civil society. Historians have argued that in the aftermath of the 1905 revolution the autocracy was able to bypass the concessions that it made to society through further restrictions to the electorate in June 1907 and the use of field courts-martial to try civilians.⁹³ This partly stemmed from Nicholas II's unwillingness to accept the provisions of the constitutional reforms, and in attempting to re-fashion a congenial relationship between the government and the autocracy he adversely affected the unity of the government in the Duma period.⁹⁴ The rights of citizens were also ill defined in the constitutionalist period; down to 1917, bureaucratic modernisers persisted with a conception of

⁹¹ Abraham Ascher, *The Revolution of 1905: Authority Restored* (Stanford: Stanford University Press, 1989), 373; Alexandra Korros, 'Nationalist Politics in the Russian Imperial State Council: Forming a New Majority, 1909-1910', in Conroy, ed, *Emerging Democracy in Late Imperial Russia: Case Studies on Local Self-Government, State Duma Elections, the Tsarist Government and the State Council before and during World War One* (Colorado: Colorado University Press, 1998), 204.

⁹² B. Mironov, *A Social History of Russia, 1700-1917* Vol. 2 (Boulder: Westview Press, 2000), 41-2.

⁹³ William Fuller, *Civil Military Conflict in Imperial Russia, 1881-1914* (Princeton: Princeton University Press, 1985); Jonathan Daly, 'On the Significance of Emergency Legislation in Late Imperial Russia', *SR* Vol.54, No.3 (Autumn, 1995): 602-29; Korros, 'Nationalist Politics in the Russian Imperial State Council, 204.

⁹⁴ David M. McDonald, 'United Government and the Crisis of Autocracy, 1905-1914,' in T. Taranovski, (ed.), *Reform in late Imperial Russia: Progress or Cycle?* (Cambridge: Cambridge University Press, 1995), 210-11.

individual citizenship that emphasised the obligations of the individual to the state, but left the concept of individual rights in doubt.⁹⁵

The relationship between the state and the emerging civil society in Russia was fundamentally affected by the emergence and development of extra governmental associations, which after 1905 occupied a new environment whereby the legal and theoretical framework of the relationship between the government and society had changed. A key part of this development was the way in which the relationship between the state and industrial interests evolved in line with the rest of Russian civil society. It is in this developing network of relationships between civil society and the Russian government that British direct investment was situated, and was profoundly influenced by Tsarist economic policy and the economic tutelage of the Russian government.

Russian Industrial Growth and Government Tutelage

The Russian government played an important part in the industrialisation of Russia. Before 1880, the Russian economy suffered in comparison to its international rivals. A low tariff policy, combined with a labour shortage as a result of the continued attachment of peasants to the commune after emancipation meant that Russian industry failed to compete with foreign products.⁹⁶ A new tariff policy beginning in the 1880s helped to foster Russian industrial growth, culminating in the 1891 tariff policy which set very high rates of foreign raw materials and manufactured goods that was designed to stimulate Russian industry and foreign investment in domestic manufacture.⁹⁷

Historians such as Gerschenkron and von Laue have argued that this economic policy, as well as the government stimulus through railway building, resulted in a high rate of Russian industrial growth up until the First World War. Gerschenkron estimates that from 1885 to 1913 the Russian economy grew at an average of 5.7

⁹⁵ Yanni Kotsonis, 'Face to Face': The State, the Individual and the Citizen in Taxation in Russia, 1863-1917,' *SR* 63, 2 (2004), 245.

⁹⁶ Falkus, *The Industrialization of Russia*, 50, 56.

⁹⁷ *Ibid.*, 57.

percent annually, even taking into account the slow rates of growth during the industrial downturn of 1900-1906.⁹⁸ This contention is further supported by Gatrell's figures, which suggest the Russian economy grew most rapidly between 1885 and 1900, encompassing the effect of the new tariff restrictions, Russia's entry to the gold standard, and most importantly Russia's ambitious railway construction projects.⁹⁹ Due to increased mechanisation from the importation of modern machinery, especially in the Moscow province, factory productivity also increased after the industrial downturn of the beginning of the twentieth century.¹⁰⁰

The extent to which government policy was the sole driver of industrialisation has been contested, however, initially by Falkus who cited low international interest rates in Western Europe and America that acted as a push factor for foreign capital entering Russia, and the preponderance of consumer goods manufacturing from 1907 to 1914.¹⁰¹ Haim Barkai is more explicit, arguing that the liberalisation of monetary policy allowed the 'latent forces' of industrialisation to come to the fore in Russia, and downplays the role of the state.¹⁰² Soviet historians generally followed the Leninist model that the Tsarist regime created ideal conditions for the support of a small clique of foreigners and millionaires in industry at the expense of domestic industry.¹⁰³ However, later Soviet interpretations of state input into the growth of capitalism share many similarities with Falkus and Barkai; they argued that the state had very little positive impact in the growth of industry, instead citing the

⁹⁸ A. Gerschenkron, 'The Rate of Growth in Russia, Since 1885,' *The Journal of Economic History*, 7 (1947), 146; see also A. Gerschenkron, *Europe in the Russian Mirror: Four Lectures in Economic History* (Cambridge: Cambridge University Press, 1970), 102-103 where he argues that the state effectively 'replaced' certain economic preconditions that had stimulated growth in England and Germany; T. von Laue, 'The High Cost and the Gamble of the Witte System: A chapter in the Industrialization of Russia,' *Journal of Economic History*, 13, 4 (1953), 425-48.

⁹⁹ Gatrell, *The Tsarist Economy*, 143; *Government, Industry and Rearmament in Russia, 1900-1914. The Last Argument for Tsarism* (Cambridge: Cambridge University Press, 1994), 14.

¹⁰⁰ N. Ivanova, *Promishlennii tsentre Rossii, 1907-1914* (Moscow, 1995), 279-81.

¹⁰¹ Falkus, *The Industrialisation of Russia*, 75.

¹⁰² Haim Barkai, 'The Macro-Economics of Tsarist Russia in the Industrialization Era: Monetary Developments, the Balance of Payments and the Gold Standard,' *The Journal of Economic History* 33 (1973), 354.

¹⁰³ A. L. Sidorov et al., eds., 'Dokumenty po istorii monopolisticheskogo kapitalizma v Rossii', vol. 6 of *Materialy po istorii SSSR* (Moscow, 1959); M. P. Viatkin et al., eds., *Iz istorii imperializma v Rossii*, vol. 1 of *Trudy Leningradskogo otdeleniia instituta istorii* (Leningrad, 1959); A. L. Sidorov, *Ob osobennostiakh imperializma v Rossii* (Moscow, 1963); Applied to Nobel's machinations to obstruct the construction of a state owned Transcaucasian pipeline by V. A. Nardova, *Nachalo monopolizatsii neftianoi promishlennosti Rossii, 1880-1890-e gody* (Leningrad, 1974), 68-79.

autonomous development of industry.¹⁰⁴ More recently, Pravilova has argued that the Tsarist government's economic policies favoured the state and the established industrial regions surrounding Moscow and St Petersburg to the detriment of the development of industry in other areas of Russia, which were reduced to economic colonies of the centre.¹⁰⁵

Barkai's model is based upon the assumption that Russian money supply inhibited economic growth, which has since been challenged by Gregory and Sailors on the basis of a greater flexibility of prices, as well as by Drummond, who argues that the Russian government maintained a larger money supply than Barkai estimates.¹⁰⁶ Olga Crisp posits a more nuanced version of this industrial growth, identifying two separate but overlapping growth 'streams', the autonomous growth stream and the induced growth stream, with the latter having an indirect effect upon the former.¹⁰⁷ State policies, although not central to the growth of all industries thus had a significant effect upon the growth of the industrial economy as a whole.

It is therefore clear that the Russian government took an active role in the stimulation of Russian industry, and that a significant part of its strategy was the encouragement of foreign investment. However, as with other examples of the growth of private initiative in Russia, the government was not willing to relinquish its control over the forces of private initiative. Therefore, much work on the growth of Russian industry has stressed the paternal stance taken by the Russian government over industry in Russia. For example, Gatrell argues that the government, while aiming to encourage

¹⁰⁴ V. Ia. Laverychev, 'Rol' gosudarstva v sotsial'no-ekonomicheskom razvitii Rossii vo vtoroi polovine XIX-nachale XX vekov', paper presented at the Third U.S.-USSR Historians' Colloquium, (Moscow, November-December 1978); B. V. Anan'ich, 'The Economic Policy of the Tsarist Government and Enterprise in Russia from the End of the Nineteenth through the Beginning of the Twentieth Century', in Guroff and Carstensen, (eds.), *Entrepreneurship in Imperial Russia and the Soviet Union* (Princeton, NJ: Princeton University Press, 1983), 125- 40; this method was also applied to the period 1750-1850 by B. N. Mironov, *Vnutrennii rynek Rossii vo vtoroi polovine XVIII-pervoi polovine XIX v.* (Leningrad, 1981).

¹⁰⁵ Ekaterina Pravilova, *Finansy imperii. Den'gi i vlast' v politike Rossi na natsional'nykh okrainakh, 1801-1917* (Moscow, 2006), 369.

¹⁰⁶ Paul Gregory and Joel Sailors, 'Russian Monetary Policy and Industrialization, 1861-1913,' *The Journal of Economic History* 36, 4 (1976), 836-851; Ian Drummond, 'The Russian Gold Standard, 1897-1914', *The Journal of Economic History* Vol. 36, No. 3 (1976), 670-84.

¹⁰⁷ Crisp, *Studies in the Russian Economy*, 52.

the growth of private industry for reasons of international competition, attempted to control and subordinate it to the needs of the state.¹⁰⁸

The extent to which this paternalism affected commerce and industry in Russia has been debated. According to some historians, the regimentation of the law and the subordination of commerce to the state were detrimental to market forces and also the productive capacities of the population, and created an atmosphere of antagonism between industrialists and the state, especially in the mainly state-controlled armaments industries.¹⁰⁹ Government policies also created a sense of uncertainty among private enterprise, due to the uncertainty of certain economic privileges and private property.¹¹⁰ Disputes between ministers, a chronic symptom of the autocracy, have also been credited with causing significant disruption in a number of industries that the government attempted to stimulate such as railway building and the oil industry.¹¹¹ More recently, Thomas Owens argues that due to its incompatibility with autocracy, the joint-stock corporation lost its dynamism in Russia and became subordinate to the bureaucracy.¹¹² This has also been applied to foreign enterprises in Russia, for example the state often abandoned its official goal of legal equality between domestic and foreign enterprise in order to safeguard the interests of the former.¹¹³

On the other hand, Olga Crisp argues that the Russian government succeeded in creating conditions in which industrialisation could proceed rapidly through the agency of private individuals through the pursuit of general economic and political

¹⁰⁸ Gatrell, *Government, Industry and Rearmament*, 325.

¹⁰⁹ Marc Raeff, *The Well-Ordered Police State: Social and Institutional Change through Law in the Germanies and Russia* (New Haven: Yale University Press, 1983), 213, 250; Thomas Owen, *The Corporation Under Russian Law, 1800-1917* (Cambridge: Cambridge University Press, 1991), 203-205; 'The Russian Industrial Society and Tsarist Economic Policy, 1867-1905,' *Journal of Economic History* 45, 3 (1985), 600; Gatrell, *Government, Industry and Rearmament*, 325-26.

¹¹⁰ W. Bruce Lincoln, *The Great Reforms: Autocracy, Bureaucracy and the Politics of Change in Imperial Russia* (Illinois: Northern Illinois University Press, 1990), 198; Peter Gatrell, 'Economic Culture, Economic Policy and Economic Growth in Russia, 1861-1914,' *Cahiers du Monde Russe*, Vol. 36, No. 1/2 (1995), 49-50.

¹¹¹ John McKay, 'Baku Oil and Trans-Caucasian Pipelines, 1883-1891: A Study in Tsarist Economic Policy,' *SR*, Vol. 43, No. 4 (1984): 622; Stephen Marks, *Road to Power: the Trans-Siberian Railroad and the Colonisation of Asian Russia, 1850-1917* (Ithaca, NY: Cornell University Press, 1991), 112.

¹¹² Owen, *The Corporation Under Russian Law*, 215.

¹¹³ Irina Potkina, 'Zakonodatel'noe regulirovanie predprinimatel'skoi deiatel'nosti inostrantsev v Rossii. 1861-1916 gg.,' in B. Bovykin (ed.), *Inostrannoe predprinimatel'stvo i zagranichnye investitsii v Rossii* (Moscow: ROSSPEN, 1997).

goals.¹¹⁴ Grant has also rejected the notion that the Russian autocracy prevented corporate prosperity in Russia, instead arguing that in the case of the Putilov Company, market realities shaped the companies' behaviour to a greater extent than the peculiarities of the Russian autocracy.¹¹⁵ Nevertheless, due to the Russian government's economic policies of tutelage in the period, the Russian government's treatment of business interests would likely have played a major role in the Russian business environment and would have significantly shaped the experience of British investment interests.

The economic policies of the Russian government and its treatment of business interests therefore constitutes a significant component of the Russian government's treatment of extra governmental bodies that formed the nucleus of the developing *obshchestvo* in Russia. In other words, the experience of business interests with the Russian government is necessarily similar to the experiences of other emerging civic groups in Russia that could have formed a viable civil society. An important part of this development was played by the emerging foreign industrial interests in Russia, and in particular, the British interests who largely remained in managerial control of their invested capital.

These developments can be viewed as part of a long term development of the Russian business environment as experienced by British investment interests. The emergence of civil society in Russia and the development of cooperation between it and the government, and restrictions on the government's arbitrary power, occurred during a time of increased British investment in Russia, despite the industrial downturn of 1900-1906. At the same time, from the beginning of the twentieth century Anglo-Russian relations improved, giving the newly professionalised diplomatic and consular corps greater access to the various levels of Russian government in order to pursue the interests of British commerce. This raises the possibility of a link between greater cooperation between government and civil society in Russia and the increase in British investment to Russia. In order to investigate this phenomenon further, it is therefore necessary to examine the forms of

¹¹⁴ Crisp, *Studies in the Russian Economy*, 25.

¹¹⁵ Jonathan Grant, *Big Business in Russia: the Putilov Company in Late Imperial Russia, 1868-1917* (Pittsburgh, PA: Pittsburgh University Press, 1999), 150-51.

legal control that the government took over Russian foreign industrial interests in the period.

Chapter 1, Russian Commercial Law and Foreign Companies, 1892-1914

A major component that defined the relationship between British companies and the Russian state was the corpus of Russian commercial law, and its provisions for foreign companies. Apart from some alterations by Segei Witte, the Russian Minister of Finance 1892-1903, in order to encourage foreign investment, Russian commercial law and the position of foreign companies in the period remained largely unchanged, thus representing a significant continuity in the history of government-industrial relations in Russia before 1914. This continuity is significant because commercial law in 1892 enshrined the concept of arbitrary intervention in the affairs of companies in the law, as opposed to creating an environment of positive law that defined the rights of commercial interests against the state, through assigning ministerial and official discretion over the day to day affairs of companies in Russia. Despite minor alterations to the conditions of foreign companies and the imposition of a modicum of regulation on the extractive industries in the 1900s, the system of ministerial discretion survived intact until 1914. Because Russian commercial law was rooted in ministerial discretion, the government's treatment of foreign companies was therefore of key significance to the formation of positive or negative assumptions about the Russian business environment, and the formation of an adequate working knowledge among British businesses about the Russian government's role in the business environment. As commercial law was based in discretion, the consistent application of the law also depended entirely upon the Russian government, as did mechanisms for the provision of redress.

In order to address this question, this chapter addresses five key areas. Firstly, it addresses how ministerial discretion over the activities of companies in Russia was initially established through the law, and whether there was a corresponding growth of regulation that accompanied this expansion of bureaucratic power. Secondly, this approach is applied to the corpus of law governing the activities of foreign enterprises, and how this gave even greater levels of discretionary power over foreign companies to members of the Tsarist bureaucracy. These processes can then

be contrasted to the regulations affecting companies in the extractive industries, promulgated during the period in question, which arguably left less room for ministerial discretion. This chapter also explores the general legal position of British companies in Russia, the rights accorded to them, and the implications of the legal disabilities from which they suffered. Finally, it considers the quality of legal representation available to them and the implications of this.

1.1 *Proizvol* and the Russian Legal System

Any discussion of Russian law should firstly, however, be prefaced by an examination of the development of legality in Russia. The Russian legal system as a whole was significantly affected by the tension between the persistence of arbitrary autocratic power, or *proizvol*, alongside the development of lawfulness, or *zakonnost'*, in Russian government. This question revolves around the extent to which the Russian monarchy preserved the crown's autocratic privileges while attempting to implement legality in Russia from above. This can be addressed through an examination of several key features of a law governed state in Russia: the existence of a codified body of law, fundamental laws restricting the power of the monarch, the existence of an independent legal profession and courts system, and the extent to which autocratic power affected the working of the wider bureaucracy.

Three general historiographical viewpoints emerge with reference to this question. Historians who are particularly critical of the Russian regime assert that the Tsars attempted to impose only the overt trappings of legality while maintaining their autocratic powers, to the detriment of modern social and economic development.¹ From such a perspective, the legal reforms of 1864 can be interpreted purely as a reaction to the administrative and revolutionary problems created by the emancipation of the serfs in 1861.² A separate position highlights the importance of the backwardness of Russia. Baberowski contends that the attempt to introduce

¹ Richard Pipes, *Russia under the Old Regime* (Harmondsworth: Penguin, 1977).

² M. G. Korotkikh, *Sudebnaia reforma 1864 goda v Rossii: sushchnost' i sotsial'no-pravovoi mekhanizm formirovaniia* (Voronezh: Voronezhskogo Universiteta, 1994), 177-78.

legality through judicial reform was detrimental due to Russia's inherent backwardness and it was inept at dispensing justice and in need of state oversight.³ Conversely, Mironov, while starting from a similar assumption of backwardness, identifies a gradual increase in legality in nineteenth century Russia, and the development of a basic law-governed state.⁴ Finally, Wortman, in his major work on the development of the legal profession, agrees that certain Russian Tsars such as Catherine the Great and Alexander II genuinely attempted to introduce lawfulness to the monarchy, government, and society, however they simultaneously attempted to preserve the exercise of personal power due to its importance in their presentation of monarchical power and resisted any kind of reform that would restrict this.⁵

A key facet of a law governed state in the nineteenth century was the institution of a clear code of laws. Such a code could be used by multiple sections of society, such as judges, legislators, and the officialdom, in order to act in accordance with clearly defined laws and regulations.⁶ By 1892 Russia possessed the *Polnoe Sobranie Zakonov* (Complete collection of laws, PSZ) and the *Svod Zakonov* (Code of laws, SZ). The PSZ was a historical collection of laws of the Russian Empire, organised chronologically. As opposed to this, the SZ was an active code of law, organised topically, and was intended to be used as a guide to the PSZ.⁷ The introduction of the legal code has been credited with the inculcation among Russian jurists of the importance of establishing legal standards upon which social and economic modernisation could take place, and the development of judicial criticism and discussion of the laws.⁸ Before the creation of the PSZ and the SZ in the 1830s,

³ Jörg Baberowski, 'Law, the Judicial System and the Legal Profession', in Dominic Lieven (ed.), *The Cambridge History of Russia* Vol. 2 (Cambridge: Cambridge University Press, 2006), 363.

⁴ B. N. Mironov, *Sotsial'naiia istoriia Rossii perioda imperii (XVIII–nachalo XX v.)*, vol. 2 (St. Petersburg: Dmitrii Bulanin, 1999), 52.

⁵ R. Wortman, *The Development of a Russian Legal Consciousness* (Chicago: University of Chicago Press, 1976), 16; 'Russian Monarchy and the Rule of Law: New Considerations of the Court Reform of 1864,' *Kritika* Vol. 6, No. 1 (2005), 167-8.

⁶ H. Berman, 'The Rule of Law and the Law Based State', *Harriman Institute Forum* 4, 5 (1991), 449–58; Hiroshi Oda, 'The Emergence of Rechtsstaat in Russia', *Review of Central and East European Law* 25, 3 (1999), 378-79.

⁷ William Whisenand, *In Search of Legality: Mikhail M. Speranskii and the Codification of Russian Law* (New York: Columbia University Press, 2001), 75-85.

⁸ Marc Raeff, *Understanding Imperial Russia: State and Society in the Old Regime* translated by A. Goldhammer (New York: Columbia University Press, 1984), 123; William Wagner, *Marriage, Property and Law in Late Imperial Russia* (Oxford: Clarendon Press, 1996), 33.

Russian law was incompletely codified by the 1649 Ulozhenie, the legal code promulgated by Tsar Aleksei Mikhailovich.

While stimulating judicial knowledge and discourse, the PSZ contained an inherent contradiction as an autonomous legal code by not distinguishing between laws, judgements, and administrative decrees. Under this system, the monarch could make any administrative ruling law by decree, whether or not it conflicted with existing law. This has led to the suggestion by historians who are more critical of the regime that there was no formal distinction between laws judgements and administrative decrees, and led to considerable confusion in Russian public life.⁹ Other interpretations suggest that the codification of Russian law did in fact allow Russian citizens to enforce their rights in civil and criminal cases, although the legal systems asserted the state's authority over the definition of rights.¹⁰ The important point here, however, is that a 'law' and an 'administrative decree' were indistinguishable in the PSZ, which indicates that laws were purely embodiments of the Imperial will as opposed to a separate source of law. This contradiction was even embodied in the fundamental law of the 1832 edition of the PSZ, which stated that the empire was to be governed on the basis of laws while the first article contained an assertion of the autocratic right.¹¹

Bureaucratic regulations and codification attempts of the eighteenth century provide an important backdrop to this ambiguity. Although Peter I created many different laws such as the General Regulation, they were neither codified nor reconciled with previous laws. The General Regulation itself, while providing a system of rules and corresponding punishments for bureaucratic work, was conceived as an extension of the ruler instead of as an institution that would implement rationality and regularity, a situation which is particularly underscored by the use of the army in the

⁹ Pipes, *Russia Under the Old Regime*, 298.

¹⁰ Jane Burbank, 'An Imperial Rights Regime: Law and Citizenship in the Russian Empire,' *Kritika* 7, 3, (2006), 410.

¹¹ Pavel Zyrianov, 'The Development of the Russian State System in the Nineteenth and Early Twentieth Centuries', in Teruyuki Hara and Kimitaka Matsuzato (eds.), *Empire and Society: New Approaches to Russian History* (Sapporo: Slavic Research Center, Hokkaido University, 1997), 115.

administration.¹² Successive eighteenth-century senatorial commissions were followed by the Legislative Commission of Catherine II, who believed that codification would instil confidence among her subjects in the courts.¹³ But none came close to achieving a working codification. A significant problem was that Russian monarchs in this period did not trust the delegation of codification of laws to officials who might have attempted to usurp the Tsar's legislative authority.¹⁴ Thus, when codification was finally successful, its overt function was the continuation of the Russian legal tradition in the face of constitutional challenges posed by the events of the early nineteenth century; the officials tasked with codification although relying on Western precedent carefully denied the influence of alien models.¹⁵ Therefore instead of a complete guide to Russian law and legal precedent, the PSZ instead represented a means through which the Russian autocracy preserved its hegemony over the issuance of laws while obtaining some of the social and economic stability that a code of laws implied.

This conclusion is supported by the incompleteness of the PSZ. In compiling the code, Speranskii was forced to confine the inclusion of laws into the PSZ to those that originated from the monarch via imperial decree, when in fact there were many other collections of law in the Russian empire such as senate rulings, high court rulings, provincial governors and Synodal edicts.¹⁶ This problem of incompleteness was sustained after the initial publication of the PSZ and SZ. The judicial reform of 1864 placed the responsibility for the interpretation and definition of the law with the Civil Cassation Department in the Ministry of Justice. Research into this department's activities indicates that it took advantage of ambiguities in the current statutes and effectively shaped Russian law. According to Wagner, its decisions,

¹² E. Anisimov, *The Reforms of Peter the Great: Progress through Coercion in Russia* trans. J. Alexander (London: M.E. Sharpe, 1993), 145-150; Marc Raeff, 'Russia's Autocracy and the Paradoxes of Modernism', 119.

¹³ I. de Madariaga, *Russia in the Age of Catherine the Great* (London: Pheonix, 2002), 173.

¹⁴ Wortman, *The Development of Russian Legal Consciousness*, 16-17; Raeff, *Understanding Imperial Russia* (New York: Columbia University Press, 1984), 48.

¹⁵ Tatiana Borisova, 'Russian National Legal Tradition: *Svod* versus *Ulozhenie* in Nineteenth Century Russia', *Review of Central and East European Law*, 33 (2008); Engelstein, 'Combined Underdevelopment: Discipline and the Law in Imperial and Soviet Russia,' *American Historical Review* 98 (1993), 345.

¹⁶ William Whisenhunt, *In Search of Legality: Mikhail M. Speranskii and the Codification of Russian Law* (New York: Columbia University Press, 2001), 71.

published in official government publications and not the PSZ, were tantamount to statutory law.¹⁷ In 1892, there therefore existed a multiplicity of bodies that were able to issue laws that were not included in the PSZ. Due to its autocratic underpinnings and incomplete nature, it is therefore very difficult to equate the PSZ and the SZ with a legal code found in a law governed state; i.e. one that could act as a definitive guide of regulations and procedures that could guarantee the expectations held by society of the state.

The opposition of the Tsars in the nineteenth century to a limitation of their powers stemming from a legal code is also evidenced by the almost complete absence of any personal safeguards for the citizenry until the granting of the October Manifesto and Fundamental laws of 1905 and 1906. Throughout the development of various codification processes in Russia, there was no attempt to implement a set of inherent freedoms for the Russian people. For example, though it proclaimed the virtues of lawful rule, Catherine the Great's *Nakaz*, a statement of principles intended as a guide for the 1767 commission for the formulation of a legal code, contained nothing about the idea of natural law, inherent freedoms, or a social contract.¹⁸ Studies have shown that this attitude to such so called civil rights was sustained in Russia in part due to the inherent challenge to autocratic power which the security of the person and property implied.¹⁹

The flawed nature of Russian codification by 1892 was a reflection of the persistence of autocratic power and influence over the legal system. A significant part of this supremacy stemmed from the law of succession, which effectively placed the will of the autocrat above the law. Peter the Great's original law of succession of 1722 created a system of succession by designation, which guaranteed the unrestrained nature of the monarchy instead of a notion of limitation with a law of hereditary

¹⁷ William Wagner, *Marriage, Property and Law in Late Imperial Russia* (Oxford: Clarendon Press, 1996), 40-46.

¹⁸ G. Hosking, *Russia, People and Empire, 1552-1917* (London: Harper Collins, 1997), 99.

¹⁹ William Butler, 'Civil Rights in Imperial Russia: Legal Standards in Gestation,' in Olga Crisp and Linda Edmondson (eds.), *Civil Rights in Imperial Russia* (Oxford: Clarendon Press, 1989), 1-12.

succession.²⁰ This law of succession was later supplanted by Paul I's legislation in 1797, although this was subverted in 1825 when Nicholas I succeeded Alexander I instead of Grand Duke Constantine. Although hereditary succession continued throughout the nineteenth century unopposed, heredity did not in itself constitute a right to rule.²¹ More controversially, this law has been interpreted as leading to the formation of a completely one-sided relationship with society, whereby the state sought to inculcate the population with a common sense of destiny while preserving the omnipotent power of the state.²²

The limitations of the importance of the fundamental law of succession in forming the Tsar's legitimacy can be linked to the manner in which Tsars presented themselves and their right to rule. Successive Russian Tsars in the nineteenth century represented themselves as successors to Peter the Great's legacy, by rejecting the legacy and restrictions of the immediate past and imposing order from above. The rejection of legal limitations on the monarchy in these presentations became more overt in the reigns of Alexander III and Nicholas II who appealed to traditional muscovite patriarchal imagery and rejected foreign conceptions of limited monarchy.²³

Alongside a functioning codification of laws and the legal limitations to the power of the monarchy and the state that grew out of this, an important facet of the law governed state of the nineteenth century was the existence of an independent legal profession. An independent legal profession had certain connotations for the exercise of arbitrary autocratic power, as it represented a body that had a separate claim to the administration for the implementation and interpretation of the law. Due to this

²⁰ *Peter the Great: His Law on the Imperial Succession in Russia, 1722, the Official Commentary*, trans. and ed. Antony Lentin (Oxford: Headstart History, 1996), 129-133; Richard Wortman, 'The Representation of Dynasty and "Fundamental Laws" in the Evolution of the Russian Monarchy,' *Kritika* Vol. 13, No. 2 (2012), 271.

²¹ Richard Wortman, *F: Myth and Ceremony in the Russian Monarchy* Vol. 2 (Princeton: Princeton University Press, 2000), 122; 'The Representation of Dynasty,' 266.

²² Pipes, *Russia under the Old Regime*, 129.

²³ R. Wortman, 'The Representation of Dynasty,' 300; *Scenarios of Power: Myth and Ceremony in the Russian Monarchy* (Princeton: Princeton University Press), 235-6.

conflict an independent legal profession did not develop in Russia along with other notions of legality, such as the codification of Russian law.

Neither Peter I nor Catherine II attempted to introduce any kind of independent legal profession to Russia in tandem with their reforms, although Catherine II was nevertheless interested in sending scholars abroad to study jurisprudence. When legal education was finally introduced to Russia under Nicholas I, the emphasis of this education at the School of Jurisprudence was purely technical; trainee lawyers were taught to practice law in a purely mechanical form of simply applying the relevant laws without any focus upon interpretation.²⁴ Some historians have seen this development as resulting in a stunted development of the legal profession; the poor provision of legal training and culture meant that before the judicial reform there was no group of legally minded officials in the bureaucracy which could form the nucleus of a legal profession.²⁵ This has since been challenged by Wortman and Pintner, who identify a group of officials trained by educational establishments under Nicholas I dedicated to the law occupying important positions in the Ministry of Justice.²⁶ However, in these formative years it is clear that a judicial profession was kept in a position where it could not compete with the autocracy as an alternative source of law.

The conflict between the judiciary and the autocracy became more overt after the creation of an independent legal profession after the judicial reforms of 1864. Wortman, in his study of the legal profession, portrays this new profession as existing in conflict with the traditional patterns of autocratic power, and that successive Tsars were concerned with keeping legal interpretation within certain bounds. There therefore emerged a split between the administrators who believed in

²⁴ Wortman, *The Development of a Russian Legal Consciousness*, 45.

²⁵ Marc Raeff, 'The Bureaucratic Phenomena of Imperial Russia, 1700-1905' *American Historical Review* 84, 2 (1979): 399-411; 'The Russian Autocracy and its Officials,' in Raeff (ed.), *Political Ideas and Institutions in Imperial Russia* (Boulder, CO: Westview Press, 1994), 76-87.

²⁶ Don Karl Rowney, 'Organizational Change and Social Adaptation: the Pre-Revolutionary Ministry of Internal Affairs,' in Walter Pintner and Don Karl Rowney, (eds.), *Russian Officialdom: The Bureaucratization of Russian Society from the Seventeenth to the Twentieth Century* (Chapel Hill: University of North Carolina Press, 1980), 190-249; Wortman, *The Development of a Russian Legal Consciousness*, 198.

the power of the bureaucracy as the instrument of autocratic will, and the new judiciary who regarded themselves as the only guarantor of justice.²⁷

Part of the manifestations of this conflict was the attempt of the government to restrict the jurisdiction of the new court system created in 1864. The separation of justice from the administration as a result of the judicial reform of 1864 marked a significant point of departure for the provision of justice in Russia. It located justice in an independent system of courts, governed by their own rules and regulations and regulatory bodies. Before 1864 the Russian justice system was a complete behind closed doors process attached to the administrative system, with evidence being submitted and considered in secret, along with unaccountable judges. This quite clearly represented a significant reduction for the scope of arbitrary state power through the law.²⁸

However, after the creation of an independent court system, the Russian government took active measures to attempt to subordinate the justice system to the administration. The government attempted, for example, return the trial of certain crimes such as terrorism to the military courts through the 1881 emergency laws, which were never repealed in the Imperial period. These courts were used to try a large number of citizens in the 1880s and particularly in the aftermath of the 1905 revolution.²⁹

The scope of the new courts was also circumscribed in the field of the prosecution of administrative crimes. Most significantly, officials were virtually protected from any criminal proceedings into wrongdoing taken by the courts by the so called 'administrative guarantee', which meant that no official could be tried without the

²⁷ Wortman, *The Development of a Russian Legal Consciousness*, 270; also Baberowski, 'Law, the Judicial System and the Legal Profession', 363.

²⁸ Wortman, *The Development of a Russian Legal Consciousness*; A. D. Popova, *Pravda i milost' da tsarstvuiut v sudakh: iz istorii realizatsii sudebnoi reformy 1864 g.* (Ryazan, 2005).

²⁹ N. A. Troitskii, *Bezumstvo khrabrykh: Russkie revoliutsionery i karatel' naia politika tsarizma 1866–1882 gg.* (Moscow: Mysl', 1978), 185–202; J. Daly, 'On the Significance of Emergency Legislation in Late Imperial Russia'; William Fuller, *Civil-Military Conflict in Imperial Russia*.

agreement of his superior, thus administrative cases continued to be governed by the culture of autocracy.³⁰ Reforms to this system were vigorously opposed from within the ministries, and by particularly reactionary individuals such as Pobedenostsev.³¹

Cutting the jurisdiction of the courts was combined with attempts to undermine procedures in them. Research has pointed towards the tendency of prosecutors to collaborate with the administration in order to secure convictions and to further their own careers, as well as an imbalance of power in trials towards the prosecution, with the prosecution, judge and defence lawyer negotiating a consensus instead of engaging in an adversarial process.³² The government also circumscribed the independence of the new courts by retaining control over entry to the bar and could prevent oppositional individuals from entering it.³³

Historians have identified the rejection of legal constraints upon the Tsar's autocratic power with a more widespread ineffectiveness of legal limitations among the wider Russian officialdom. According to Waldron, the ethos of autocracy flowed through the Russian state, and at the local level individual officials were imbued with the idea that they could act with impunity, which was exacerbated by the fact that the executive power of the autocrat meant there was a lack of coordination between ministries.³⁴ This lack of coordination is also highlighted by Pearson's study of attempts to reform local administration. According to his analysis, the persistence of personal power invited ministerial infighting and a fragmentary penetration of

³⁰ E. A. Pravilova, *Zakonnost' i prava lichnosti: Administrativnaia iustitsiia v Rossii, vtoraiia polovina XIX v.–oktiabr' 1917* (St. Petersburg: SZAGS, 2000), 55–58.

³¹ E. A. Pravilova, 'Administrativnaia iustitsiia v Rossii: Proekty reformy Senata 1862–1867 gg.,' in B. V. Anan'ich (ed.), *Problemy sotsial'no-ekonomicheskoi i politicheskoi istorii Rossii XIX–XX vekov*, (St. Petersburg: Aleteia, 1999), 222–35.

³² Sergei M. Kazantsev, *Istoriia tsarskoi prokuratory* (St. Petersburg: Izdatel'stvo Sankt-Peterburgskogo universiteta, 1993), 173–88; Girish N. Bhat, "The Consensual Dimension of Late Imperial Criminal Procedure: The Example of Trial by Jury," in Solomon, (ed.), *Reforming Justice in Russia 1864-1996: Power, Culture and the Limits of Legal Order* (New York: M. E. Sharpe, 1997), 61–81.

³³ Brian L. Levin-Stankevich, "The Transfer of Legal Technology and Culture: Law Professionals in Tsarist Russia," in Balzer (ed.), *Russia's Missing Middle Class: the Professions in Russian History* (London: M. E. Sharpe, 1996).

³⁴ P. Waldron, *Governing Tsarist Russia* (New York: Palgrave Macmillan, 2007), 21, 82.

bureaucratic power into the countryside, resulting in a tangled and confused local administration.³⁵

Robbins identifies the increase in government and the lack of clear direction from the centre as the primary reason for the exercise of arbitrary power by local officials. In his study of the Russian Governor-Generals, he concedes that throughout the nineteenth century the governor generals became more subordinated to the Ministry of Internal Affairs who attempted to hold them to legal standards. However, a lack of direction from the centre led to inconsistency and uncertainty as to how to use their powers, thus governors acted in a personal, quasi vice regal manner.³⁶ Similarly, a recent study of the implementation of government initiatives in Nizhnii Novgorod found that central initiatives were implemented through a process of interaction between the central initiatives and a local response, which relied upon a certain level of consensus between the two, a consensus that, by the 1890s, had largely disappeared.³⁷ This relationship was further complicated by the existence of locally elected zemstvos from 1864, which had control of some local administration but were subject to various bureaucratic controls on the type of work they could carry out and the subjects that they could discuss.³⁸

Historians have identified how the growth of the bureaucracy hindered the exercise of executive power by the Tsar and his ministers, although this work tends to highlight the persistence of *proizvol* in the lower sections of the bureaucracy. A separate code of ethics and working was initially identified by Yaney, who argued that the post reform bureaucracy adhered to a moral standard of operating with its own highly entrenched informal rules, as opposed to a standard set out by law.³⁹

³⁵ T. Pearson, *Russian Officialdom in Crisis: Autocracy and Local Self-Government 1861-1900* (Cambridge: Cambridge University Press, 1989), 251.

³⁶ R. Robbins, *The Tsar's Viceroys: Russian Provincial Governors in the Last Years of the Empire* (Ithaca: Cornell University Press, 1987), 89, 243-44.

³⁷ Catherine Evtuhov, *Portrait of a Russian Province: Economy, Society and Civilisation in Nineteenth Century Nizhnii Novgorod* (Pittsburgh, University of Pittsburgh Press, 2011), 163.

³⁸ Terrence Emmons, 'The Zemstvo in Historical Perspective,' in Wayne Vucinich and Terrence Emmons (eds.), *The Zemstvos in Russia: an Experiment in Local Self Government* (Cambridge: Cambridge University Press, 1982), 432; Lincoln, *The Great Reforms*, 157-8.

³⁹ George L. Yaney, *The Systemisation of Government: Social Evolution in the Domestic Environment of Imperial Russia, 1711-1905* (Urbana: University of Illinois Press, 1973), 292-317.

Several historians identify deeply entrenched reactionary attitudes among the tsarist bureaucracy. Orlovsky, in his study of the post reform Ministry of Internal Affairs, identifies an entrenched political culture within the Ministry of Internal Affairs stemming from deeply rooted sources of reaction that came to the forefront after Alexander II's great reforms. With the exponential increase in government business throughout the second half of the nineteenth century, this political culture of reaction and defence of autocratic power led to entrenched systems of carrying out governmental work which paradoxically limited the Tsar's ability to exercise executive power.⁴⁰ Rowney's research into the service lists of the Ministry of Internal Affairs also indicates that this expansion of government meant that ministers had very little control over the makeup of the ministry, which he argues was undergoing a process of change up to 1914 independently of central policy.⁴¹

Wcislo also identifies a bureaucratic ethos centred on the police state, but also an ethos of bureaucratic reformism, and maintains that both groups utilised state power to gain political support for their policies.⁴² Similarly, liberal members of the State Council were able to influence policy formulation to the extent that they were able to water down three of Alexander III's reactionary policies; changes to the 1864 judicial reform, the creation of land captains, and modifications to the zemstvos.⁴³ This approach therefore suggests that instead of entrenching *proizvol*, the expansion of the bureaucracy in some areas safeguarded legality, although it is difficult to apply this idea to the wider administration given the increase in reactionary and apolitical officials in the second half of the nineteenth century identified by Orlovsky.⁴⁴

When considering the extent to which the legal code gave bureaucrats significant discretionary powers over foreign companies, it is important to consider the effect of the persistence of autocratic power on Russian officialdom, as these structures of

⁴⁰ Daniel T. Orlovsky, *The Limits of Reform: the Ministry of Internal Affairs in Imperial Russia, 1802-1881* (Cambridge, Mass: Harvard University Press, 1981), 50-51, 200-205.

⁴¹ Rowney, 'Organisational Change and Social Adaptation', 301.

⁴² Francis Wcislo, *Reforming Rural Russia: State, Local Society, and National Politics, 1855-1914* (Princeton, NJ: Princeton University Press, 1990), 85, 305-308.

⁴³ H. Whelan, *Alexander III and the State Council: Bureaucracy and Counter-Reform in Late Imperial Russia* (New Brunswick, NJ: Rutgers University Press, 1982), 170.

⁴⁴ Orlovsky, *The Limits of Reform*, 122.

autocratic power had important ramifications as to the amount of latitude that these officials could exercise. Research into the Russian bureaucracy indicates that this persistence of autocratic power invested in the monarch led to the permeation of the autocratic ideal throughout the Russian officialdom. Although there are some differences in approaches, broadly speaking it caused a breakdown of coordination between ministries and lines of communication to local administration that resulted in officials throughout the administration being able to act with impunity.

The influence of *proizvol* therefore permeated the expanding Russian bureaucratic machine. Although successive Russian monarchs from Peter I had attempted to impose regulation and uniformity onto the system, in genuine attempts to improve the social and economic development of Russia, their unwillingness to abandon their autocratic privileges resulted in an underdeveloped legal environment. Key institutions of a law governed state that could potentially regulate government activity were significantly underdeveloped as a result, and thus cannot be supposed to have regulated the actions of the bureaucracy at high government and the local administration. It was in this environment of arbitrary bureaucratic intervention that the corpus of Russian commercial law was situated, and took its main influences from.

1.2 The Law of 1836 and its Implications

The legal basis upon which all joint-stock companies in Russia operated until the Revolution of October 1917, was the law of 6 December 1836. Formulated by Nicholas I's Ministers D. Bludov and E. Kankrin, the law was designed to encourage entrepreneurial progress in Russia, whilst avoiding the volatility in the corporate securities market that had caused severe financial crises in the West in the 1830s. To this end, the law and its 57 articles represented an attempt by Nicholas's regime to prevent the exploitation of the stock market by unscrupulous individuals and to protect the interests of shareholders through bureaucratic regimentation, whilst at the same time encouraging western corporate capitalism. In principle, this law remained

in force in an unmodified form until the end of the old regime, with only two relatively insignificant amendments.⁴⁵

According to Owen, the 1836 law cemented bureaucratic control over companies in Russia by subordinating many aspects of their operations to bureaucratic regimentation. However, in his analysis by the beginning of the period 1892-1914, significant divergences had developed between the law of 1836 and the various company charters issued by the Russian government, that were considered to be laws of the Empire according to a Senate ruling in 1884. Therefore in practice by as early as 1874 the law of 1836 had little relevance, as company charters were simply drafted on the basis of articles that had recently been approved by the Minister of Finance, with little acknowledgement of the provisions for company charters contained within the original 1836 law.⁴⁶

I argue, by contrast, that two aspects of the law of 1836 did have far reaching implications: the principle of incorporation by concession and the principle of granting special privileges and monopolies to specific companies, both of which were included in the original legislation. These two principles operated in tandem to give officials in the Ministry of Finance and the Ministry of Internal Affairs, and local governors and officials, sweeping discretionary power over several key aspects of company activities, from the initial founding of a company to adjustments in share capital. This discretionary power formed the basis of arbitrary government interference in the affairs of all joint-stock companies in Russia in the period 1892-1914, and illustrates how in the commercial sector, arbitrary state action was a key component of lawfulness.

Russian commercial law contained strict regulations for the formation of joint-stock companies, which were not revised during the Tsarist period. Under Article 39 of the 1836 law, those wishing to form a joint stock company in Russia were required to submit a request for permission to the ministry to which the company was primarily subject, usually the Ministry of Finance until 1904 and thereafter the Ministry of

⁴⁵ Owen, *The Corporation under Russian Law*, 17-22.

⁴⁶ Owen, *The Corporation under Russian Law*, 26-7.

Commerce and Industry.⁴⁷ Companies were not necessarily entirely subject to just one ministry, however. For example, under later legislation, companies wishing to establish companies in Turkestan and the Trans-Caucasus regions were required to seek permission from the local Governor-General, and the Minister of War, as well as the usual permission from the Minister of Finance.⁴⁸ The decree of 14 June 1902, which opened up Primorskii Krai and Usinskii to foreign gold mining companies, required that such companies apply to the Minister of Foreign Affairs, the Ministry of the Interior, and the local Governor-General.⁴⁹ Therefore in granting permission for the establishment of a company, many officials were often involved in the process, both in St Petersburg and at the local level, increasing the discretionary power of various ministers and officials to affect the business environment as they saw fit in various geographical areas.

Article 2 of the 1836 law outlined the technical workings of this system. Company charters underwent review by the appropriate minister and the committee of ministers before being submitted to the Tsar for approval. Further articles contained in the 1836 law illustrate how pervasive discretionary power of these bodies could be during the review process. Article 53 outlined the basis upon which the relevant ministers should consider a proposal for acceptance, and essentially provided ministers with three grounds for refusal of a company. Firstly, permission could be refused if the general regulations of the 1836 law had not been followed, such as those pertaining to the rights of stockholders (articles 35-48), and technical specifications relating to proposed charters (article 51). Because by 1892 most of these rules had little relevance, this requirement left a great deal of scope for the relevant minister to refuse the charter for whatever reason he saw fit. The other two requirements were that the charter safeguarded the rights and interests of all those who wished to participate in the company, and that the project did not affect the legal rights of third parties, both of which also left a great deal of scope for ministerial discretion.

⁴⁷ The following discussion is based upon the articles of the law of 6 December 1836, which can be found in vol. XI, otdelenie 2, 257-63 no. 9763 (6 Dec 1836, 57 clauses).

⁴⁸ PSZ 3-10102, 9 November 1893.

⁴⁹ PSZ 3-21717, 14 June 1902.

Combined with the provisions in article 13, which prohibited ‘Companies whose purpose is clearly unprofitable, or contrary to the laws, to morality, to good faith in trade and to public order, or, finally, which would cause significant detriment to the state’s revenues or harm in industry’, there was a significant level of scope for a proposed charter to be rejected. Owen argues that this article was primarily used as a weapon to protect the state from the interests of business.⁵⁰ However, combined with the provisions in article 52, it also represents a facet of state control over joint-stock companies.

The granting of special privileges and monopolies to specific joint stock companies also left a good deal of scope for arbitrary ministerial decisions. Although article 4 of the 1836 company law explicitly denied that the state endorsed any particular company or guaranteed its success, articles 5 to 9 stated that the state could grant a new company special privileges, such as a monopoly, tax exemptions, or financial support. However, article 53 specified very vague grounds for the granting of such privileges, stating that they should be determined according to the importance of the enterprise for the state. This regulation obviously left a great deal of leeway for arbitrary action by the ministries, or at worse blatant profiteering. This was potentially compounded by the fact that the law also stipulated in article 54 that where two different companies or persons requested the same exclusive privilege, the decision was at the discretion of the State Council. Article 18 also specified that if a company enjoying special privileges was liquidated, then these special privileges ceased to exist along with the company. Therefore if a company holding such special privileges was liquidated in order to reorganize the exploitation of their concession, it would then have to reapply for its concession. This practice was common in the oil industry, as will be examined below.

In a similar fashion to this control over the reorganization of company privileges and monopolies the 1836 company law required that individual companies reapply to the relevant ministries if they wished to change their constitution, as specified in their company charters. This meant that ministers effectively had control over whether companies undertook such basic and necessary operations such as increasing or

⁵⁰ Article 13 quoted in Owen, *The Corporation under Russian Law*, 22.

decreasing their basic share capital, or producing an alternative product, giving ministers a large amount of power over the workings of joint-stock companies.

Although the basic structure of company law in Russia did not change before 1914, there were certain modifications and supplementary regulations that served to increase the power of the state over individual corporations. Although most of these amendments were introduced to prevent the exploitation of shareholders by unscrupulous company founders and speculators, they had similar implications to the original 1836 law, in that they reinforced government control over the activities of companies in Russia. The most important change was the establishment by the Senate in 1884 that company charters, as authorized by the council of ministers, the relevant minister and finally, the Tsar, carried the full force of the law.⁵¹ This granted more power to the individual ministers involved in granting charters of companies because it gave them more freedom with which to impose their own conditions that could differ substantially from those legislated for in the 1836 law. Thus corporate charters, that were in essence the law in these cases, were freely manipulated to suit the desires of the state.

Several of the original aspects of the 1836 law that were intended to prevent speculation were updated between its promulgation and the revolution of October 1917. These modifications maintained and reinforced governmental control over the operations of the companies in question. One of the more significant modernizations of the law was the legalization of shares made out 'to the bearer' rather than to a named individual. This regulation, which encouraged freer trading of stocks on the market, was not published in the code of laws, but from 1887 the PSZ stated that exceptions to article 23 were permitted in company charters.⁵² This therefore implied that although the principle of having stock made out 'to the bearer' was allowed at the time, its implementation in company charters was completely at the discretion of the government. Time deals on stock were also legalized in 1893, although this change was accompanied by legislation that increased government control over this sort of trading by limiting these deals that occurred without a broker, and increased government control over the activities of brokers by introducing audits of brokers'

⁵¹ Owen, *The Corporation under Russian Law*, 120.

⁵² PSZ 2-22363, 12 July 1848.

records by the Ministry of Finance.⁵³ Nevertheless, these modifications represent a significant lightening of earlier restrictions on the activities of companies, and possibly correspond to a more lenient approach taken by the Russian government towards industry in the late 1880s that corresponded with a period of economic growth in Russia from 1885, from which date reliable statistics on economic growth are available.⁵⁴

While these changes mainly related to company structure, there were some important articles in the 1836 law that had far reaching consequences. The most significant of these was the lawful subordination of company affairs to the whims of individuals within a wide range of positions within the Tsarist government. Although the 1836 company law in many respects had become obsolete by 1892, the core principles of incorporation by concession and the granting of special rights and privileges were never repealed or modified. These principles allowed the Russian government an enormous amount of discretionary power in the development of new businesses and the day-to-day workings of established businesses. Since the vague wording of the 1836 law in these two areas left a great deal of leeway for arbitrary decisions, it will be important to study how the law was applied by the relevant officials in order to establish whether any norms of interaction with businesses were ever developed by the Russian government.

1.3 The Permissions System and Foreign Enterprise in Russia

As global foreign investment began to increase in the 1870s and 1880s, Russian legislators began to implement laws in order to prevent important assets of the Russian government from falling out of their control, namely reserves of natural resources and land in areas of strategic importance of the empire. This trend, which continued down to 1914 with very few relaxations, effectively reinforced the discretionary power of officials and ministers over the affairs of foreign companies in two separate ways: a more rigorous incorporation by concession system than described above that was applied to foreign companies, and geographical restrictions

⁵³ *PSZ* 3-9741, 8 June 1893; *PSZ* 3-9742, 8 July 1893.

⁵⁴ Gatrell, *The Tsarist Economy*, 170.

on their operations. These trends reflected the conflicting aims of the Witte system of the 1890s; while attempting to promote economic development through the entry of foreign capital to Russia the state sought to retain control over the business environment, and especially over its key natural assets.

One facet of the Russian government's attempt to safeguard its interests against foreign corporations was an extension of the incorporation by concession system of the 1836 law to a more complex permissions system. Foreign corporations were required to obtain Imperial permission in order to begin their operations in Russia and to purchase real estate. Legislation in 1887 stipulated that all foreign joint stock companies operating in Russia without Imperial permission must apply for it or cease their operations in Russia by 1 January 1889.⁵⁵ Imperial permission implied that foreign companies operated under a set of ten conditions, such as the requirement to obtain permission to perform mergers, submit to Russian law in disputes, and most seriously, to cease operations entirely in the event of the Russian government withdrawing its permission.⁵⁶ Although the latter requirement was cancelled by Witte in 1898, the Russian government still exercised a large degree of discretion in the operation of foreign corporations through these conditions.⁵⁷

These conditions were very similar to the restrictions placed upon business by the original 1836 laws. The principles of ministerial control enshrined in the 1836 company laws were transferred to the operation of foreign companies in Russia, although in many cases they were more severe. Although these conditions do not seem to be specified in the Russian law codes, a brief sketch of the special conditions under which British companies typically worked is provided by L. Rastorguev, a sworn advocate of the high court of Khar'kov, in his summary of the most important laws relating to foreign enterprise in Russia, *The Legal Position of English Companies in Russia*, published in London in 1911, and aimed at British commercial interests. The first and ninth conditions defined limits to the operations of the company. The first condition was usually a statement of the name of the company, its geographical location and the specific industry in which it was engaged, for example:

⁵⁵ PSZ 3-4780, 9 November 1887.

⁵⁶ Owen, *The Corporation under Russian Law*, 120.

⁵⁷ PSZ 3-16144, 3 December 1898.

‘The English Joint Stock Company under the name of ---- shall open its operations in the Empire for the exploitation of deposits of copper ores in the District of the ---- government.’⁵⁸ This statement was directly linked to the ninth condition, which stated that the activity of the company, ‘shall be limited exclusively to the object stated in paragraph 1 of these conditions’. It also stated that for any change to these articles, and by extension, changing the commercial operations of the company, the company would have to obtain authorization for the Minister of Finance and the Minister of State Domains.⁵⁹ It therefore followed that had the copper company in the above example found an abundance of iron ore on their land but not a commercially viable source of copper, it would have to reapply to the stated ministries for permission to alter its articles in order to exploit the source of iron.

As well as giving the government discretion over the day to day operations of companies, the permissions system also gave the government discretion over any modifications to company structure. Article 9 required that permission from the Ministry of Finance and State Domains be obtained in order to amalgamate with other similar companies, increase or decrease stock capital, issue debentures, or otherwise change the articles of association. This control was supplemented by Article 3 of the conditions that stated that foreign companies were subject to previous certification from local authorities for the purchase of land, effectively bringing in the local provincial government into the permissions system.⁶⁰ These provisions meant that the above ministries exercised a significant amount of discretionary power over the affairs of foreign companies through the law, as many of these actions would have been important for the successful running of any joint-stock company, especially modifications to stock capital.

While foreign business owners would have been largely exempt from the whims of the Russian state being subjects of a separate country, this immunity was also attacked by the Russian government. Article 5 of the typical conditions cited by Rastorguev required foreign companies to appoint a special agent in Russia invested

⁵⁸ L. P. Rastorguev, *The Legal Position of English Companies in Russia* (London: Jordan & Sons, 1911), 58.

⁵⁹ Rastorguev, *English Companies in Russia*, 61.

⁶⁰ Rastorguev, *English Companies in Russia*, 58, 61.

with the power to act on behalf of the company in legal matters, and demands made upon the company by the state and third parties. The Article also stated that the director of the business and the managers of any real estate in Russia must be Russian subjects.⁶¹ This law further enhanced the power of the Russian state over foreign business interests by ensuring that the managers of foreign enterprises were Russian subjects, and so more subject to the Russian state than their foreign counterparts. Thus the Russian permissions system as it was applied to foreign companies introduced more stringent rules and regulations to the operations of companies, and an increased level of ministerial discretion.

The Russian government also used geographical restrictions in order to protect its interests and to control the actions of foreign enterprises. This tendency can be seen to date from 1885, when the Siberian gold mining and metallurgy industry was restricted to Russian subjects.⁶² Further restrictions followed. The law of 14 March 1887 denied foreign subjects the right to own or lease land in Poland, and in the Western Provinces.⁶³ These pieces of legislation did not completely bar foreign companies; they required that any companies formed be registered in Russia and held in the name of a Russian subject. These individuals would often be Russian agents in the employ of the company, or in some cases naturalized local consuls, according to contemporary accounts of the Russian business environment.⁶⁴

The 1890s witnessed a growth in the output of the oil industry, reaching a peak in 1901, with a similar growth in the production of coal, alongside similar increases in consumption.⁶⁵ The Mining industries also grew particularly rapidly during this decade, Gerschenkron estimating that it grew at an annual rate of 8 per cent in this decade.⁶⁶ Due to this growth in the oil and mining industries, and its own ambitious railroad building programme,⁶⁷ the Russian government was obliged from the late 1880s and 1890s to begin to open up certain key peripheral areas of the Empire to foreign enterprise, in order to stimulate the growth of Russian domestic industry. The

⁶¹ Rastorguev, *English Companies in Russia*, 59.

⁶² Owen, *The Corporation under Russian Law*, 120.

⁶³ *PSZ* 3-4286, 14 March 1887.

⁶⁴ Barrett, *Russia's New Era*, 65; White, 'British Business in Russian Asia', 72.

⁶⁵ Gatrell, *The Tsarist Economy*, 169-171.

⁶⁶ Gerschenkron, 'The Rate and Growth of Industrial production in Russia since 1885'.

⁶⁷ Gatrell, *The Tsarist Economy*, 151.

opening up of these regions to foreign enterprise was accompanied with certain requirements and restrictions that served to increase the discretionary power of the government over foreign private commercial enterprise. This system of establishing permissions for foreign companies may have been part of a wider trend of the Late Imperial Russian government to attempt to centralize control over the peripheries of the Empire, as the belief ran that importing Western systems of colonial government would create separatist tendencies within the Empire.⁶⁸ However, the type of restrictions placed upon foreign companies in these areas was consistent with the general permissions system for foreign enterprises in Russia, which engendered a great deal of ministerial discretion in their initial foundation, and did not encourage the formation of clearly defined notions of what would constitute an acceptable enterprise.

For example, legislation introduced in 1893 stipulated that corporations could only purchase land in Turkestan and the Caucasus if their charters restricted the ownership of stock to Russian subjects or to local natives.⁶⁹ Under this legislation, foreign companies could not even hold land through a Russian intermediary, as the law stipulated that the stockholders of the company had to be Russian subjects. Exemptions to this law were made for foreign companies operating in the oil industry, who were required to obtain special permission to acquire land through the Ministry of State Domains.⁷⁰ From 1897 foreign companies were permitted to purchase land in Turkestan with the permission of the Committee of Ministers and the Tsar.⁷¹

The permissions system imposed upon foreign businesses in Russia therefore led to a high level of ministerial discretion surrounding the operations in Russia of a foreign company. These laws did not state upon what basis a company might be refused permission to operate, and so it is reasonable to assume that the system would have led to a great deal of uncertainty for any company considering undertaking an investment in Russia, a theme which will be addressed in subsequent chapters. The

⁶⁸ Willard Sunderland, 'The Ministry of Asiatic Russia: the Colonial Office that never was but might have been,' *SR* 69, 1 (2010), 122.

⁶⁹ *PSZ* 3-10102, 9 November 1893.

⁷⁰ L. E. Shepelev, *Aktsionernie kompanii v Rossii* (Leningrad, 1973), 125.

⁷¹ *PSZ* 3-14121, 19 May 1897.

vagueness of their wording meant that there was little clear basis upon which a company might be refused permission to commence operations in Russia, or carry out normal business practices such as an increase in stock capital.

Such a system therefore relied heavily upon the accountability and ethos of the Russian bureaucracy, and its commitment to consistently applying the law. The law surrounding the permissions system for foreign corporations would therefore have not in itself resulted in the establishment of legal norms and consistency; it was inherently dependent upon those tasked with administering it. As these laws were not amended before the outbreak of the First World War, the establishment of legal norms thus depended upon how the government used this power at its disposal. This system was not prevalent in all aspects of industry however, as an exploration of the corpus of regulation surrounding the oil and mining industries that grew up during the period in question that removed many avenues for the exercise of ministerial or official discretionary power.

1.4 The Oil and Mining Industries as a Microcosm of State Control

It is worth studying the legislation surrounding the oil and mining industries in Russia for three reasons. Firstly, the oil industry, and to an extent the mining industry, were viewed by the Russian government as being an essential component to the industrial modernization of Russia. It therefore follows that there was a strict regimentation of the exploitation of the oil industry by private enterprise. This trend began after bureaucratic reorganization in 1883 that resulted in the transfer of the administration of the Caucasian mines and the petroleum industry to the Ministry of State Domains.⁷² Secondly, the expansion of the oil industry occurred at a great pace in the period 1892-1914, and thus there was a corresponding issue of legislation surrounding the oil and mining industries, an analysis of which will be indicative of the Tsarist government's attitude towards private enterprise in the period. Thirdly, a large proportion of British investment in Russia was located in the oil and mining

⁷² L. E. Shepelev, *Tsarizm i burzhuaizii vo vtoroi polovine XIX veka: Problemy torgovo-promyshlennoi politiki* (Leningrad, 1981), 122-25, 161.

industries in the Caucasus and Siberia, so this discussion has significance for many companies dealt with in this study.

Mining law allowed a high degree of governmental discretion in the affairs of companies, both through regulations surrounding their operations, and extensions to the incorporation by concession system that were applied to it during the industrial downturn of 1900-1906. This can be contrasted with the oil and mining legislation promulgated in the following years, which legislated for less ministerial discretion through the establishment of clearer regulations surrounding company formation, permissions, and stock. This comparison can further our understanding of changes in the Russian government's economic policy regarding a rapidly expanding and new industry, and how the legislation in the post reform era resulted in the establishment of more defined rules and regulations pertaining to businesses in this area.

At the most basic level, oil and mining industries were separated by law between those located on crown lands and those located upon private lands. Companies and individuals held mining operations on crown lands in 'possessional right'. These were lands granted by the crown, often with attached forests, to be exploited for an unspecified period of time, but not to become their property altogether, and could not be transferred without permission of the Senate. The government attached conditions to this kind of ownership. Most significantly, the working of the mine or oil concession was to be uninterrupted and without any reduction in quantity or quality of the materials produced. The concession could not be partitioned in any way, and the attached forests were to be used exclusively for the requirements of the works. Holders of such mines were also not allowed to expand, reduce, or terminate their mining activities on these lands without the knowledge and permission of the mining department.⁷³

Land which was owned outright by the company or individual was subjected to fewer restrictions. However, the owner or company was still required to exploit the land in a technically correct manner, and submit a plan of his works to the local

⁷³ The following regulations are located in *SZ* Vol. VII, Nos. 224, 226, 246, 248-54. Howard Kennard published a useful and concise summary of the above for the use of British mining interests in Howard Kennard, *The Russian Year Book for 1911* (London: Eyre and Spottiswoode, 1911), 300.

supervisor of mines for inspection by the district mining engineer. If the landowner and the local supervisor failed to agree, then the matter was decided by the department of mines. In the case of the landowner deciding to lease the land to a third party for exploitation, the law required the landowner to inform the mining administration with a plan of the allotment and a copy of the agreement. If the lease extended for more than twelve years, the law permitted the landowners to petition the council of ministers for permission to conclude agreements for longer periods.⁷⁴ Mining works and their accessories were also not saleable without the knowledge and the permission of the department of mines.⁷⁵

The law also established that the responsibility for public safety, landscaping, and security in privately controlled mining works rested with local representatives of the Ministry of Trade and Industry, the local mining administration, and local police.⁷⁶ In areas containing minerals necessary for the state and foreign trade, the law also gave oversight for the Minister of State lands to ensure that metals and minerals were not left unexploited, and private landowners were obliged to inform the department of mines about changes to their mines' production.⁷⁷

The basic provisions of the mining law for possessional and private rights therefore necessitated a level of governmental interference in the affairs of oil and mining companies to different degrees, in a way that gave primacy to the discretion of the individual ministers and officials involved. This was mirrored by the way in which the permissions system was reinforced by the Russian government for the entry of foreign oil and mining companies into the Russian market in the run up to and during the industrial crisis of 1900-1906.

The industrial downturn in Russia from 1900 to 1906 hit the mining and oil industries particularly hard due to overproduction as well as revolutionary activity.⁷⁸ This seems to have corresponded with the promulgation of several restrictions on the rights of foreign companies to set up oil and mining ventures in various parts of

⁷⁴ *SZ*, Vol. VII, Nos. 209-222/3.

⁷⁵ *PSZ*, 2-28493, 15 April 1863.

⁷⁶ *SZ*, Vol. VII, No. 23.

⁷⁷ *SZ*, Vol. VII, Nos. 28-29; 217.

⁷⁸ Gatrell, *The Tsarist Economy*, 170; *Government, Industry and Rearmament in Russia*, 65.

Russia in the late 1890s and early 1900s, and is indicative of a trend in Russian government to legislate against some of the more speculative activities of foreign oil and mining companies. The rules for foreign entrepreneurship in the Caucasian oil industry established in May 1898, offer a good example of the development of the extent of government control over the authorization of individual foreign companies in the area. The law allowed the purchase by foreign subjects or companies of real estate outside of ports and towns in the region for the establishment of factories and other industries, including oil production, by special certificate of the General Director of the Civil Office in the Caucasus. This rule applied even when a foreign company had previously obtained permission to operate in Russia. In case of doubt about the suitability of the real estate for the industrial purpose outlined by a company, the General Director was instructed to turn to the Minister of Finance or the Minister of Agriculture for a decision.⁷⁹

A similar process was followed in the Siberian mining and metallurgy industries, following a ban on foreign companies in 1885. Various provinces in Siberia were gradually opened up to foreign enterprise during the industrial downturn, but with the caveat of the requirement for applying for special permission from several different agencies. For example, in 1902 restrictions against foreign companies owning land in the Primorskii and Usinskii districts were lifted, on the condition that they applied to the Committee of Ministers. In some areas, this requirement was extended to obtaining permission from the Minister of Foreign Affairs, the Minister of Internal Affairs, the Minister of Finance, and the local Governor-General. Thus the system of permissions in these areas relied on both the local and high government officials, and the law to a large degree rested upon their personal discretion. The application of this law to foreign companies who had already received permission to operate in Russia also shows the enhanced control that the permissions system gave to all levels of officials over the affairs of foreign companies. It therefore seems that the permissions system as it was applied to foreign companies was manipulated by the Russian government to increase government supervision and discretionary power over the industries that they perceived to be in particular crisis.

⁷⁹ SZ, vol. IX, No. 830, 29 May 1898.

However, the revisions and additions to the mining law relating to mineral and oil extraction essentially reduced this discretionary power of both the local authorities and those in St Petersburg. The fact that these laws were mainly promulgated in the post reform period from 1907 implies that in this particular sphere of the business world there was a drive to increase the regulation of the industry. However, these revisions seem to have had more to do with the crisis in the oil and mining industries from 1900 to 1906, than any particular drive for lawfulness by the Russian government. Nevertheless, the way in which these revisions were crafted, in that they avoided ministerial discretion, is still significant. These revisions related to regulations surrounding the structure and affairs of oil and mining companies, as well as revisions to the permissions system for these companies in strategically sensitive areas.

The industrial crisis also prompted the government to introduce measures against speculation in the oil industry. In January 1907 the prices at which interest bearing securities received as collateral for oil activities and products were fixed by the government.⁸⁰ Later in 1907 local commissions were created, tasked with assessing oil companies issuing securities. Companies were required to submit a certificate of appraisal issued by the local excise office. The commissions were to be made up of the local excise official, the district mining engineer, and two representatives of the oil industry. For the inspection of refineries in urban areas, the commission consisted of two excise officials, the factory inspectorate, and representatives of the city council.⁸¹

This increase in legislation also set out rules for the relations between oil and mining companies and local communities, especially in the Cossack territories. In 1909, parties engaged in the oil industry on Cossack lands were required to submit their contracts and statements to a regional board. A year later, the remuneration paid to the local natives in these territories by oil and mining companies was established at a specific rate, and in 1911 the government introduced rules for what constituted

⁸⁰ *PSZ* 3-28769, 17 January 1907.

⁸¹ *PSZ* 3-29265, 3 July 1907.

‘admissible evidence’ of oil on Cossack territories, something that had not been established elsewhere.⁸²

From 1907, the Russian government also legislated for separate systems for the granting of permissions in various different areas according to the local conditions there, with defined parameters for granting of concessions. For example, on the Aspheron peninsula the Minister of Trade and Industry was authorized to grant permission to companies for oil exploration, provided that the company established a borehole of at least 20 fathoms and established production of 10,000 poods per month.⁸³ This development was also linked to the state’s policy of reducing speculation in the oil industry, as it prevented the kind of speculation that was rife in the other oil bearing lands of the empire where companies held land without developing it, thus artificially inflating the price of land in these areas.

Similarly in the strategic areas of the island of Sakhalin and the Siberian coastline laws were promulgated in 1908 that set out clear requirements for the establishment of oil companies. Companies were allowed to sample two areas for evidence of oil, and for permission to establish works, were required to provide evidence of at least one well within 100 fathoms that contained oil of industrial significance. However, the law here also contained the vague requirement that the Governor-General of Primorskii Krai and the Minister of Trade and Finance did not find the enterprise ‘inadmissible’, a requirement somewhat similar to the permissions system for the formation of new corporations in Russia in that it established a level of discretionary power over the foundation of new oil and mining enterprises in these areas.⁸⁴

Legislation surrounding the oil and mining industries indicates an interesting point of departure from the state of the law regarding these industries at the beginning of the period. The post 1907 legislation by and large established clearly defined rules and regulations surrounding the industry, through taking steps to fix preconditions for the operation of companies, clearly setting out production levels, and attempting to eradicate speculation by fixing prices on securities. In doing so, it decreased the

⁸² PSZ 3-32685, 4 November 1909; PSZ 3-33412, 2 May 1910; PSZ 3-35362, 12 July 1911.

⁸³ PSZ 3-29894, 23 December 1907.

⁸⁴ PSZ 3-30845, 21 July 1908.

discretionary power of the ministers and local officials by defining the parameters of what constituted acceptable business operations in law. It is therefore possibly indicative of a new trend of establishing legal norms, especially as this was in a field of industry with rapidly changing characteristics due to the discovery of various new oilfields, mineral deposits and a rapid influx of foreign and domestic capital. At the same time, it is also important to consider that the oil and mining industries were just emerging from a depression in which they had suffered worse than other industries. As overproduction had played a key part in the problems that the oil industry faced from 1900 to 1906 it is feasible that the Russian government attempted to introduce stricter controls. This tendency is not reflected in other areas of corporate law.

1.5 The Legal Position of British Companies

In order to assess the implications of such ministerial discretion over the affairs of British companies in Russia, it is important to assess the legal status of British companies there. In many respects, British companies shared the same legal privileges as their Russian counterparts. However, it is worth exploring a particular legal disability that British companies suffered from; their position in relation to Russian bankruptcy law. These legal difficulties are important to consider in terms of the wider context in which British companies entered the Russian market for the rest of this study, but in the present analysis it is conceivable that these difficulties would have reinforced the power of the state over foreign enterprise through the use of the Senate as the highest court of appeal against legal decisions of the courts.

British nationals were able to conduct business in Russia under the 1801 convention of peace, navigation and commerce.⁸⁵ However, even this early agreement stipulated that the laws, decrees and special regulations regarding commerce and industry in the two countries applicable to foreigners were not affected by it. These privileges survived intact into the period 1892 to 1914. Foreigners of every nationality had the right to live in Russia, and their persons and real estate were also under the protection of Russian law.⁸⁶ Foreigners were also allowed to enter into agreements,

⁸⁵ TNA, FO 93/81/3, Convention of Peace, Navigation and Commerce, 5 June 1801.

⁸⁶ SZ, Nos. 818, 822, 831.

deeds, and obligations of any kind between themselves and Russian subjects, as long as these agreements complied with Russian law. They also had the right to bequeath their property to foreigners as well as to Russian subjects.⁸⁷

Although British companies operating in Russia had the same legal status as Russian companies under Russian law, it was not until the Anglo-Russian commercial treaty of 1904 that judgments relating to commerce delivered in a British court could be valid in Russia, and vice versa.⁸⁸ This agreement complemented the 1881 senate ruling that, ‘A judgment delivered in a court of law in one country may be valid in another country only in cases where the execution of judgments is allowed by the laws of the latter, or by treaties dealing with this subject.’⁸⁹ However, the implications of this law exclusively affected companies engaged in the importing and exporting business with Russia, involved in disputes over breach of contract for the delivery of goods, payment, etc., because articles 2 and 8 of the typical conditions for operations for the operation of a foreign company within Russia stipulated that the trial of disputes between the company and government institutions and private persons should be effected on the basis of the law in force in Russia and Russian courts, and overrode the terms of the above agreement.⁹⁰

This had serious implications for multinational British companies that established manufacturing subsidiaries and undertook branch selling in Russia, because the Russian law to which they were subjected incorporated certain deficiencies that would have proved extremely disadvantageous to a British multinational acting as a creditor to its subsidiaries, agencies or clients in Russia. The most serious of these deficiencies was complications that could arise due to features of the Russian bankruptcy law. As will be discussed below, British companies often took precautions to avoid being overexposed to Russian creditors in the event of a default, and were reluctant to extend credit to Russian customers.

⁸⁷ SZ, Nos. 833, 834.

⁸⁸ TNA, 93/81/60, Mutual Recognition of Joint Stock Companies, Britain and Russia, 16 December 1904.

⁸⁹ Rastorguev, *English Companies in Russia*, 73.

⁹⁰ Rastorguev, *English Companies in Russia*, 58, 61.

The bankruptcy law that was active in the period 1892-1914 was promulgated in 1800.⁹¹ Although it was subsequently divided between the various volumes of the digest of laws in 1832, it survived largely intact, with only minor alterations until the end of the Imperial period. According to the law, a board of primary creditors was to be established in order to determine the type of bankruptcy (articles 8-12). For this purpose, the law distinguished between three different types of debt: ‘accidental’, ‘reckless’, and ‘malicious’. Bankrupt individuals were automatically assumed by the law to fall into the ‘reckless’ category, unless it could be proven that the bankruptcy occurred ‘accidentally’ due to natural disaster, enemy invasion, or a fall in prices or market activity that also affected other merchants (article 2). If it was found by the creditors that the bankruptcy was ‘reckless’, they could proceed to rank the claims on the bankrupt’s estate for satisfaction in preferential order by majority rule, and how the bankrupts estate should be administered to satisfy those claims (articles 25-34).

The implication of the bankruptcy law for foreign companies was that where they acted as creditors for subsidiary companies, agencies, and branches in Russia, as was largely the norm for foreign direct investment in Russia, they could not participate in the first rank of creditors who decided how the debtor’s estate should be divided, because their claims were subordinated to those arising from Russian subjects. According to Article 4 of the conditions of foreign companies operating in Russia, ‘The personal and real estate belonging to the Company within the limits of the empire, and all the payments accruing on behalf of the company should be convertible to the preferential satisfaction of the claims which may arise from its operations in Russia.’⁹² Therefore, their claims on the bankrupt party were placed in a less preferential position by the Russian liquidators than claims arising from Russian sources.

A Senate ruling in 1907 reinforced this application of the law as regarding the status of a foreign company as a creditor of a subsidiary. The Senate decided that in the case of the Belgian-operated Kharkoff Mechanical Works, the claims of the Belgian stock holders and Central Exchange and Public Funds trust should only be paid by the estate of the Kharkoff Mechanical Works after the satisfaction of claims arising

⁹¹ *PSZ* 1-19692, 19 December 1800.

⁹² Rastorguev, *English Companies in Russia*, 58.

from creditors in Russia. The Belgian company had argued that the debts of their subsidiary to them arose out of their subsidiary's operations in Russia, as they had effectively operated as an investment fund for the purchase of machinery and materials for use in Russia. However, the Senate in their judgment explicitly separated the operations of the company in Russia from its financial transactions with overseas individuals and companies. Further, extending this guarantee to the foreign creditors could open the system to abuse by allowing them to claim against all the company's assets, some of which may be located abroad, at the expense of Russian creditors.⁹³ This ruling therefore placed British multinationals in a precarious position, because they would not be able to participate in the first rank of creditors appointed by the local authorities to divide up the bankrupt estate. By not participating, they put themselves in a position open to abuse by unscrupulous Russian creditors.

Further complications to this system were also caused by the restrictive policies of the Russian government with regards to foreign individuals or companies having control over lands located in restricted areas such as Poland, the Western Provinces, and the Caucasus. In Poland and the Western Provinces, foreigners were banned outright from taking possession or acquiring properties to which they were creditors.⁹⁴ In the Caucasus, they could not take control of a bankrupt's estate unless it could be proven to be used for the establishment of factories or metallurgical industry.⁹⁵

Foreign companies could also be disadvantaged by this law if they acted as a creditor to a Russian subject or company. Because the board of creditors to a bankrupt estate was formed locally and not advertised particularly well, British companies were often not aware of their existence. This led to abuses whereby British companies were defrauded out of large sums by bankrupt parties in Russia. Even by 1911, this problem was highlighted by British officials in Russia, who highlighted the trend whereby bankrupt persons often colluded with the board of creditors in order to

⁹³ Decisions of the Senate (Civil Department), 1907, no. 68, cited in Rastorguev, *English Companies in Russia*, 62-72.

⁹⁴ *PSZ* 3-4268, 14 March 1887.

⁹⁵ *SZ* vol. IX, No. 830.

obtain an ‘accidental bankruptcy’ ruling or preferential treatment in the case of the administration of their debts by the board.⁹⁶ Even Barrett, an advocate of Anglo-Russian trade and investment, warned British companies to be careful of extending credit in Russia because the system of the appointment of the board of creditors lent itself to many possibilities to defraud foreign firms.⁹⁷

Therefore, Russian law regarding bankruptcies put British companies at a severe disadvantage. This disadvantage worked at two levels. Firstly, due to the preference given by the law to Russian creditors to a bankrupt estate, the investments of British companies would have been very insecure, as in the result of a bankruptcy of a subsidiary, the British company would have been unlikely to satisfy any claims that it had upon the property of the subsidiary through ownership of stock. Equally as problematic were the problems that could be caused by the bankruptcy law for the recovery of debts from Russian debtors. These problems would not have encouraged the development of trust and stable expectations of the Russian business environment if such laws could be manipulated by Russian debtors or creditors to the disadvantage of British companies, and thus were a serious obstacle for the development of a stable business environment in Russia. As this aspect of the law was not amended, British companies would have approached the Russian market from this basic position of distrust throughout the entire period, and would have affected their views and understanding of the Russian commercial courts system.

1.6 Lawyers and the Commercial Law

Since many British companies operating in Russia took legal action against either the state or other companies operating in Russia, it is important to provide a sketch of the legal representation available to British companies. Lawyers with whom British companies would have contracted to act on their behalf, would have varied between different geographical regions in terms of the type of lawyer that would have been likely to have been available, and the degree to which the Russian lawyers would

⁹⁶ TNA, FO 368/716, f. 712, Blakey to Smith, 21 December 1911.

⁹⁷ Barrett, *Russia's New Era*, 71.

have potentially shared the ideal of the defence of the rights of the individual against the state.

In late Imperial Russia, lawyers were divided into two groups. The judicial reform of 1864 created an independent regional bar council that consisted of sworn advocates and their assistants.⁹⁸ By 1892, there were stringent educational requirements for membership of the Russian bar, which included a degree-level law qualification, and a certain length of time working as an apprentice. Bar associations were only created in Moscow, St Petersburg and Kharkov, however, due to subsequent restrictions on their establishment in 1874. Thus the sworn advocates in these areas broadly evolved towards an ideal of a regulated Western profession to a greater extent than their counterparts elsewhere, who were regulated by the circuit courts.⁹⁹ In these areas where autonomous bar associations existed, sworn advocates to an extent developed a recognizable professional identity, as opposed to an estate identity, through the development of regulated behaviour and codes of ethics.¹⁰⁰

The growth of this professional identity coincided with support for western liberal values, such as the defence of the individual from attacks by the state, opposing administrative rule in favour of civic autonomy protected by the law.¹⁰¹ Wortman argues that faced with the general lawlessness prevailing in Russia, the legal profession regarded the dispensation of justice as their particular responsibility, claiming an authority that had been the monarch's prerogative.¹⁰² Defence speeches made by these individuals in the trials of revolutionaries often attacked the basis of government authority, and lead the government to attempt to transfer these cases to military courts. Although by 1892 the reaction following the assassination of Alexander II dampened such liberal spirits, from the 1890s there was a new wave of activism involving the formation of political clubs and groups.¹⁰³ However, it would

⁹⁸ Wortman, *The Development of Legal Consciousness*, 261; William Pomeranz, 'Profession or Estate?' The Case of the Pre-Revolutionary *Advocatura*, *SEER* Vol. 77, No. 2 (1999), 247.

⁹⁹ Pomeranz, 'Profession or Estate?', 255, 267.

¹⁰⁰ Huskey, *Russian Lawyers and the Soviet State* (Princeton: Princeton University Press, 1997), 12-14; Burbank, 'Discipline and Punish in the Moscow Bar Association,' *RR* Vol. 54, No. 1 (1995), 48; Pomeranz, 'Profession or Estate?' 268.

¹⁰¹ L. Engelstein, 'Combined Underdevelopment', 348; Baberowski, 'The Judicial System and the Legal Profession', 363.

¹⁰² Wortman, *The Development of Legal Consciousness*, 269.

¹⁰³ Huskey, *Russian Lawyers and the Soviet State*, 22-24.

be unrealistic to assume that all sworn advocates were idealistic defenders of the individual against the state; research into complaints brought before the Moscow bar association indicates that there was a considerable amount of lawyerly misbehaviour in Late Imperial Russia, such as charging extortionate fees and not taking action in cases.¹⁰⁴

Generally, though, it appears that this class of lawyer would have been better educated and would have been more likely to have a desire to protect the individual against the state than their private, unsworn counterparts. The latter branch of the law profession was created in 1874. There were no formal or educational requirements for these individuals, and they could only practice at courts at which they had been registered. They were prevented by the government from forming a collective professional body, and they remained a highly fragmented group in comparison to the sworn advocates.¹⁰⁵

Whether British companies used either sworn advocates or private advocates for their dealings with the Russian legal system would have to an extent depended upon their geographical location. Sworn advocates tended to be located in large cities. By 1914, over half of all the sworn advocates in Russia were located in St Petersburg, Moscow, Warsaw and Kiev, while only 6.2 percent of the profession were located in small provincial towns. Also, due to the restrictions placed upon the establishment of bar associations, sworn advocates who belonged to a truly independent governing body were only available in St Petersburg, Moscow and Kharkov.¹⁰⁶ In comparison, private advocates tended to dominate at the provincial town level. When dealing with companies operating in the more remote areas of the empire, such as Siberia, there was a severe shortage of legal advocates, meaning that often the accused was often not able to obtain legal counsel, a situation which is likely to have applied to foreign companies engaged in commercial disputes.¹⁰⁷ In areas where sufficient legal counsel were available commercial cases were viewed as less prestigious by the Russian legal profession. The competition for cases tended to be fiercest for litigation cases,

¹⁰⁴ Burbank, 'Discipline and Punish', 49.

¹⁰⁵ Huskey, *Russian Lawyers and the Soviet State*, 14-15.

¹⁰⁶ Pomeranz, 'Profession or Estate?', 255.

¹⁰⁷ Huskey, *Russian Lawyers and the Soviet State*, 17-20.

and less successful advocates were forced to fall back on the commercial side of legal practice.¹⁰⁸ Therefore, the legal advocacy available to companies would have been distinctly lower in quality than the legal advocacy generally on offer in a particular area.

Somewhat indirectly, therefore, government policy with regards to the regulation of the legal profession meant that British companies were less likely to obtain legal representation capable of defending their interests in the courts, and sympathetic to the defence of the rights of companies against the whims of the state. Although this was partly the result of the general outlook and culture of the legal profession in Russia, the restrictions placed upon the formation of a professional identity by the state meant that the oppositional attitudes common among the sworn advocates in the period, which occurred in other areas such as divorce law,¹⁰⁹ were much less prevalent. Combined with the legal impediments that British companies suffered from in legal areas such as bankruptcy, British interests were therefore further subordinated to the state. It is likely that due to these impediments and the lack of high quality legal representation, more cases involving British companies would have reached the Senate court of appeal.

1.7 Conclusion

The Russian government in St Petersburg and at the local level exercised a considerable level of discretionary power over the affairs of foreign companies, both directly through commercial legislation, and indirectly because of the disadvantaged position of foreign companies in the legal system and inadequate legal representation. The original 1836 corporation law resulted in the requirement to apply for permission from the Russian government for foundation, and various other necessary operations such as amalgamations. For foreign companies, this permissions system mandated even greater control of their affairs. Against this backdrop of discretionary power, the development of clearer legislation surrounding the operations of oil companies was a positive step away from this discretionary

¹⁰⁸ Huskey, *Russian Lawyers and the Soviet State*, 15.

¹⁰⁹ See Wagner, *Marriage, Property and Law in Late Imperial Russia*.

power towards regulation based on law, although some basic aspects of discretionary power remained in the basic legislation surrounding the foundation of oil companies. This discretionary power of the Russian authorities over British companies was also reinforced because the latter suffered significant disabilities under Russian law, especially in the field of bankruptcy law. Their access to less well qualified lawyers was not necessarily a product of government policy, more rather a result of the legal profession regarding commercial cases as less prestigious. However, the restrictions placed upon the formation of a professional identity among private advocates mitigated against the legal representation typically utilized by British companies sharing the vociferous defence of the rights of industrial interests against the state.

What emerges, therefore, is a system of commercial law where foreign companies were, for the entire period of 1892-1914, subjected to the personal arbitrary power of both minor officials and government ministers. The commercial and industrial environment in Russia shared many aspects of the historical analyses of the Russian government that emphasise the primacy of personal, arbitrary power over lawfulness. In the case of commercial law, arbitrary intervention was enshrined in the law, a situation which did not change throughout the period, apart from some revisions in the oil and mining industries. Lawfulness, defined as a series of regulations that limited the arbitrary action of officials, was therefore theoretically not a significant force in the Russian commercial environment, especially where it concerned foreign enterprises.

This dependence upon the discretionary power of officials did not necessarily mean that the law automatically stunted the development of private enterprise. Essentially, Russian commercial law resulted in the potential flexibility of action on the part of the officials who held these discretionary powers. Whether this flexibility of action lead to the suffocation of private enterprise in Russia was therefore entirely up to the nature of the Tsarist bureaucracy in St Petersburg or in the localities. Apart from the more stringent regulations surrounding the oil industry in 1907, which were arguably a response to the crisis in the oil industry, the law actually introduced few explicit barriers for the development of private enterprise, aside from the geographical restrictions placed of foreign companies operating in strategically sensitive areas. What the law did not achieve, however, was the development of definite legal norms

for the granting of permissions for various aspects of company operations. It is very difficult to see how the law in itself would have encouraged the development of concrete assumptions among the business community, and especially among the representatives of British investment, for whom the permissions system was especially stringent. This would have depended upon the Russian government's commitment to the principles of accountability and adherence to consistent regulation. It is thus important to study how the law was applied by the Russian government in practice, and whether there was a movement towards uniformity and consistency in its application in its interactions with British business interests before 1914.

Chapter 2. The Witte system and Russian Economic Policy towards Foreign Capital, 1892-1914

Russian commercial law gave responsible state bodies a large amount of discretionary power over the incorporation and affairs of foreign companies during the period in question. Due to the position of those companies, discretionary power could never be successfully challenged due to weak industrial organisations and the lack of an effective and independent judiciary. This arbitrary and autocratic power of the state was to an extent reflected in Russian economic policy under Witte. Witte was unable to make substantial changes to the corpus of Russian commercial law regarding foreign companies. However, he attempted to effect significant changes in the manner in which the Russian government interacted with foreign business interests, attempting to impose a more unified, consistent approach and closer adherence to regulations. These changes were undertaken because he recognized the importance of clearly delineated guidelines for state interaction with business for foreign companies. However, he did not attempt to limit the overall arbitrary power of the state itself. In fact, he preserved the power of the state to break its own guidelines in the pursuit of what he viewed to be economic necessity. What emerged was an inherently contradictory system, where Witte's arbitrary intervention in economic policy in order to attract foreign investment undermined his attempts to introduce a consistent economic policy and adherence to the rule of law in government relations with foreign companies. This contradiction was only nullified to an extent after his departure from the Ministry of Finance and the effects of the economic depression of 1900-1904 resulted in a cessation of government concessions and special dispensation given to various foreign companies.

There has been considerable debate as to the effect of Russian economic policy in the period. Earlier interpretations regard industrial growth towards the end of the nineteenth century in the context of intrinsic Russian backwardness, and therefore industrialisation was sustained by the state's economic policies, particularly those of

the Witte system.¹ Historians who have identified self-perpetuating growth patterns in the Russian economy after the abolition of serfdom that were sustained until the economic downturn of 1900-1904 have challenged the traditional view.² After the recovery of the Russian economy in 1907, it is also fairly widely accepted that growth was mainly induced through a self-perpetuating domestic demand for consumer goods, with government rearmament programmes playing a smaller role.³ More recently, historians such as Olga Crisp and John McKay have emphasised the importance of the autonomous growth of Russian industry and the interaction between government policy and these market forces. Studies of individual Russian firms and industries have been casting increasing level of doubt over the traditional model of state-induced industrialisation, calling for McKay to call for historians to 're-examine the state's allegedly decisive contribution to Russian industrialisation at the macro-level and in quantitative terms'.⁴ Other historians have argued that the policies behind state induced growth in the last decades of tsarist Russia were part of a tradition of arbitrary intervention that stifled the development of legality in the business environment, and as a result attempted to implement clear regulations so poorly that they appeared arbitrary and contradictory.⁵ These positions afford the historian the opportunity to assess the extent to which Russian economic policy 1892 to 1914 was underpinned by autocratic principles, and thus influenced by other considerations unrelated to economic development, especially in relation to foreign participation in Russian industry.

As part of their investigation into the success of state induced growth, historians have investigated the extent to which Russian economic policy in the period attracted foreign investment. Soviet historians generally followed the established line that the Russian government arbitrarily supported small cliques of foreign capitalist

¹ A. Gerschenkron, 'The Rate of Growth in Russia, Since 1885', 146; see also A. Gerschenkron, *Europe in the Russian Mirror* 102-103 where he argues that the state effectively 'replaced' certain economic preconditions that had stimulated growth in England and Germany; T. von Laue, 'The High Cost and the Gamble of the Witte System', 425-48.

² V. Ia. Laverychev, 'Rol' gosudarstva v sotsial'no-ekonomicheskom razvitii Rossii'; B. V. Anan'ich, 'The Economic Policy of the Tsarist Government and Enterprise in Russia'; Barkai, 'The Macro-Economics of Tsarist Russia', 354.

³ Falkus *The Industrialisation of Russia*, 75.

⁴ McKay, 'Restructuring the Russian Petroleum Industry', 104.

⁵ Owens, *The Corporation under Russian Law*, 117; Gatrell, 'Economic Culture, Economic Policy and Economic Growth', 39.

entrepreneurs, leading to the formation of syndicates such as Prodomat and Prodogul, to the detriment of the development of the Russian economy.⁶ Recently these positions have been somewhat revised by historians in the Russian Federation, who have found that the corpus of commercial law and government restrictions generally did not act as a barrier to foreign investment, and that especially with Witte's support foreign companies were able to commence their activities in Russia with little hindrance.⁷ The most significant problem for the Russian government was how to create an adequate regulatory framework for foreign capital, especially in regions and industries that had been developed almost exclusively by foreign capital before 1900.⁸ According to some recent studies, the Russian government created an institutional space for foreign enterprises and brought business regulation into line with Western Europe, but at the same time they stress foreign enterprise was often regulated informally by the government.⁹

This chapter explores the relationship between foreign capital under the Witte system and the autocracy. It shows how Witte's economic policies were rooted in the past economic policies of his predecessors, and how the attraction of foreign capital to Russia was a central part of these reform packages. This chapter then goes on to analyse how Witte attempted to create a consistent regulatory environment in order to attract foreign capital to Russia. It then looks at how the autocratic system affected this development, and how opposition to Witte's plans led to inconsistency and arbitrariness. This is then applied to the period after Witte moved on from the Ministry of Finance to later Russian policy towards foreign capital and industrial growth.

⁶ Sidorov et al., eds., 'Dokumenty po istorii monopolisticheskogo kapitalizma v Rossii'; M. P. Viatkin et al., eds., *Iz istorii imperializma v Rossii*, vol. 1 of *Trudy Leningradskogo otdeleniia instituta istorii* (Leningrad, 1959); A. L. Sidorov, *Ob osobennostiakh imperializma v Rossii*.

⁷ Potkina *Pravovoe regulirovanie predprinimatel'skoi deyatel'nosti v Rossii*, 209-210; L. Sapogovskaia, *Berezovskaia zolotopromishleniia kompaniia, (1874-1917 gg.)* (Ekaterinburg: 2004), 178; the development of Tsaritsyn defence and heavy industries is characterised as being self-perpetuating after initial government stimulation by M.M. Zarorul'ko, V. V. Bulatov, and V. N. Koctornichenko, *'Vickers' v Rossii: materialy dlia razrabotki problematiki inostrannogo kapitala i gosudarstvenno-chastnogo partnerstva v voennoi, nefianno i elektrotehnicheskoi otrasliakh promishlennosti Rossii i SSSR* (Volgograd: 2012), 109.

⁸ O. Baev, *Inostrannii kapital v promishlennosti kuznetskogo basseina* (Kemerovo: Kuzbassvuzizdat, 2004), 173.

⁹ M. N. Barishnikov, K. K. Vishniakov-Vishnevetskii *Inostrannie predprinimateli v Peterburge vo vtoroi polovine XIX-nachale XX veka* (St Peterburg: CPBIGO, 2006), 427.

2.1 Foreign Capital and the Witte System

Of central importance to the Witte system was the attraction of foreign capital to Russia. Many other aspects of the Witte system, such as stabilising the rouble and infrastructure projects were designed to facilitate this aim. Historians of the Witte system such as von Laue have convincingly argued that the Witte system was not a unified plan, and that its separate policy objectives remained largely distinct.¹⁰ However, the attraction of foreign capital to Russia was a common goal across the various components of the Witte system from 1892-1900. Tariff reform, the gold standard, and even railway construction all contributed to the attraction of foreign investment to Russia, which Witte viewed as essential to Russia's economic development as a great power due to the dearth of capital in Russia and the competitive element that would stimulate Russian industry.

Witte believed that foreign capital was an important component of his system, and that attracting foreign capital was of paramount importance to the Russian government, largely due to the lack of capital available in Russia in order to exploit her copious natural resources. In a secret memorandum to Nicholas II in 1899, Witte characterised Russia as occupying the position of a semi-colonial country, which supplied Western Europe with cheap raw materials and agricultural products while not possessing the abilities to make use of her abundant natural materials in order to develop manufacturing industries. In a separate minute, he placed the blame for this on the lack of abundant capital in Russia as a result of excessive taxation in order to fund Russia's foreign policy objectives.¹¹ This sentiment towards foreign capital was not just exclusive to Witte. Dimitrii Mendeleev, who had played an instrumental role in the development of the Russian oil industry in the 1870s and supported freer competition in the production and marketing of kerosene,¹² argued that foreign capital was essential for developing Russia's industry, and that not to do so would

¹⁰ Von Laue, *Sergei Witte and the Industrialisation of Russia*, 77.

¹¹ Witte and M. N. Murav'eva, minute notes on Russian commercial industrial policy, March 17 1899, in Witte *sobranie sochinenii i dokumental'nykh materialov* vol. 4 book 1 (Moscow: Nauka, 2002), 201.

¹² McKay, 'Restructuring the Russian Petroleum Industry', 90.

cause significant harm to the country. Russia was not America; whereas in America there was an abundance of capital in Russia there was not. Russian industry desperately required the further mechanisation of the means of production, and for this foreign capital was essential.¹³

When Witte became the minister of Finance in 1892, attracting foreign capital to Russia was the stimulus to some of his first economic policies. One of his first acts was to raise tariff rates on foreign manufactured goods. This tariff had two interrelated goals; on the one hand it protected Russian industry from competition from cheaper foreign made manufactured goods, and at the same time it encouraged foreign firms that had been engaged in selling to Russia to set up manufacturing operations in Russia behind the tariff wall.¹⁴ He also began to cultivate a network of agents overseas in order to cultivate a positive image of Russia's progress. These individuals published reports and guides for foreign companies interested in Russian investments.¹⁵

Between 1890 and 1901 the railway network increased from 30,600 to 56,500 km. Witte also increased Russian state ownership of the railways by buying up railway stock.¹⁶ Government orders for railroad materials undeniably had a positive effect upon heavy industry, and Witte also undertook to stimulate local industry surrounding his large railroad projects, especially in the case of the trans-Siberian railroad, much of which was achieved through foreign investment. According to Gatrell this expansion meant that by 1900 Russian capitalists were in a position to exploit the improved access to material supplies and markets.¹⁷ This was especially true for the development of some of the more remote regions in Russia, where industry had previously struggled due to the lack of infrastructure, much of which

¹³ RGIA f. 20, op. 4 d. 4231, l.74, 82-83, Dimitrii Mendeleev to Nicholas II 11 November 1898.

¹⁴ Crisp, *Studies in the Russian Economy*, 32.

¹⁵ S. Harcave, *Count Sergei Witte and the Twilight of Imperial Russia* (London: M. E. Sharpe, 2004), 71; Witte targeted the British capital market in particular for oil investment, M. Chshieva, *Istoriia nefianago sopernichestva inostrannogo kapitala na Kavkaze v kontse XIX-nachale XX veka* (Vladikavkaz: Izdatel'stvo Severo-Osetinskogo Gosudarstvennogo Pedagogicheskogo Instituta, 2008), 114.

¹⁶ Gatrell, *The Tsarist Economy*, 151.

¹⁷ Von Laue, *Sergei Witte and the Industrialisation of Russia*, 84; Gatrell, *The Tsarist Economy*, 154.

they had previously been expected to provide themselves.¹⁸ However, as an example of the disunity in Russian economic policy in the period, the railways were often built in order to satisfy strategic, and not commercial, concerns.¹⁹

At the same time in 1897 Russia was able to join the gold standard. This was achieved through a multi-pronged strategy of eliminating speculation of the rouble on the Berlin Bourse in 1894, introducing gold into circulation by permitting business transactions to be concluded at the rate of gold on the day, maintaining and building a large gold reserve through increased bullion production, stimulation of grain exports through railway tariffs and Russian credit operations abroad.²⁰ This development stabilized the rouble, freeing up capital for domestic investment that had been previously been employed in currency speculation, and made Russian government railroad bonds and company shares more attractive to foreign investors.²¹ Taken together, these significant parts of the Witte system helped to foster a level of economic opportunity in Russia that would have attracted foreign investment.

While British capital took longer to respond to these new conditions created by the Witte system, as will be discussed in a further chapter, French capital responded very quickly, partly due to the effect of the Franco-Russian alliance. The Franco-Russian alliance in 1894 was an important phase in Witte's plan for the industrialisation of Russia, as it secured for the Russians the continued support of the French money market for state loans and investment in Russian joint-stock ventures.²²

The effect of Witte's reforms on the influx of foreign capital in the 1890s that was led by the French was enormous. In 1890 there was 214.7 million roubles of foreign capital invested in Russian companies; by 1895 this figure was 280.1 million and in

¹⁸ McKay, 'Restructuring the Russian Petroleum Industry', 98.

¹⁹ Falkus, *The Industrialisation of Russia*, 74.

²⁰ Crisp, *Studies in the Russian Economy*, 106-108.

²¹ Crisp, *Studies in the Russian Economy*, 31.

²² William Langer, *The Franco-Russian Alliance, 1890-1894* (Cambridge, MA, Harvard University Press, 1929), 399.

1900 it had increased to 911 million roubles. In industries that were particularly dominated by foreign (mainly French) capital, such as the southern mining and metallurgical industries, foreign capital made up 90 percent of capital in joint-stock companies, up from approximately a third in 1890.²³

Foreign capital was therefore an essential component of the Witte system, and complemented other central aspects of the Witte system, such as railway construction, the gold standard, and tariffs. As this chapter will explore, this created two pressures; the fact that Witte recognised the need to implement a lawful and regulated system for foreign companies in order to attract foreign capital, and the fact that government stimulation of the economy, including attracting foreign investment was undertaken in an autocratic manner.

2.2 Autocratic Prelude to the Witte System

Fundamental to the Witte system was the bureaucratic and ideological environment in which he attempted to implement these reforms. Due to this environment, Witte's later attempts to impose lawfulness and legal standards on business regulation fundamentally conflicted with the manner in which he attempted to stimulate industrial growth. Some within the Tsarist government advocated a laissez-faire approach of restricting the state's activities to maintaining order and allowing industry to evolve organically. Others supported close regulation and control over industry, especially in favour of protecting agricultural interests. As a result government intervention where it did occur was arbitrary and inconsistent due to conflicting policy objectives under the autocratic system.

The lack of development of the Witte system before the 1890s has been attributed to the bureaucratic culture of Russia, whereby government officials resented

²³ Falkus, *The Industrialisation of Russia*, 70.

manifestations of industrialism such as the stock market and the extension of modern property rights to land. Ultimately, these restrictions existed in order to preserve autocratic privilege combined with state supervision, and to protect society from the consequences of capitalist industrialisation.²⁴ Russian economic policy was therefore marred by disagreements in the 1860s and 1870s. Marks has shown that divisions in the government over the construction of the trans-Siberian railroad stemmed from divisions in the world view of the Russian bureaucracy; one group under Loris-Melikov rejected the role of the state in the economic life of the country and favoured a route that served market interests, and conservatives such as Pos'tetkov favouring government intervention in improving the economic conditions of the country. Bunge was caught between the two sides of this debate. While attempting to modernise the state on western lines by promoting ideals such as freedom of the person and freedom of private enterprise, he attempted to take into account what he regarded as particularly Russian characteristics, such as the necessity of preserving the autocratic power of the state.²⁵ The practical implications of these dispute was that Russian industry struggled to develop before the 1880s. A low tariff policy meant that Russian industry struggled significantly against foreign competition before Vyshnegradskii introduced higher tariffs. Industries based in remote regions such as the oil and mining industries struggled because of a lack of government funded infrastructure projects.²⁶

Witte's monetary and financial reforms had considerable basis in the reforming efforts of his predecessors at the Ministry of Finance. Attempts were made by successive ministers from Reutern to accumulate a gold reserve and to create a more efficient money supply in Russia, which they believed would fuel industrialisation. However, these attempts met with limited success due to inter-ministerial opposition, a symptom of the autocratic system in which these ministers operated. Reutern was able to introduce the payment of customs duty in gold and proposed to allow business transactions to be conducted in gold at the rate of the day, however the latter was blocked in the state council due to desires to exercise controls over businesses at

²⁴ Gatrell, 'Economic Culture, Economic Policy and Economic Growth', 40-43.

²⁵ Marks, *The Trans-Siberian Railroad* 73; Stepanov, *N. K. Bunge: Sud'ba Reformatora* (Moscow: ROSSPEN, 1998), 295.

²⁶ Falkus, *The Industrialisation of Russia*, 50, 59.

the time. Later, Bunge attempted to occupy a middle ground between industrial and agricultural interests by advocating a dual strategy of promoting agricultural activity through liberal taxation and the extension of credit, while also introducing protective customs in order to stimulate industry. He was limited by the need to balance the budget and was forced to introduce a number of indirect taxes. Vyshnegradskii was more successful, aiming to accumulate a gold reserve through increasing exports and attracting gold into the country, culminating in the tariff of 1891, which resulted in a considerable surplus in the balance of trade, averaging 311.2 million paper roubles annually 1887-1891, against 62 million annually 1882-86. He was also able to restructure Russian state debt on the Paris markets in 1888, leading to an annual saving of 12.5 million roubles on the maintenance of Russia's state debts.²⁷

State intervention in industry before Witte was also often haphazard and arbitrary. This tendency can be traced to Peter the Great; his progress in governance was matched by a spurt in the growth of the industries that he viewed as important, such as metals, hemp, timber and gunpowder. This development also involved the arbitrary displacement of peasant populations in order to provide a workforce.²⁸ In the decades preceding Witte, the Russian government took many steps to facilitate the growth of the Russian metal industry; it facilitated the flotation of municipal loans that guaranteed markets for industry, and often insisted that orders be placed with Russian industry. This was often done in a highly arbitrary manner, for example the Warsaw municipality was forced to place orders with a Russian firm under threat of non-provision of transport costs and import duty relief. The finance ministry also encouraged municipalities and private banks to undertake loans to industry.²⁹

In 1883 state policy in the petroleum industry became more interventionist. Domestic taxes imposed by Bunge and Vyshnegradskii on the domestic consumption of Kerosene led to a reorientation of the Caucasian petroleum industry towards export, and combined with further taxes imposed by Witte in 1892 led to the industry

²⁷ Olga Crisp, *Studies in the Russian Economy*, 97-101.

²⁸ Gerschenkron, *Europe in the Russian Mirror*, 73-76.

²⁹ Crisp, *Studies in the Russian Economy*, 31-32.

altering production towards producing liquid fuel for railway and industrial consumption.³⁰ Witte's encouragement of British petroleum interests in the Caucasus also mirrors Vyshnegradskii's support of the Rothschilds in the area in the 1880s, and McKay argues that foreign infusions of capital were used by successive Russian Ministers of Finance to quicken the pace of the development of the Russian oil industry.³¹ However, in McKay's analysis state intervention in Baku was not very successful due to ministerial divisions, as well as conflict between local businessmen, which worked in favour of interest group politics.³²

The Witte system was precluded by a system of arbitrary intervention in support for various industries and monetary policies by previous Russian Ministers of Finance. These policies resulted in a complex interaction between market forces and government policy that resulted in industrial growth, as opposed to state induced growth. The basis of inconsistency in government policy was already established, and significant disputes between different bureaucratic culture and outlooks threatened to undermine Witte's economic reforms.

2.3 The Witte System and the Importance of Regulatory Frameworks

Witte recognised that foreign companies viewed Russian investments as carrying substantial risk, and that this risk was mainly due to the lack of clear regulation, and a consistent economic policy. As such, he undertook measures to improve the incorporation by concession system and the system of company charters in order to reduce the amount of arbitrary power given to government agencies, and to create a unified governmental policy towards foreign investment. At the same time, he believed in the use of arbitrary state action in order to stimulate growth in key areas of the economy, such as heavy industries, oil production, and those industries connected to the trans-Siberian railroad. The Witte system was therefore inherently

³⁰ Gerretson, *History of the Royal Dutch*, vol. II. (E. J. Brill, Lieden, 1953), 148-9.

³¹ McKay, 'Restructuring the Russian Petroleum Industry in the 1890s', 103.

³² McKay, 'Baku Oil and Transcaucasian Pipelines', 622.

contradictory; on the one hand Witte attempted to create a unified government policy towards foreign enterprises and to limit the exercise of autocratic power by government agencies whilst simultaneously manipulating the Russian economy in an arbitrary and inconsistent manner in order to promote growth. This paradoxically created an environment where foreign enterprises became dependent on arbitrary government policies for stimulating growth, and defeated the former aim of Witte's policies.

From the beginning of his tenure as Minister of Finance Witte pursued a policy of adapting Russia's laws to the needs or expectations of foreign investors. In 1894 Witte recognized the need for a more suitable framework of commercial law in Russia, mentioning it in his budget report for 1894 as 'the unfavourable conditions which cramp the economic development of this country'.³³ Early measures to improve Russia's company laws included the standardisation of weights and measures in 1893 and the revision of patent laws and trademarks in 1896. Witte had also taken steps to make Russia's industrial taxes more consistent by introducing a progressive tax in 1894 and clearly defining net profit and tax obligations in 1898.³⁴

These initial steps culminated in an attempt to reform the incorporation by concession system, and the system of company charters. These efforts began in 1899 when both Witte and Dimitrii Mendeleev, in a position in the Ministry of Finance, attempted to reform both aspects of company law. Witte attempted to persuade Nicholas II to abandon the incorporation by concession system for a more liberal incorporation by registration system that existed in Western Europe. Witte believed that the most obstructive stipulations commonly found in this system was the ban on foreign companies holding property in the Western provinces of Russia, the need to apply to the committee of ministers for incorporation, and that a foreign company could be denied permission to operate in Russia at any time for no reason.³⁵

³³ Von Laue, *Sergei Witte and the Industrialisation of Russia*, 96.

³⁴ V. N. Zakharov, Yu. A. Petrov, M. K. Shatsillo, *Istoriia nalogov v rossii, IX- nachalo XX veka* (Moscow: ROSSPEN, 2006), 214.

³⁵ Witte to Nicholas II, March 1899, in *Khrestomatia po istorii SSSR, 1861-1917* (Moscow: Prosveschenie, 1990), 193.

Witte believed that such arbitrary decisions by local and central authorities to a large extent hindered foreign participation in Russian economic life. This was due to difficulties caused by the ‘difficulty and ordeal that foreign founders must undergo in Russia, all kinds of applications... which must be applied for at the provincial and central offices, depending not only on the laws but on administrative offices...’.³⁶ He also pointed out that the concession system led to the development of the importance of the granting of exclusive benefits by the government in individual cases, which was both unsustainable for the government and prevented the formation of a clear regulatory framework.³⁷ Mendeleev had earlier also highlighted these problems. In 1898 he had reported to Nicholas II that Russia attracted very little direct investment, a trend he attributed to a widespread belief among foreign entrepreneurs that the Russian government was hostile to foreign investment and acted arbitrarily to protect its interests.³⁸

Witte’s efforts in this area eventually led to the establishment of the Tsitovitch commission, which was tasked with examining the importation of incorporation by registration system to Russia. The commission made a series of recommendations for the liberalising of Russian company law, although none were eventually implemented.³⁹ During this time, however, Witte recommended not introducing any new restrictions on foreign capital until at least 1904, and not amending company charters during this time either.⁴⁰ This is significant because Witte effectively requested that the Russian government limit its own reach in relation to the formation of foreign companies for a five-year period in order to achieve consistency and to encourage foreign capital inflow. Given that industrial regulations and policy up to 1899 and to the end of the Tsarist period effectively took the form of the outdated commercial legislation of 1836 and subsequent restrictions introduced by the Russian

³⁶ Witte to Nicholas II, March 1899, 194.

³⁷ Witte to Nicholas II, February 1900, in Witte, *Sobranie sochinenii i dokumental’nikh materialov* T. 4, K. 1 (Moscow: Nauka, 2002) 325.

³⁸ RGIA, f. 20, op. 4, d. 4231, l. 81ob-82. Mendeleev to Nicholas II, 11 November 1898.

³⁹ On the Tsitovich Commission, see Owen, *The Corporation under Russian Law*, 143.

⁴⁰ Witte to Nicholas II, 1899, 245.

government on an ad-hoc basis, this represented a significant attempt to curb the autocratic power of the government.

Alongside the deliberations of the Tsitovitch commission, Witte adopted a system in 1901 whereby changes and additions to joint-stock companies capital size and composition, business activities, and the timing of general meeting could be made without prior application to the relevant authorities. While this was initially meant to be a temporary measure while the Tsitovitch commission deliberated changes to the 1836 law on the incorporation of joint-stock companies this system persisted until 1914.⁴¹ By this time, Witte had also ended the use of the controversial tenth clause included in the charters of most foreign companies, which stated that the government could withdraw its permission for the foreign companies' operations in Russia at any time for no reason.⁴² This policy aimed to reduce financial risks for foreign companies, and it also removed further elements of arbitrary governmental power over them.

Alongside reforms to the incorporation system and amendments to company charters, Witte also attempted to create a more unified government policy towards foreign companies. According to Witte's letters to Nicholas II, a consistent government policy towards industry, and in particular foreign capital, was paramount. Government industrial policies needed to be carried out with strict consistency regularity, and conform to a defined plan, otherwise government policy could cause significant shocks to the economic whole and cause 'painful and pernicious consequences'. Even beneficent policies towards industrial interests could take decades to bear fruit if they were applied in an inconsistent manner.⁴³ Witte urged Nicholas II in 1900 to adopt a clear plan for the industrial development in the country so that the actions of all responsible departments of government could be strictly consistent with each other.⁴⁴ Witte highlighted in particular the number of ministerial

⁴¹ *Ministerstvo Finansov* Vol. 2 (1902), 564.

⁴² PSZ 3-16144, 3 December 1898.

⁴³ Witte to Nicholas II, 1899, 243.

⁴⁴ Witte to Nicholas II, February 1900, 328.

agencies that were involved in the process of incorporating a foreign company and in decisions over its activities, as was afforded to the by Russia's commercial law.⁴⁵

As well as attempting to influence Nicholas II in this area, Witte initiated discussions in 1899 in the council of ministers to attempt to make restrictions and regulations on the operation of foreign companies in Russia more consistent. He pointed out that regulations banning foreigners from some business activities and acquisitions in sensitive areas were often enforced for one company, but disregarded in the case of another. This state of affairs, Witte argued, hampered the development of joint-stock enterprises, a necessary mode of foreign entry into the Russian business environment.⁴⁶

British charters illustrate the inconsistencies in the criteria that the various ministries applied to the opening of foreign enterprises in Russia. For example, in the case of the British oil company Caucasian Oil, the local government offices in correspondence with the Ministry of Finance stated that they had no objections to the formation of the company as long as the conditions of their charter met those of other foreign companies in the area, such as the British 'Russian Oil Company'.⁴⁷ This seems to suggest a variation of the typical company charters in use in the Caucasian oil region for foreign companies. The mining department of the Ministry of State Domains had different criteria, stating that the company should not be given rights to begin operations in the Ugadkakh region, but that otherwise the ministry did not meet any objections to the company's other operations.⁴⁸

Despite his attempts to reform Russian laws surrounding the incorporation of companies, the systems of company charters and creating a unified economic policy, Witte never envisaged the abandonment of the autocratic system in Russia.

⁴⁵ Witte to Nicholas II, February 1900, 326.

⁴⁶ Extract from the journal of the Committee of Ministers, 1 June 1899, in Witte, *Sobranie sochinenii i dokumental'nykh materialov* 374.

⁴⁷ RGIA f. 20 op. 3 d. 4180 l. 211, Caucasian local governor to Witte, 16 February 1899.

⁴⁸ RGIA f. 20 op. 3 d. 4180 l. 216, Ministry of State Domains (Mining Department) to Ministry of Finance, 13 March 1899.

According to one of the more prominent Soviet historians of Imperial Russian economic policy, there was ‘no official acknowledgement of the significance of Russian commercial or industrial development or of the authority of the Ministry of Finance to carry out a unified commercial and industrial policy’.⁴⁹ Witte’s ideal of a regulated system rested on this being imposed by the Tsar on his government in an autocratic manner. According to Witte, only the sovereign ruler of the Russian Empire could coordinate the various arms of the Russian government in order to create a ‘unified and harmonious system, which your subjects have come to expect in other branches of government’, which would encourage the ‘entrepreneurial spirit and diligence’ of his officials.⁵⁰

James Whishaw, a British merchant who had taken Russian citizenship in 1884 and was engaged in the export of flax from Russia, and then later in the Baku oil industry, believed that Witte attempted to retain the arbitrary power of the state over foreign companies.⁵¹ Whishaw was in a reasonable position to judge Russian economic policy towards English companies, as he managed the Whishaw family business that had been established in the Russian flax trade from St Petersburg since before the Crimean War, and served as the British Vice-Consul in St Petersburg from 1886 to 1899. Around this date he decided to abandon shipping for oil interests in Baku, and became the responsible agent for many British oil companies operating in Russia.⁵²

Many other British companies at the time expressed similar concerns that the Russian government was attempting to implement tight controls over the activities of foreign companies in the late 1890s. The British shipping firm, Samuel and Co, who were engaged in the storage and shipping of Caucasian oil from Batumi, complained to the foreign office in March 1898 that the Russian government was bringing great pressure to bear on the company to register their ships as Russian and to register their company as a Russian company, with Russian directors. According to the company,

⁴⁹ L. Shepelev, *Tsarism*, 253.

⁵⁰ Witte to Nicholas II, February 1900, 327.

⁵¹ Owens, *The Corporation under Russian Law*, 121.

⁵² James Whishaw, *Memoirs of James Whishaw* (London: Methuen, 1935), 97-109.

the Russian government in this capacity was acting arbitrarily in order to protect their interests, especially as they believed that Batumi had been designated a free port by the treaty of Berlin in 1878.⁵³

The actions of the Russian authorities at Batumi caused other companies serious concerns, especially in relation to the security of their property. In 1899, the military authorities in Batumi cancelled all foreign companies' leases of land for construction of tank storage, ostensibly due to security concerns. The Tank Storage and Carriage Company, a British company affected, appealed to the Foreign Office, stating that it had damaged investor confidence in the area due to the way in which the Russian authorities protected their interests.

This information came quite unexpectedly, and has very much upset all people interested in the naphtha products export trade, and you will easily find how difficult it is to do regular business under such circumstances, when the authorities at a moment's notice can upset all commercial arrangements made.⁵⁴

Witte himself engaged in granting special rights and privileges to companies that he viewed as essential for the development of Russian industry, usually without any regard for the opinions of industrial interests. For example, Witte tended to use government assistance such as subsidies and favourable procurement orders to support certain industries that he thought were important, such as the iron industry, at the expense of others such as textiles, and manipulated freight rates on government railways to promote exports. While he sought the advice of various industrial congresses and interest groups, he tended to only act upon them if he considered them to be within the national interest.⁵⁵ In his memoirs, Witte is quite dismissive about the input of business interests, especially when they opposed the extra tariff on goods imported from Germany, describing them as self-interested and not qualified to comment on industrial policy.⁵⁶ Witte had also been doing this on a small basis before 1901 in specific industries. For example, Chshieva has recently shown how Witte adopted Russian policy on industrial credit in the Caucasian oil industry to suit

⁵³ TNA, FO 65/1570, f. 104, Samuel to Sanderson, 10 March 1898.

⁵⁴ TNA, FO 65/1595, f. 73, Tank Storage and Carriage Company to FO, 7 February 1899.

⁵⁵ Von Laue, *Sergei Witte and the Industrialisation of Russia*, 90-94.

⁵⁶ Witte, *Memoirs*, 67.

the need of foreign capitalists.⁵⁷ These arbitrary policies resulted in conflicting results. For example, he encouraged the growth of cartels in order to stabilize the domestic market, but at the same time maintained laws against price fixing.⁵⁸ Such inconsistent policies arising as a result of a desire to stimulate growth could in fact be interpreted as exacerbating the inconsistencies and arbitrary aspects of the system.

Previous studies have shown that Witte gave several British companies preferential treatment in the oil industry, and that personal connections with high government played an important part in company formation and successfully obtaining permission for various business activities. Witte was tempted to facilitate British companies in particular because of the potential funds of the London stock exchange. Companies such as the Shibaev Company and the Russian Oil Company were extremely successful in Caucasian oil fields because of their ties to Witte. According to Chshieva, these companies were able to pressure Witte to intercede on their behalf with ministries such as the Ministry of State Domains where they did not meet Russian legal requirements to begin their operations. Thus these British companies were able to obtain free action in Russian oil fields throughout the period in question, with the exception of the crisis years of 1900-4.⁵⁹

The practice of British companies obtaining special favours from Witte was also prevalent in other industries that British companies were involved in. For example, W. Vesty and Co., who were engaged in the export of Siberian butter from Riga received permission from Witte to import materials such as galvanized iron to build cold storage facilities in Riga free of import duty.⁶⁰ Such an exception was in line with Witte's policy of assisting industries that were connected to the construction of the trans-Siberian railway. This particular example shows how Witte in pursuing his particular economic objectives, in this case in Siberia, was willing to reserve the power to override other aspects of his economic policy such as his tariff on foreign manufactured goods in this particular example.

⁵⁷ Chshieva, *Istoriia nefitianogo sopernichestva*, 51.

⁵⁸ P. A. Berlin, *Russkaia burzhuaizii v staroe i novoe vremia* (Petrograd, 1922), 263.

⁵⁹ Chshieva, *Istoriia nefitianogo sopernichestva*, 114-116.

⁶⁰ TNA, FO 65/1696, f. 24, W. Vesty to M. Law, 4 February 1904.

Witte in part was able to succeed in creating a more regulated environment for foreign companies to invest in Russia, and it could be argued that this led to increased confidence abroad in Russian investments, a hypothesis that will be tested later on in this work. However, Witte's policy of attracting foreign investment through the construction of a regulated system was in itself based on autocratic exercise of power. He used his influence over the state council to impose his streamlining of the incorporation system, a state of affairs that was never made law, and made alterations to existing practice of granting company charters as opposed to implementing clear regulations over company formation and operations. He also engaged extensively in using arbitrary practices to stimulate industries that he viewed as important in order to encourage industrial growth in a haphazard manner that did not lead to the development of a consistent and clear economic policy towards foreign companies.

2.4 Opposition to the Witte System

The inconsistencies in the development of the Witte system between the need to develop a unified policy and clear regulation and the arbitrary stimulation of certain industries to an extent reflect the opposition that Witte faced from various sections of the Russian government in implementing his policies. As has already been identified, the Russian government under the autocratic system consisted of multiple overlapping jurisdictions, so economic reforms necessarily conflicted with other interests, most notably those of the landed nobility. Therefore, the autocratic environment in which Witte tried to implement his reforms worked to preserve autocratic power over the affairs of foreign businesses.

There is a general historical argument that as a result of their declining position, the Russian landed gentry opposed state policies that favoured industrialisation over, or to the detriment of, agriculture. Agricultural productivity stagnated in Russia after

the emancipation, agricultural output growing at an average rate of 2% a year, just above the rate of population increase. Conversely, manufacturing output grew at a rate of 5% annually, although by 1913 manufacturing only employed 5% of the workforce and accounted for 20% of the national income.⁶¹ Output per worker increased at a rate of 0.9% annually in agriculture from 1860 to 1913, compared to 2.7% annually for manufacturing. Research by Barkai has suggested that industrialisation in Russia was essentially financed by harsher taxation by the state, which essentially tapped in to internal resources in Russia in order to finance large state projects and the attainment of the gold standard.⁶² This view has been challenged by Drummond, who points out that the Russian government actually kept a looser control over money supply in 1896 to 1897 and afterwards than it had done in the 1880s and 1890s.⁶³

In his memoirs, Witte stated that foreign capital would have entered Russia more abundantly had it not been for the interference of the Russian regime, and the various 'experiments' that were imposed by self-interested parties in the court camarilla.⁶⁴ Witte also made reference to the fact that there was substantial opposition to the influx of foreign capital into Russia, stating that these voices should not be able to influence policy in a manner that may affect the consistency of Russian economic policy towards foreign multinationals. To this end, he stated there were certain policies that the Russian government should stand firm on in the face of reactionary opposition. These included policies such as the high customs tariff of 1892, widely opposed by landed interests that regarded it as having a negative effect on agricultural exports.⁶⁵ Mendeleev shared these concerns in 1898, and stated that the plans of reactionaries to thwart Witte's plans of attracting foreign capital to Russia threatened the future economic initiative of the country.⁶⁶

⁶¹ Goldsmith, 'The Economic Growth of Tsarist Russia, 1860-1913', 442.

⁶² Barkai, 'The Macro Economics of Tsarist Russia in the Industrialisation Era', 358.

⁶³ Drummond, 'The Russian Gold Standard, 1897-1914', 670.

⁶⁴ Witte, *Memoirs*, 73-4.

⁶⁵ Witte to Nicholas II, 1899, 245.

⁶⁶ RGIA, f. 20, op. 4, d. 4231, l. 74 Mendeleev to Nicholas II, 11 November 1898.

Witte was unable to make any progress towards improving the legislation surrounding the formation and operation of joint-stock companies in Russia. Historians have seen the failure of the Tsitovitch commission as due to certain sections of the Russian government including Witte being wary of expanding the reach and scope of foreign companies in Russia.⁶⁷ In his memoirs, Witte claimed that his efforts to facilitate the formation of joint-stock companies were systematically thwarted by the Ministry of the Interior, and Plehve and Durnovo in particular.⁶⁸

To an extent this appears to have been partly due to xenophobic elements of the Russian government objecting to foreign economic activity on Russian soil. Before Witte's attempts to modernise the system of the incorporation of foreign companies, the process of obtaining permission to begin operations in Russia was very inconsistent for foreign companies. Often British companies were refused for very abstract and unclear reasons. For example, as late as 1899 the Ministry of War refused to grant permission for the establishment of the Anglo-Russian Chatma Company because it considered the development of oil fields in the Terek region was not in the interest of Russian industry, a reason that appears to not be in the purview of the Ministry of War.⁶⁹

Russian economic policy could vacillate between the needs of agriculture and industry, and it is therefore indicative that Witte faced significant opposition from landed interests within the Russian government itself in his attempts to promote industry. There was also, before Witte's reforms, considerable resistance among some parts of the Russian government towards foreign economic activity in Russia. These sources of opposition created conflict under the autocratic system of overlapping jurisdictions and led to the creation of further inconsistencies in how economic policy was applied to foreign companies. Therefore, while Witte attempted to introduce consistent policy and regulation as part of his economic reforms, these

⁶⁷ Von Laue, *Sergei Witte and the Industrialisation of Russia*, 97.

⁶⁸ Witte, *Memoirs*, 76.

⁶⁹ RGIA f. 20 op. 3 d. 4181 l. 119, Ministry of War to Ministry of Finance, 12 March 1899.

were constantly undermined by the autocratic system in which he operated, and in many cases, could only be overcome by the use of autocratic power.

2.5 The persistence of the Witte System

After Witte's departure as Minister of Finance and the upheavals of 1905, the industrial policies of the government were characterised by retrenchment. The state took a less active role in stimulating industry, and due to concerns brought about by the economic downturn of 1900-1904, placed more emphasis on the development of Russian industry than securing foreign investment. This resulted in a different business environment from that under the Witte system; as government interference in industry to promote foreign investment became less prevalent, some of the more arbitrary aspects of the Witte system were reduced, and government policy towards foreign enterprise to an extent became more consistent.

Gerschenkron argued that as industrial growth after 1907 was driven mainly by cartels and large banks instead of the state, the state's role was reduced to that of a hindrance in this period.⁷⁰ Although the state took a much less active role in the economy, this view is probably too simplistic. Gatrell argues that after 1905 the government refused to countenance any significant assistance to the private sector, however this created a significant amount of uncertainty. The government, as a result of the industrial downturn, used its control of state assets more aggressively to counter any increase in the power of domestic or foreign capitalists, and kept them at length through design of mass regulations. In fact, post Witte, the Ministry of Finance tended to regard the development of private enterprise as a convenient source of revenue, not a policy to pursue as an end in itself, and as a result businesses and industry developed in an atmosphere of official antagonism and public distaste.⁷¹

⁷⁰ Gerschenkron, 'Economic Backwardness in Historical Perspective', 22; This conclusion is also supported by monetary data that indicates large banks became the main motor of growth by 1914, Drummond, *The Russian Gold Standard*, 686.

⁷¹ Gatrell, 'Economic Culture, Economic Policy and Economic Growth', 48-50; *Government, Industry and Rearmament in Russia*, 326.

The government policy of stimulating only certain industries, such as those relating to defence, led to criticisms from industrial societies that the government was following a system of state-socialism.⁷² At the same time, the government defended the interests of Russian industry from imported European goods and from anti-capitalist forces in the state Duma.⁷³ There therefore emerged tensions in government policy; on the one hand the government aid to industry was significantly reduced, but on the other hand the government retained a semi-active role in certain areas of the economy. However, the arbitrary granting of concessions and privileges under Witte occurred less frequently by this reduction in activity, although it did not necessarily result in a more stable business environment.

This trend is especially evident in relation to foreign business. The economic downturn of 1900-1904 resulted in distrust towards foreign enterprise among members of the Russian government, and the effects of this economic downturn strengthened the hand of those within the Russian government who viewed foreign enterprise as a threat to Russia's economic stability. Generally this resulted in a reduction in special favours and exceptions given out to foreign companies in industries regarded as important to the Russian government.⁷⁴ It also presaged a trend that was continued up to 1914 where the Russian government began to focus more on stimulating Russian industry at the expense of foreign companies in Russia.

Government procurement orders began to be limited to only Russian companies; for example by 1913 the question of issuing orders for armaments was settled by a commission which gave priority to Russian joint-stock companies.⁷⁵ It also triggered a movement towards greater control of joint-stock companies and in 1914 a law was almost passed which gave the bureaucracy sweeping new powers over the day to day activities of foreign joint stock companies. However, due to the fact that this law caused uproar among French investors, the largest holders of government and

⁷² Ruth Rosa, 'Russian Industrialists and 'State Socialism', 1906-17', *Soviet Studies*, 23 (1972), 395-417.

⁷³ Owen, 'The Russian Industrial Society', 605.

⁷⁴ Chshieva, *Istoriia nefianogo sopernichestva*, 115.

⁷⁵ Zarorul'ko et al., '*Vickers*' v Rossii, 87.

railway bonds, and Russia's closest ally in the run up to the outbreak of the First World War, this law was eventually abandoned.⁷⁶

The government targeted syndicates and other types of industrial organisations that had hitherto been tolerated. Witte had tolerated the formation of syndicates in order to support the interests of foreign firms, especially during the industrial downturn post 1900. However, alongside the recovery of the Russian economy in 1907 the Russian government began taking action against such organizations, preventing the formation of a cartel in the metallurgical industry, beginning court proceedings against Prodogul in 1914, and threatening to set up state enterprises to meet state needs and lower duties on metallurgical products.⁷⁷

The clampdown on special privileges accorded to foreign companies is aptly demonstrated by the experience of Vesty & Co. Three years after obtaining their original concession from Witte, Vesty contacted the foreign office asking for diplomatic assistance in Russia. Due to an increase in demand for Siberian butter, the company had been obliged to expand its cold storage facilities in Riga in time for the butter season in 1902. For reasons of expediency due to the sudden rise in demand for Siberian butter in 1902 he had been obliged to further expand his cold storage facilities and then retrospectively apply for a reduction in the customs duty applied to the materials used. However, as this application was made after Witte's departure from the Ministry of Finance, and during a period where foreign companies were granted less largesse due to the economic slowdown of 1900-1904. As a result, the application was refused, despite Witte's earlier assurances to the contrary.⁷⁸ The clash between attempting to create a more consistent economic policy and attempting to stimulate key industries related to the trans-Siberian railway in this instance appear to have mitigated against the development of a more regulated environment.

⁷⁶ Owens, *The Corporation Under Russian Law*, 178.

⁷⁷ Crisp, *Studies in the Russian Economy*, 178-180.

⁷⁸ TNA, FO 65/1696, ff. 24-26, W. Vesty to M. Law, 4 February 1904.

A major problem that began to confront British companies in this period was the extra rigour with which the Russian government applied tax laws on income tax. When a new law was passed in 1906 by the Duma introducing a progressive tax on the profits of companies, a number of British companies were affected by its implementation. The problem was so significant that Charles Smith, consul at Odessa from 1900 to 1913, wrote to the Foreign Office stating that British companies should take extra care when publishing their accounts and paying taxes, as there had been many instances of British companies being fined due to errors and re assessments of their income and profits.⁷⁹ This new law and its rigorous implementation affected two companies covered in this study, the Troitzk and Orsk Goldfields Ltd, and the Anglo Russian Cotton Factories Ltd.⁸⁰ Such problems for British companies suggests that the new rigour with which the Russian government applied the law relating to income taxes was surprising, and perhaps indicative of a new trend in government industrial relations.

Despite these changes in policy due to a new attitude towards foreign enterprise in the Ministries of Finance and Trade and Industry, some aspects of the Witte system persisted, such as the state's role of inducing growth through government orders, selective assistance and manipulation of certain industries and the system of preserving certain special privileges for various companies. Re-armament from 1907 to 1914 to an extent preserved some of the aspects of the Witte system, namely the stimulation of heavy industry through government orders. Gatrell makes the case that rearmament brought recovery to Russia's industry, encouraged capital investment and stimulated modern forms of industrial organisation. Government aid packages to some private firms suggest that some government departments championed the needs of private industry, although the government also focussed upon the regulation and close supervision of the management of companies.⁸¹ The Octobrist majority of the third Duma consistently voted to authorise increasing military budgets due to their commitment to Russian imperialism, as well as promoting private property rights in

⁷⁹ TNA, FO 368/321, f. 93, Smith to FO, 1 January 1909.

⁸⁰ TNA, FO 368/218, f. 28280, William Goldie to FO, 12 August 1908; LMA, MS 11759/2, f. 41, Meeting of the Directors of the Anglo Russian Cotton Factories Ltd, 15 September 1911.

⁸¹ Gatrell, *Government, Industry and Rearmament in Russia*, 325.

Russia.⁸² Railway construction continued at a reasonable pace, offering some elements of state induced growth, although the rate of additions to the railway network was much lower than in the 1890s, averaging 1100 km per year in 1906-1910 compared to 2820 km per year throughout 1896-1900.⁸³

French investment in banking illuminates this trend after Witte. Following the crisis of 1900-1906 it became clear that the Russian government would not let the banks fail, and was prepared to go to great lengths to save them from bankruptcy. According to Crisp, this policy offered security minded French investors a good guarantee of their investments in Russian banks after the crisis. However, French banking interests could not operate in Russia regardless of government policy; the Russian government's status as a debtor put it in a reasonably powerful position in the relationship, as did its power to remove certain privileges and its tradition of interference in the affairs of banks.⁸⁴

As well as some similarities in policy with the Witte system, the new attitude of the Russian government as a result of the economic depression was not reflected in legislation. As Thomas Owen has demonstrated, the 1836 corporation law was largely still the basis of corporate law in the period, with company charters acquiring legal status once they were approved by the Tsar.⁸⁵ Economic crisis in Russia only produced two revisions to corporate law itself that cannot be seen as restrictions specifically placed on foreign enterprise. In December 1901 a law was introduced that strengthened the position of smaller shareholders at the expense of larger shareholders and company directors in order to combat speculation. The law introduced thresholds for the attendance of stockholders at company meetings if major changes were to be introduced to joint-stock companies, and enabled extraordinary company meetings to be called by owners of just one fifth of the stock. The law also prevented directors of banks from holding directorships in

⁸² Mosse, *An Economic History of Russia 1856-1914* (London: I. B. Tauris, 1996), 229; J. F. Hutchinson, 'The Octobrists and the Future of Imperial Russia as a Great Power', *The Slavonic and East European Review*, 50, 119 (1972).

⁸³ Gatrell, *The Tsarist Economy*, 150.

⁸⁴ Crisp, *Studies in the Russian Economy*, 185-86.

⁸⁵ Owens, *The Corporation under Russian Law*, 119.

corporations.⁸⁶ The second major piece of legislation introduced restrictions on Jewish landholding outside of the pale of settlement, and restrictions on Jews being able to work as managers for companies issuing bearer shares.⁸⁷

Taken together, this collection of legislation suggests very little changed during and after the industrial downturn and Witte's departure from the Ministry of Finance. However, as the legislation surrounding commercial law changed very rarely since 1836, and it left such a wide scope for arbitrary implementation of the law by government bureaucrats that a change in government policy towards foreign businesses would not necessarily be reflected in legislative changes to existing corporate laws. The fact that it was reflected in an emerging body of law relating to rapidly expanding industries where foreign capital was heavily involved is significant, and indicative of a new tendency within the Russian government to more heavily regulate and control foreign enterprise.

After Witte, some aspects of his system remained intact. Although the amount of special privileges and concessions for specific companies were reduced, due to the government taking a reduced role in economic development, government assistance on an industry wide basis remained, especially in sectors that the Russian government considered to be important such as banking. This could be seen as something of an improvement on the Witte system; the Russian government's restriction on special privileges and concessions for individual firms was a logical outcome of Witte's campaign for consistent economic policy and adherence to regulations that Witte himself was not able to emulate. However, the stimulation of certain industries still caused uncertainty in the business environment, and the government took no steps to resolve the inherent problems contained in the body of Russian commercial law, apart from where it related to new and emerging industries.

⁸⁶ *PSZ* 3-20874, December 21, 1901.

⁸⁷ *PSZ* 3-22932, May 10, 1903.

2.6 Conclusion

From the evidence presented above, it is undeniable that Witte's efforts to secure the so-called fourth pillar of the Witte system, foreign capital, produced a tangible effect in smoothing the process by which foreign companies entered the Russian market. It also reduced the level of government interference over their business affairs by reducing the number of ministries and governmental agencies that possessed jurisdiction over their investments.

These developments did not lead to the formation of a lawfully regulated system, nor were they intended to in the first place. In a similar fashion to the development of Russian commercial law, Witte's economic policy was based on a system of arbitrary power concentrated in the hands of the Russian government and its ministries. The Russian government, although it at times attempted to adopt a more uniform and consistent policy towards foreign investment, never abandoned its autocratic prerogatives to make arbitrary decisions in relation to foreign companies. In fact, in pursuing other aspects of the Witte system and later economic development, such as the stimulation of extractive and heavy industries, and industries connected to the trans-Siberian railroad, the Russian government often breached its own rules and laws, such as those related to tariffs and the establishment of foreign companies, and acted in a highly inconsistent manner.

However, a significant change occurred between 1907 and 1914. Although arbitrary power over companies was still concentrated in the hands of the government, it began to take a much less active role in stimulating economic development and making use of such powers in the way that Witte had. While many aspects of government intervention in the economy between 1907 and 1914 remained problematic, it could be argued that the Russian government became more consistent in this policy towards foreign companies than it had under Witte. Even if the Russian government was consistently less friendly to foreign enterprise, by not using arbitrary methods to stimulate particular industries for example, it could have created

a friendlier overall business environment in Russia for foreign companies because of greater consistency in government action.

Despite attempts to modernise, the Russian business environment still manifested many autocratic features by 1914. An unreformed corpus of commercial law that gave the government sweeping discretionary powers over the affairs of foreign companies was complemented by reformed yet still contradictory and arbitrary economic policy towards foreign entrepreneurs. This thesis will attempt to investigate whether these macro features of the Russian business environment affected the development of a stable business environment and government-industrial relations in the experience of British companies in Russia.

Chapter 3: The Development of British Foreign Direct Investment in Russia, 1892-1914

As the preceding two chapters have shown, the corpus of Russian commercial law relating to foreign companies remained virtually unchanged throughout the period, and permitted a high level of government interference into the affairs of companies. At the same time, Russian economic policy towards foreign investment underwent important changes under Witte and his successors. Witte introduced economic policies designed to encourage foreign investment in Russia, and in particular to encourage the growth of foreign enterprises in Russia that could compete with domestic industry. These policies were based on arbitrary foundations, however, which would have significant effects even after their curtailment with Witte's departure from the Ministry of Finance.

This section seeks to determine the pattern of the formation of British companies in Russia, and to see if these trends can be related to changes in Russian government policy and commercial law. The general outline of foreign investment in the period is well known. Witte's policies had a marked effect on the entry of foreign capital into Russia. Investment in all forms increased throughout the period, and was particularly marked in the purchase of government bonds and railway stock abroad, especially in France. French indirect investment in Russia through these means, and through the large industrial syndicates such as Prodogul, is often cited as the main significant modes of foreign investment in Russia. However, there was a significant growth in foreign investment in companies located in Russia. In 1890, a third of all shares issued by companies in Russia were held abroad, to a value of 214.7 million roubles. This figure increased to 2,000 million roubles by the outbreak of the First World War, increasing annually every year apart from during the period of industrial downturn and revolutionary disturbances from 1900 to 1906. Foreign investment in general tended to be directed into the industries and locations that the Russian government prioritised for development, such as heavy and extractive industries,

where foreign capital accounted for up to 90% of all capital in some locations.¹ According to Olga Crisp, Witte's policies had a marked effect on foreign investment in the 1890s; investment by foreign companies increased by 389% over the decade. The increase was such that foreign investment in the year 1898 was more than the total foreign investment in the period 1851-1892.² These figures do not show the inflow of real resources into Russia, and Barkai contends that Russia industrialised largely on its own resources, although foreign investment played a significant role.³

What is not so clear is the pattern of British foreign direct investment (FDI). The statistics and studies cited above do not separate direct and indirect investment. Neither do they discuss the numbers of companies involved in the Russian market, their geographical location, the industries in which these companies were involved, or their corporate structure and organisation. This section attempts to explore these aspects.

Data on the historical development of British companies in Russia have been derived from a variety of sources, each with their own limitations that are important to consider. The majority of the data came from the records of authorisation for foreign companies to begin operations in Russia, or the formation of joint-stock companies in Russia that involved foreign capital. These are held by the Ministry of Finance up until 1906, and thereafter by the Ministry of Trade and Industry. These are a useful resource because they also record when a particular company filed for liquidation, or changes to its composition, activities, or share capital, all of which required permission from the relevant ministry by law and was thus subsequently recorded in their file. However, these records rely on companies declaring their nationality; they do not account for many British-financed companies that formed Russian 'free standing' companies, registered as Russian companies in the name of an agent such as James Wishaw.

¹ P. Ol', *Innostrannie Kapitali v Rossi* (Moscow, 1922), Cited in Falkus, *The Industrialization of Russia*, 70.

² Crisp, *Studies in the Russian Economy*, 32; 107.

³ Barkai, 'The Macro-Economics of Tsarist Russia', 362.

To fill in these gaps, other sources have been used. In 1903, consular officials were required to submit lists to London of British companies located in their consular districts. This list is in parts quite rich, as the consular officials were required to submit additional information about the businesses in their area, such as the date of establishment, amount of share capital, its current profits, and the number of workers that it employed. While this list is a useful resource and contains a vast amount of information missing from company incorporation records, it is entirely reliant on the knowledge, skill, and time resources of the consuls in each district charged with compiling the information. For example, the British consul in Warsaw, William Murray, did not include any data about when the British companies in his district were established; neither did he specify their profits.⁴ Unfortunately, this exercise was not repeated before the revolution of October 1917, so this rich source of data can only shed light on the first half of our period.

A third source used in this analysis is company reports, advertisements, and notices placed in the British press at the time. These are of a supplementary nature, and predominantly concern companies set up in the Caucasian and Siberian oil and mining industries that vigorously advertised for public subscription of their share capital. These records are a good supplement to the Russian government's records concerning the authorisation of foreign companies in Russia as they often include 'free standing' companies, registered in Russia as a Russian company, but in reality financed and controlled from Britain. However, not all such companies advertised in the financial press, and such reports and advertisements only state the nominal share capital, rather than a clear indication of the amount of share capital that was actually subscribed. They usually produced a highly sanitised report of the conditions in Russia and the activities of the company, often masking the fact that a few of these companies were in effect holding companies, speculating on the value of Siberian or Caucasian oil concessions.

⁴ TNA, FO 65/1671, f. 269, Murray to Lansdowne, 2 July 1903.

Despite these limitations, some key trends in the pattern of British investment in Russia emerge from this data. The first concerns the amount of share capital in Russia and the number of British companies in Russia and how this changed over the period. This trend follows the general pattern of foreign investment in Russia, albeit with some key chronological differences. British companies were slower to respond to the new conditions created by Witte and the ministry of Finance in the 1890s than their French and Belgian counterparts, the main surge of British investment occurring towards the end of this period. French and Belgian capital entered Russia much earlier and in larger quantities due to the Franco-Russian alliance of January 1894 and Russia's dependency on French loans.⁵ British company formation was heaviest in the wake of the revolutionary disturbances of 1905, which did not appear to have had the same deterrent effect as the industrial downturn of 1900-1904 did on British investment.

Secondly, the industrial sectors favoured by British companies changed from 1892 to 1914. British companies in the 1890s were primarily concerned with industries related to the shipping trade. This changed dramatically at the end of the decade, when more British companies formed in the extractive industries prioritised by Witte. This growing level of activity was reflected in the wider geographical location of these businesses. Whereas in the latter half of the nineteenth century British investment was centred around the ports of St Petersburg and Odessa, with minimal involvement in the interior of Russia, after 1900 British investment was disproportionately attracted to mining and oil districts in Siberia and the Caucasus. The investment strategies of British companies also changed significantly from 1892 to 1914. This section examines how their financing strategies changed, as well as how they altered their organisation and diversified their interests throughout the period. In this way, we can build up a picture of British engagement with the Russian market and shed light on the investment decisions made by British companies.

The chapter will argue that initially Witte's overtures towards foreign investors had little impact on British firms, who moved into the Russian investments

⁵ Langer, *The Franco-Russian Alliance*, 399.

conservatively. However, the rewards that became apparent from the late 1890s for investment in industries favoured by Witte, such as the Caucasian and Siberian mining and extractive industries, stimulated substantial British investment in these sectors. Although many more British firms were established and capital invested, British firms still approached the Russian market conservatively, taking fewer risks in diversification and adopting the new financial and organisational models of some of their international counterparts. If this conclusion is apparent from the data below, it has significant implications for the success of Witte's plans for inducing foreign investment to Russia. It would indicate that British investment was predominantly determined by a high ratio of local resources to capital, as opposed to any attempts by Witte to improve the business environment in Russia in line with the expectations of foreign companies. This determinant and later conservatism on the part of British companies would indicate that they never formed stable assumptions about the Russian business environment and therefore moved into further Russian investments cautiously.

3.1 British FDI in Russia before 1892

The surge of British capital into Russia was presaged by a not insubstantial British engagement in the Russian market before 1892. This was already beginning to take on more modern forms before 1892, although most companies maintained traditional business organisations based on a network of family and a small circle of contacts. Aside from a few exceptions in the interior of Russia, this activity tended to be based around centres of British maritime trade such as St Petersburg, Odessa and Batumi, due to a tendency for these investments to have been the outcome of pre-existing trade links between Russia and Britain.⁶ This tendency was as much a product of British business as a whole in the late nineteenth century as a reaction to Russian conditions. British businesses were slower than their international counterparts to take on more modern management hierarchies, and were notoriously resistant to

⁶ Gurushchina and Potkina, 'Angliskie kapitali i chastnoe predprinimatel'stvo v Rossii', 107-8.

forming joint-stock arrangements, as opposed to their international counterparts.⁷ Despite these limitations, many British companies and individuals became extremely rich due to their Russian investments before 1892, especially in the capacity of acting as bankers in Russia's under monetised economy.⁸ There are many famous examples of such firms, such as the Hubbards, Cazalets, and John Hughes & Co., whose mining concession in the south of Russia gave rise to the name of the nearby town of 'Hughesovka'.⁹

British involvement in the textile industry in St Petersburg was particularly intense before 1890. This is to an extent reflected in the figures on company formations in table 1 (appendix). In fact, this involvement before 1890 played a significant role in shaping the socio-economic life of the city. Research has shown that they had a very culturally distinct colony in the Admiral'teiskaia and Vasil'evskaia areas of St Petersburg, and a large summer colony in Peterhof, with their own memory and traditions that stretched back to the time of the first British traders in Archangel, although still viewing themselves as inexorably tied to Britain.¹⁰ The British colony in St Petersburg consisted of 1,784 individuals in 1881, which rose to 2,367 in 1900.¹¹ These British traders were initially involved in the export of hemp and herrings from Russia, and later providing banking services to Russia's under monetised economy. British and other foreign capitalists began to move into the production of textiles, chemicals, tallow, soap and tobacco in the second half of the nineteenth century, as well as becoming involved in commodity markets as St

⁷ Jones, 'Origins, Management and Performance', 14; Kennedy, 'Foreign Investment, Trade, and Growth', 440; Wilson, *British Business History*, 87.

⁸ Simon Dixon, 'Allegiance and Betrayal: British Residents in Russia during the Crimean War', *SEER* 94, 3 (2016), 431.

⁹ Susan Edwards, *Hughesovka: a Welsh Enterprise in Imperial Russia: an account of John Hughes of Merther Tydfil, his New Russia Company, and the town, works and collieries which he established in Ukraine* (S. I.: Glamorgan Record Office, 1992); Thomas Colin, *Dreaming a City: from Wales to Ukraine* (Tal-y-bont: Y Lolfa, 2009); also mentioned by contemporaries: Henry Norman, *All the Russias: travels and studies in contemporary European Russia, Finland, Siberia, the Caucasus, and Central Asia* (New York: Charles Scribners Sons, 1902), 379.

¹⁰ Konstantin Vishniakov-Vishnevetskii, *Inostrantsy v promishlennoi zhizni Sankt-Peterburga vo vtoroi polovine XIX veka* (St Petersburg: SPBIGO, 2008), 165; Marie-Louise Karttunen, 'Social Memory: Patchwork Fabric from the Roaring Loom of Time' in M. Ruckenstein and M. Karttunen, (eds.) *On Foreign Ground: Moving between Countries and Categories* 148-61 (Helsinki: Finnish Literature Society, 2007), 149; James Bater, *St Petersburg: Industrialisation and Change* (London: Edward Arnold, 1976), 263.

¹¹ Mahnke-Devlin, *Britische Migration nach Russland*, 47.

Petersburg became the fulcrum of trade between the Russian empire and the rest of the world.¹² British traders were not restricted to the capital, there was a small and numerically stable population of British citizens in Moscow, who set up enterprises such as Muir and Mirrielees in the retail trade and Roidin Smith & Co, who manufactured boilers.¹³

These conclusions are supported by an analysis of table 1.¹⁴ While there was a variety of industries represented, there is a clear tendency for British companies before 1892 to be established in St Petersburg and Odessa. Archangel and Kirov are also represented on this table; the former being the port where British merchants first made contact with the Russian court in the seventeenth century, and the latter being located relatively close to Odessa. British companies were mainly concerned with textiles industries and related consumer goods industries, such as paper and leather belting, especially in St Petersburg. Heavy industry was somewhat underrepresented in comparison to these industries; aside from fairly large industrial concerns in Odessa, Kirov and Taganrog, British firms engaged in industry tended to be much smaller than their counterparts in consumer goods industries.

This demonstrates the determining impact of British shipping before Witte's reforms; British shipping in and around St Petersburg was predominantly concerned with the flax trade. In fact, we know from the memoirs of James Whishaw that the main British concerns in St Petersburg revolved around the timber, flax and textile trade up until the 1890s, when British companies in St Petersburg started to lose ground to local and German firms, and the timber and flax trades collapsed due to the advent of ironclad warships.¹⁵ The Whishaws were an example of the traditional family firm that operated in Russia up until the end of the twentieth century, engaged in the flax trade in St Petersburg. Although Whishaw's firm was still in operation in 1903, it does not show up in the consular statistics because by this point James Whishaw had

¹² Bater, *St Petersburg*, 216, 258.

¹³ Mahnke-Delvin, *Britische Migration nach Russland*, 55; H. Pitcher, *Muir and Mirrielees, the Scottish Partnership that became a household name in Russia* (Cromer: Swallow House Books, 1994); *The Smiths of Moscow: a Story of Britons Abroad* (Cromer: Swallow House Books, 1984).

¹⁴ Table 1, Appendix.

¹⁵ Thompstone, 'British Merchant Houses in Russia', 107-30.

become a naturalized Russian subject in order to act as an agent for British oil companies in the Caucasus, in order to satisfy Russian legal requirements.¹⁶ This is reflective of a general trend in Russia where domestic merchants gradually began to replace foreigners at the end of the nineteenth century, especially on the St Petersburg bourse.¹⁷

The vast majority of these companies were formed in the 1880s, and these companies were distributed roughly evenly across the periods 1880-85 and 1885-1890. This indicates a steady rate of investment rather than any quickening before Witte's tenure as Minister of Finance and resulting reforms. In fact, as this particular list was compiled using consular data on the number of firms that were active in 1903, the preponderance of firms formed before 1885 suggests that there had in fact been a slight slowdown in British investment during the period 1885-1892. It is likely that there would have been many more firms that were not included on this list that were formed before 1885 and had since gone out of business. This suggests that Russia was not seen as a key area of investment or profitability for British companies before Witte's reforms, so any increase during the 1890s should be seen in light of this limited prior engagement.

3.2 British FDI in Russia 1892-1914

British FDI in Russia during the period in question can be broadly broken down into two phases, distinguishable in terms of the number of companies formed, the industries in which they were situated and their geographical location. The first phase, from the beginning of the period until the industrial downturn of 1900-1904, was dominated by a wide variety of industries and geographical locations, although the latter were usually determined by pre-existing British trade links. The second

¹⁶ Wishaw, *Memoirs*, 97-109.

¹⁷ P. V. Lizunov, 'Inostrannye kuptsy na Sankt-Peterburgskoi birzhe, XVIII-nachalo XX veka' in B. V. Anan'ich et al., *Chastnoe predprinimatel'stvo v dorevolutsionnoi Rossii: etnokontsional'naiia struktura i regional'noe razvitiie, XIX-nachalo XX v* (Moscow: ROSSPEN, 2010), 506.

phase, after the industrial downturn until the end of the period saw an increased level of British company formation in Russia, but in a narrower selection of industries that was dominated by the Caucasian and Siberian extractive industries.

Overview

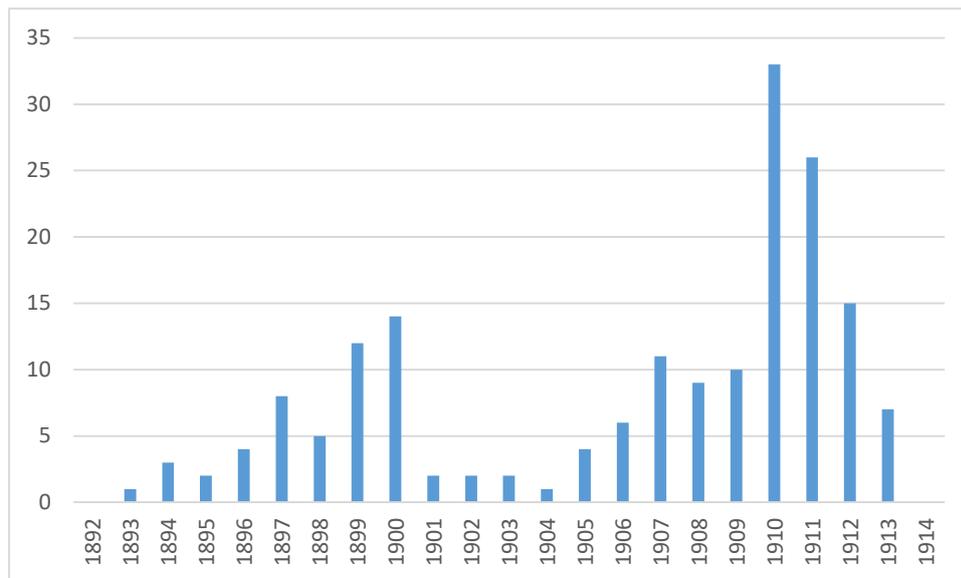
Early Soviet statistics compiled by Ol' estimate that in 1917 British capital made up 23 per cent of all foreign investment, and was mainly situated in the oil, textiles and copper sectors, although this statistic does not break down this figure into direct or indirect investment. Other estimates put the figure as high as £110 million in 1913.¹⁸ However, these figures do not show a chronological breakdown indicating the main periods of British capital flows into Russia. An analysis of the number and rate of British company formations over the period 1890 to 1914 indicates the following conclusions: the formation of British companies increased steadily over the levels of the 1880s throughout the 1890s, then stalled after 1900, probably because of the significant industrial downturn in Russia for these years. From 1906 the number of British company formations surged, rising to a peak in the years 1907-1910, before subsequently slowing down to levels not dissimilar to 1906.

Trends in the establishment of British companies in Russia in the decade 1892-1902 show that British investment reacted slowly to many aspects of the Witte system. Tariff controls, brought in in 1892, had very little effect on British investment, and in the 5 year period 1892-1896 British company formation was very similar to trends in the 1880s; in these years only 10 new companies were established, or gained permission to begin activities in Russia, compared to the 17 companies that were established in Russia during the period 1880-1891, a very slight increase in company formation. The effect of the gold standard is somewhat more perceptible; company formations increased dramatically in 1897, although they fell the following year.

¹⁸ Ol', *Innostrannye Kapitali v Rossi*, 71; Platt, *Britain's Investment Overseas*, 91.

The surge in British investment in Russia during this decade, however, is quite clearly identifiable from 1899 to 1900; in these two years 26 new British companies began operation in Russia, more than in the period 1892-1897, and more than during the 1880s.

Graph 1: British company formations in Russia, 1892-1914



It is clear from graph 1, however, that the economic downturn of 1900-1904 reduced investor confidence in Russia, as the number of new company formations from 1901-1902 plummeted to just two per year. This was followed by only two company formations in 1903, and just one new formation in 1904.

These findings indicate that in the first ten years of the period in question, during the genesis of Witte's reforms to encourage the inflow of foreign investment into Russia, British investment was primarily determined by profits as opposed to government policy. The increase in British investment 1898-1900 corresponds to the boom in the Baku oil industry, which would later become a major draw for British investment. This growth was subsequently cut short by the industrial downturn of 1900-1904. There does appear to have been a marginal impact made by Witte's reforms, especially the introduction of the gold standard, and the period of increased growth in British investment in Russia does also correspond to Witte's attempts to improve

the regulatory and policy framework relating to foreign companies, although it appears that the ultimate deciding factor was Russian economic conditions given the dramatic fall in investment after 1900.

As graph 1 demonstrates, across the whole period new company formations were most intense in the three years from 1910 to 1912. In the wake of the revolution, British company formations increased from 1905 to 1909 at a relatively stable rate, although the number of formations dropped in 1908. It is significant that the revolutionary disturbances did not appear to have had as much of a deterrent effect as the earlier industrial downturn. Company formations increased from 1904 to 1907, although at a lower rate than 1897 to 1900. This suggests that the revolutionary disturbances and uncertain political climate of the first two dumas had very little effect on British businesses' investment decisions.

The peak of 1907 in this development could represent the effect of the Anglo-Russian entente. However, as graph 1 demonstrates, British direct investment in Russia had been gradually increasing from its low levels during the industrial depression of 1900 to 1904, and it was only in 1910 that there was a significant increase in direct investment, three years after the conclusion of the agreement.

This peak in 1910 coincides with the Grozny and Maikop oil boom in the late first decade of the twentieth century. Many contemporary accounts and consular records make reference to the vast amount of money and resources that were being poured into these oil regions from Britain (as well as the astronomical losses that were being incurred due to many wells not living up to the initial expectations of investors). William Hunt, the acting consul for Taganrog, for example, noted in 1903 that British capital was heavily involved in the Baku oil industry, to the detriment of British investments in the South Russian metal industry, and that British capital was becoming heavily involved in Grozny.¹⁹ A year later, Thompson in his *The Oil*

¹⁹ TNA, FO 65/1672, f. 375, William Hunt to Landsdowne, 6 July 1903.

Fields of Russia estimated that up to £6,500,000 had been sunk into these fields by British investors.²⁰

The Baku oil fields had initially produced limited amounts of kerosene for the Russian domestic lighting fuel market, but Witte's introduction of a tax of 60 kopeks per pood of domestic lighting fuel in 1892 led to a reorientation of the industry to the production of liquid fuel to be exported abroad.²¹ British investment followed the overall patterns of the Caucasian oil industry; it surged in Baku from 1896-1900, and then in other oilfields such as Grozny and Maikop from 1908-1914.²² Oil extraction was one of the industries that was severely hit in the industrial downturn of 1900-1904, which explains the gap in production and the corresponding investment by British companies.²³

Industry

As already discussed, early British involvement in the Russian market largely revolved around a variety of industries that were connected to British trade. This was dominated by textiles, but also included a certain number of companies related to heavy industry, such as nail and file manufacturers, and a company engaged in agricultural machinery. As can be seen in table 2 (appendix), there was a significant decline in new British companies engaged in textiles in Russia during the 1890s, with only a handful of new British textile companies being formed in St Petersburg and Reval, compared to a variety of other companies. These companies were mainly in industries derived from heavy industry. Although there were no major steel or iron works set up by a British firm in this period, the first being Thomas Firth & Son in Riga in 1903, the industries that these firms were in can be referred to as derivatives of heavy industry, such as the manufacture of machinery, aluminium products, bricks, and glassware. Also represented are shipbuilding firms and engineering firms.

²⁰ Arthur Thompson, *The Oil Fields of Russia and the Russian Petroleum Industry* (London: Crossby Lockwood and Son, 1904), 7.

²¹ McKay, 'Restructuring the Russian Petroleum Industry', 99.

²² McKay, *Pioneers for Profit*, 37; Chshieva, *Istoriia nefianago sopernichestva*, 130; Jones, *The State and Emergence of the British Oil Industry*, 59.

²³ Gatrell, *The Tsarist Economy*, 172.

This movement away from the traditional industries that British companies were engaged in via trade represents a level of response to Witte's attempts to induce foreign investment in Russia, although the rate at which new companies were established roughly matched the levels of the 1880s for most of the decade.

British capital was heavily invested in the extractive industries, and historians have identified foreign companies as playing a leading role in its development, especially in Siberia.²⁴ Towards the end of the decade, we can also observe the growth in importance of the oil industries for British companies. The first British oil company in Russia, the European Oil Company, was established in 1896, and followed by the Russian Petroleum and Liquid Fuel Company and the Baku Russian Petroleum Company in 1897. These were followed by a further 13 oil companies up until 1901. At the same time as this growth in oil companies was a corresponding growth in mining companies, indicating that British companies began to view extractive industries in Russia much more favourably towards the end of this period.

The industrial downturn of 1900-1904 greatly affected all industries, but it is notable that British investment in oil and mining virtually ceased. The Russian oil industry was hit particularly hard by the industrial downturn, as well as an overproduction crisis in Baku that sent the price of Russian oil plummeting to levels that made its extraction unprofitable.²⁵ Only one British oil company was established between 1901 and 1908, indicating significant investor fears over the profitability of Russian oil investments. However, the rate of new formations of mining companies increased after 1905, especially in Siberia. Between 1904 and the Grozny and Maikop oil booms, it is clear that mining companies became the preferred route for British capital, eclipsing all other industries. In fact, after 1905 there was very little investment in light industry by British companies, with only 8 companies formed. Heavy industry, excluding the extractive industries, fared little better in this period, although it had never been a particular draw for British capital in Russia. Only two

²⁴ Baev, *Inostranyi kapital v promishlennosti Kuznetskogo Basseina*, 172.

²⁵ Gatrell, *The Tsarist Economy*, 172; Henry Norman, *All the Russias* has a good description of all the costs that could amount to £3,000 before any oil was drilled, 223.

such companies were established after 1905, the English New Russian Company of Coal, Iron and Rail Production, Ltd, and the Votigen Steam Pumps Ltd, both established in 1909.

From 1909 to the end of the period, British direct investment became dominated by oil concerns. This is attributable to the Maikop and Grozny oil booms. In the year 1910, which saw the highest rate of new British company formations in Russia, 29 of the 33 new British companies formed in Russia were oil companies. In fact, the high rates of company formation across the years 1908-1914 can be largely accounted for by the oil boom in these two areas. A notable secondary development was the formation of holding companies, which were involved in financing and land banking in relation the Maikop and Grozny oil industries. The rate of formation of mining companies fell from the levels of 1904-1908, although British capital still moved into this sector at a greater rate than light industry; from 1908 until 1914 19 British mining companies were formed in Russia. While this pales in comparison to the number of oil companies that were formed in this period, it was still a significant pull for British direct investment until 1914.

Overall, three key trends in direct British investment in Russia emerge from this data. The first is a reorientation during the 1880s from industries connected to British trade towards light industry, including manufacture of machinery, as well as consumer goods such as sewing machines and bicycles, as well as a growth in the extractive industries in Siberian mining and the Baku oil industry. This trend was arrested by the industrial downturn of 1900-1904, and subsequently British capital almost exclusively was invested in mining companies. Around 1909, with the discovery of promising new oilfields in Grozny and Maikop, British direct investment heavily favoured the oil industry, at far higher levels than previously across all other industries.

A further trend that is not observable from figures on company formation is an increase in interest among firms based in Britain in beginning agency and branch

selling operations in Russia. This generally followed the trends of 1890s investment in Russia, and thereafter the increase in company formation after 1905. As a sign of increasing British retail involvement with the Russian market, multiple British firms addressed questions to the Foreign Office about Russian regulations pertaining to the import of samples into Russia, and the system of internal passports in Russia as it applied to commercial travellers. Russian customs regulations in these instances were still little known and the Russian system of internal passports was relatively unknown to British companies. However, there was a significant increase in requests to the Foreign Office across the decade 1892-1902 for information on the rules regarding commercial travellers and the duty free importation of samples.

A common request from British companies in Russia was enquiries about the honesty and standing of various Russian firms that British companies were considering entering into business with, especially in instances where British companies were considering engaging in branch selling operations with a Russian distributor. These requests were especially common in the 1890s when British firms had less knowledge of the Russian market, and before British companies began to engage in manufacturing behind the tariff wall in significant numbers. Requests for such information originated from many different industries, from soap manufacturers, companies involved in municipal projects such as waterworks. Such requests for information were often directed to either the British diplomatic staff in St Petersburg, or more commonly the local consuls in cities such as Moscow and Odessa.²⁶ This indicates that alongside the increase in British investment in light industry there was a corresponding increase in British interest in exporting and setting up branch selling operations in Russia.

After the revolutionary turmoil of 1906, it became clear that gaps in British information about the Russian business environment became related to purely commercial matters as opposed to regulation and government involvement in the business environment. These were mainly characterised by requests for commercial

²⁶ TNA, FO 447/18, f. 206, R. E. Bickerdike & Co. to Medhurst, 29 January 1897, f. 3; FO 65/1611, Mitchell to Martin Goschen, 5 September 1899.

information. For example, many British firms sought Russian partner firms with which to engage in the export business, addressed to local consuls, such as Charles Davisson & co in 1906, who asked the consul in Moscow for the details of a kiln factory in Moscow that they intended to supply with bricks.²⁷ This example illustrates how British business interests were very quick to look to enter the Russian market in the wake of revolutionary disturbances the previous year. The records of the British consular office in Moscow are particularly rich in requests for such information, from as early as January 1906, before the fundamental laws were published.²⁸

British interest in Moscow in 1906 was sustained throughout the rest of the period. In January 1907 the Iron and Steel Trades Journal requested the British consul to keep them up to date respecting private, government and municipal contacts for machinery, railway, and other engineering works, representing an interests from a large segment of British heavy industry, evidenced by the involvement of two British firms in the construction of the Moscow tramway.²⁹ Later requests for commercial information originated from British firms attempting to establish branch selling, the first stage of direct investment, in Russia. These include companies in industries such as electrical wiring, electric tools, and industrial plant machinery.³⁰

This interest in branch selling can be related to the growth in British light industry in Russia during the 1890s, especially among those companies involved in manufacturing consumer goods. This represents a typical change in marketing practices in response to Witte's tariff controls on manufactured goods entering Russia. Instead of exporting to the Russian market, clearly many companies such as Singer and Starley began manufacturing operations behind the Russian tariff wall.

²⁷ TNA, FO 447/30, f. 91, Charles Davisson & co. to Gove, 9 July 1906.

²⁸ TNA, FO 447/30, f. 23, Ernest Scott and Mountain Ltd to Gove, 10 January 1906; f. 69 Michael Hain & co. to Gove, 27 January 1906 (floor cloths and linoleums); f. 91 Charles Davisson & co. to Gove, 9 July 1906 (bricks); f. 168, Union Standard Machine Co. to Gove, 2 April 1906.

²⁹ TNA, FO 447/32, f. 11, Iron and Steel Trades Journal to Gove, 3 January 1907; FO 447/34, f. 57, London COC to Gove, 7 February 1908; f. 210, General Seating Company Ltd to Gove, 1 May 1908; FO 447/35, f. 419, The Forest City Electric Company to Gove, 9 September 1908.

³⁰ TNA, FO 447/35, f. 337, Armorduct Manufacturing Company to Gove, 16 July 1908; f. 340, Kramos Ltd to Gove, 21 August 1908; FO 447/36, f. 117, White Brothers to Gove, 22 February 1909; f. 163, Crosley Brothers to Gove, 17 March 1909.

However, these requests, and the formation of such companies, almost completely ceased after 1900, only picking up again after the worst of the revolutionary disturbances in 1906. Although a renewed interest in marketing to Russia among British companies is observable from the consular data, it did not correspond with any new British manufacturing enterprises in Russia.

Geographical location

British investment in Russia, barring some exceptions, followed the general trend of moving from areas of traditional British trade activity towards the oil and mineral bearing peripheries. As has already been established, British investment in the 1880s was largely based around the ports of St Petersburg and Odessa, with some industry further inland in places such as Kirov, and other smaller ports such as Archangel. In the first decade of the period in question, St Petersburg attracted most British investment, with 17 of the 51 British companies formed in Russia based there. There is evidence that British investment penetrated further into the Russian interior in this decade, however, as British companies were set up in Moscow, Smolensk, the Urals, and the Russian Far East, as well as in the Caucasian oil industry. The geographical spread of companies was much wider than in the preceding decade, if only marginally higher in terms of the rate of company formation, as already discussed. As well as St Petersburg, the Caucasus was also heavily represented, attracting 17 new British companies, mainly formed towards the end of the 1890s. Investment in other areas was on a far smaller scale, but widely spread; four companies were established in Moscow, two in Smolensk, two in Archangel. British companies were also established in Reval, Riga, Warsaw, and Karachev. The end of this period also saw some British direct investment in Siberia, although not on the scale that was to come later.

The geographical pattern of British investment in the decade 1904-1914, following insignificant investment in 1902 and 1903, was markedly different. British investment became highly concentrated in the Caucasus. The geographical spread of British mining companies in Siberia gives the impression that British direct investment widened its geographical scope in Russia in this decade. However, the

relatively wide geographical spread of British companies in Russia west of the Urals in the period 1892-1902 is not replicated in this period. Numbers outside of the Caucasian oil industry dropped rapidly, and were concentrated in St Petersburg and the Urals themselves. Nevertheless, the spread of British companies around Siberia itself was very wide, and included two companies as far east as the island of Sakhalin. These companies were almost exclusively engaged in mining.

Persistence

Data on how long British companies were in business in Russia is fragmentary. The records of the Russian Ministries of Finance and Trade and Industry are much less rich on the records of company liquidations, which needed to be registered with the relevant ministry by law. Where we are able to analyse the data, it is clear that British companies generally enjoyed significant longevity in Russia, aside from a few notable exceptions in the consumer goods industries, such as Singer.

The obvious exception to this trend are the companies in the oil industry. Some companies, especially in Baku, were remarkably long-lived, but the majority of firms went out of business within three years of beginning their operations. In the Maikop and Grozny oil booms, the life of companies could be even shorter, some in operation less than a year. This could be due to a combination of factors. Firstly, British firms substantially overestimated the profitability of the Maikop and Grozny oilfields, which led to a number of bankruptcies.³¹ Secondly, although the Russian government took steps to eradicate this practice, many British companies formed holding companies in Russia in order to speculate on the price of oil-bearing land. As the price of oil concessions rose in Grozny and Maikop these companies sold their concessions at a profit and were quickly liquidated, while having not been engaged in any meaningful development of their concession.³² Thus the short life of these companies should be viewed mainly as a product of the conditions of the Caucasian

³¹ Jones, *The State and the Emergence of the British Oil Industry*, 60.

³² Norrgren and Kennard make reference to this common practice in 1904 and 1911 respectively. Norrgren, *Russian Commercial Handbook*, 97;6 Kennard, *The Russian Year Book for 1911*, 104.

oil industry. British companies often invested in these sectors quite haphazardly; legal complications were often so difficult that there was a common tendency noted by McKay for foreign companies to recruit local agents to negotiate with the authorities on their behalf.³³ In the case of British oil companies operating in Russia, a common mistake was to purchase land from a local landowner, and then run into complications surrounding the ownership of property by foreign companies in Russia, which was prohibited until 1898, and negotiating access rights with local land communes.³⁴

Some Siberian mining ventures were equally short lived, although not necessarily due to inexperience and failure. For example, the 1910 accounts of the Vagliano Anthracite mines, formed in 1908, showed a balance of £9000 on hand and profits of £689, yet the following year the decision was taken by the directors to liquidate the business.³⁵ Unfortunately the reason for the liquidation is unavailable for historians, although given the strong performance of the company the year before, it would suggest that this was not down to managerial failure.

Investment structures and the rise of Russian incorporation

Gurushina and Potkina's research into British companies in the Russian market indicates that British investment can be divided into two periods in terms of their investment structures. The first phase, encompassing roughly the entire nineteenth century, was characterised by individual or family enterprises with few external source of funding. In the second half of the nineteenth century, a significant number of these traditional family enterprises were converted into share companies, involving additional sources of finance from outside the limits of the traditional family-relations circle. Often this was carried out through extending the circle of favoured shareholders and organising a subscription society, but in many cases the changes involved a complete restructuring of the company. At the beginning of the twentieth century this restructuring took the form of complex organisations of joint-

³³ McKay, 'Foreign Enterprise in Russian and Soviet Industry,' 349.

³⁴ Jones, *The State and Emergence of the British Oil Industry*, 57.

³⁵ S. Walter. *The Mining Year Book for 1911*, (London: 1911), 1000; *London Gazette*, 7 January 1913, 180.

stock companies registered in Russia controlled by a parent company registered in Britain. These companies exhibited increasingly complex organisational and financial ties within their groups, as well as increasingly complex ties with external organisations.³⁶

This is particularly well demonstrated by the formation of the Anglo-Russian Cotton Factories Ltd (ARCF) in 1897. This joint-stock company registered in Britain took control of the various assets of the Hubbard family business in Russia, which in 1897 was made up of two spinning and weaving mills and a calico printing company, as well as a forestry concession in Finland. Significantly, these companies were all separately registered Russian companies. The purpose of the ARCF was to provide funding for the three Russian textile companies. This was necessary for two reasons. Firstly, profits from the two spinning mills had been in decline throughout the 1890s, a symptom of a general malaise in these industries in St Petersburg at this time.³⁷ The Hubbards were therefore forced to look to external sources of credit in Britain in order to finance their enterprises. Secondly, the calico printing company was operated at a loss from 1893. In order to protect the printing company from debts to Russian creditors, which according to Russian law took the first rank in administering a bankrupt company, the ARCF was intended to facilitate loans to the printing company derived from shares issued in London and the profits of the company's mills.³⁸

Gurushina and Potkina have rightly pointed out that this represented a new phase of British company organisation in the Russian market, but the significance of this new form of business organisation lies much deeper.³⁹ Firstly, the Hubbards adopted this new form of organisation in order to tap into the vast financial resources of the City of London, which was being pulled overseas due to oversaturation of the British market.⁴⁰ Secondly, the ARCF was set up to protect the separate companies from

³⁶ Gurushina and Potkina, 'Angliiskie kapitaly i chastnoe predprinimatel'stvo v Rossii', 107-8; Gurushina, 'British Free-Standing Companies in Tsarist Russia', 160.

³⁷ LMA, CLC/B/227/MS10364/001, Capital List of Enterprises, 1898

³⁸ LMA, CLC/B/227/MS10364, Circular to Shareholders, 10 November 1896.

³⁹ Gurushina and Potkina, 'Angliiskie kapitaly i chastnoe predprinimatel'stvo v Rossii', 108.

⁴⁰ Rota and Schettio, 'The Long-Term Determinants of British Capital Exports', 53.

becoming embroiled in potentially damaging Russian bankruptcy proceedings. These new business models were therefore symptomatic of the wider tendency of British capital moving to Russia because of the perceived profitability of Russian investments at around the turn of the twentieth century. At the same time, companies also arranged the structures of their companies in order to protect themselves from unfavourable local conditions in Russia, such as deficient Russian bankruptcy laws, covered in chapter 1. This therefore suggests that British investment was attracted primarily by the potential to make profits as opposed to changes in Russian governmental policy towards foreign companies.

The Anglo-Maikop Corporation (AMC) is a significant example of this increasing complexity. Formed in London, it acted in a similar manner to the Anglo-Russian Cotton Factories Ltd, in that it effectively acted as an umbrella company for distinct British companies acting in Russia. However, unlike the ACRF, it was composed of distinct companies that were not linked by family ties, and these companies were administered separately by their respective investors and boards of directors. The role of the AMC was instead to appoint a local representative and trustee, who would protect the interests of the corporation and allied companies in the Caucasus, a general manager to superintend the engineering and working of the plots of the whole group, an accountant who would take charge of the books and accounts of the companies involved, and a manager of a materials department who would supply and look after the company's stores. The costs of this were to be met by the companies involved.⁴¹ This represents a far more complex investment vehicle than the ACRF, with more composite companies that were simultaneously more autonomous, and a wider source of finance. Analysis of the companies involved shows that they engaged in a wider range of sub-industries within the oil industry; as well as oil extraction the AMC also consisted of companies involved in building and operating pipelines, refineries, and river transport.⁴²

⁴¹ LMA, MS 24111, ff. 16-17, 26 April 1910.

⁴² LMA, MS 25056, f. 6, 18 May 1913; MS 24098, f. 2, 28 August 1912.

Similarly to the AMC, the Anglo-Siberian company formed a complex organisation of subsidiaries and new formations in Siberia. The company was initially formed in 1906 in order to acquire and take over existing mining works in the Urals. It then subsequently divided these into the Kyshtim Corporation and the Perm Corporation, registered in Russia, but financed through Anglo-Siberian. These companies engaged not only in mining, but also in smelting, as well as the construction of private railways.⁴³ It is significant that there are common examples of advanced business organisation in Siberia and the Caucasus by British companies, which calls into question the claim that British companies missed opportunities in remote parts of the Russian empire.

The new organisational forms of British companies also led to an increase in complexity in the various industries in which each company engaged in. Although Russian law required companies to apply for permission to engage in activities that were not specified in their charters, many companies in the second phase of investment looked to diversify their assets and the industries in which they were engaged. For example, the records of the Russian Mining Corporation, Ltd indicate that it was originally formed in order to exploit mining concession in Siberia. It subsequently began to make investments in the Maikop oil fields, and at the same time was engaged in exploration for coal in the Donets basin area, the profits for which to some extent were offsetting the losses that the company made on the Maikop oil fields, like many other British companies there. However, in June 1914 the company entered into an agreement with another British company to carry out the municipal contract for the construction of sewage and draining works in suburban St Petersburg. According to the directors of the company, the area was rapidly increasing in population and such contracts represented a promising stream of revenue for the company.⁴⁴ The project was discontinued due to the outbreak of the First World War, but if it had been carried into effect the company, which was originally purely a Siberian mining concern, would have also been engaged in the

⁴³ *MYB* 1911, 592, 799.

⁴⁴ *RGIA*, f. 23 op. 12 d. 943, l. 1 'Russian Mining Corporation'; f. 23 op. 12 d. 236, 'Russian Mining Corporation', minutes of meetings, 29 June 1914, l. 154-55.

Maikop oil industry, Ukrainian coal mining and construction projects in St Petersburg.

Although British multinationals favored the recruitment of local Russian managers because they were cheaper and had more local knowledge, they did not allow their management to become composed purely of Russians, and usually ensured that accountants and the directors were English.⁴⁵ Although to an extent this could correspond to a lack of trust in Russian personnel, this retention of key British personnel betrays a lack of trust in the Russian government; the use of British subjects in senior management positions implied a degree of protection from the Russian government.

This lack of trust is particularly evident in the Vickers partnership with the Nikolaev shipbuilding company, a Russian state shipbuilding subsidiary. Vickers were originally contracted to provide technical and management expertise for the building of several warships, however the directorship at Vickers and the local British management were keen throughout the business relationship to avoid Vickers being pulled into areas of production that they were not contracted to carry out by the Russian state subsidiary, which led to various conflicts about the timescale and delivery of various projects.⁴⁶ Clearly, Vickers in this instance felt that their own expectations about the enforceability of their contract with the Russian government was different to the Russian state interests at the Nikolaev shipyard.

In the case of Vickers, foreign production was undertaken only very reluctantly, usually following pressure from a government with which an exporting relationship had been established.⁴⁷ However, this difference can be attributed mainly to the unique position of companies operating in the arms industry before 1914 in relation to host governments; generally speaking, foreign production was avoided because governments represented a very difficult customer. Host governments would often

⁴⁵ McKay, *Pioneers for Profit*, 198.

⁴⁶ E. Goldstein, 'Vickers Limited and the Tsarist Regime,' *SEER* Vol. 58, No. 4 (1980), 561-571.

⁴⁷ Davenport-Hines, 'Vickers as a Multinational before 1945', 44.

insist on arms companies maintaining a very high capacity without guaranteeing orders that would cover overhead costs.⁴⁸ Where foreign production was necessary, arms companies generally held very small stakes in the foreign subsidiary, while the day-to-day running of the subsidiary remained under close supervision from the Russian Ministry of War via an appointed director.⁴⁹

In some instances, British companies seem to have held negative stereotypes about Russian employees that could be linked to wider societal stereotypes about the uncivilized nature of Russia.⁵⁰ British companies were uncomfortable having Russian managers in major positions of power because they believed Russians to have little respect for public corporations, regarding them as a source for ill-gotten personal income.⁵¹ The management of the Vickers assistance at the Nikolaev shipyard also regarded Russian workers as lazy, and a major obstacle to the successful completion of finished warships.⁵² However, there is little to connect these assumptions about the Russian character with British opinions about the arbitrary nature of the Tsarist regime. The literature does not suggest that British companies believed that this dishonesty and lack of respect for legality among the workers was a result of a general lack of lawfulness within the Tsarist regime

As detailed above, one of the major requirements for British companies operating in Russia was to have a responsible agent located in Russia who was a Russian citizen. If the company was to be a Russian company, it was required to have a certain number of Russian directors and managers. This was not a problem for long established British companies in Russia, many of whose family members became naturalized Russian citizens. But for newly established British companies, this requirement could be quite onerous, and could potentially lead to disaster. While these agents usually simply played a token role as a formality because of Russian

⁴⁸ C. Trebilcock, *The Vickers Brothers: Armaments and Enterprise, 1854-1914* (London: Europa, 1977), 23.

⁴⁹ P. Gatrell, 'Defense Industries in Tsarist Russia, 1908-13: Production, Employments and Military Procurement', in Linda Edmondson and Peter Waldron (eds.), *Economy and Society in Russia and the Soviet Union, 1860-1930: Essays for Olga Crisp* (Basingstoke: Macmillan, 1992), 138.

⁵⁰ Keith Neilson, *Britain and the Last Tsar*, 108.

⁵¹ McKay, *Pioneers for Profit*, 177.

⁵² Goldstein, 'Vickers Limited and the Tsarist Regime,' 566.

regulations, as they held power of attorney they could cause quite a lot of damage to the company if they were dishonest. British companies undertaking investment in Russia 1892-1914 seemed to have followed two separate paths when it came to appointing their responsible agent. Well connected companies seem to have used former British individuals in St Petersburg such as James Wishaw who had become naturalized Russian citizens. It seems that the services of such individuals could be obtained through personal connections, and that these individuals simply filled out the necessary paperwork while taking a significant fee. James Wishaw, for example, crops up as the responsible agent in the company formation papers of a large number of British companies formed in Russia, from the Caucasus to Siberia.⁵³ Henry Cooke, in his visits to British chambers of commerce in his capacity as a commercial agent in 1902 reported that a large number of companies doing business in the Moscow region conducted their selling operations through using member of the British colony in Moscow so successfully that they resented his efforts in what they viewed as government interference in their business.⁵⁴

Less well connected companies were likely to run into trouble as a result of this requirement. They often employed local Russian citizens located in the area of their investments, and not in St Petersburg. While many of these individuals were of course trustworthy, according to the British diplomatic archives at the time there was a common problem of British companies being defrauded by local agents, particularly in the Caucasus and other peripheral areas of the empire. In one case involving a British logging company in 1914, Cooke, then as commercial attaché, remarked that the case was typical of British companies being defrauded in Russia through either the owners of Russian assets or Russian agents.⁵⁵ Stevens, the consul at Batumi, remarked on a similar situation in the case of the Black Sea Petroleum Company, who had employed a local agent known as Count Valhermey, who the company later discovered was dishonest. Stevens remarked that this was a common mistake made by British investors and exporters in the area.⁵⁶ Most of these agents, whether honest or dishonest, are impossible to trace in the historical record as their

⁵³ Wishaw, *Memoirs*, 97-109.

⁵⁴ TNA, FO 65/1647, f. 157, Cooke to Scott, 12 May 1902.

⁵⁵ TNA, FO 368/1074, f. 17318, Cooke to FO, 22 April 1914.

⁵⁶ TNA, FO 65/1483, f. 194, FO to Black Sea Petroleum Company, 12 April 1894.

employment was usually purely a formality and had little impact on company operations. Wishaw in his memoirs described his responsibilities as filing documents at the Ministry of Finance annually for each company.⁵⁷

British investment can therefore be divided into two distinct phases, separated by the industrial downturn of 1900-1904. The first phase from 1892 to 1902 saw a gradual increase in British direct investment into light industry and extractive industries, dispersed across a relatively wide geographical area in comparison to the 1880s. In the second phase of 1904-1914 British direct investment increased substantially, but was limited to the mining and oil industries, and was concentrated in the Caucasus and Siberia. At the same time, British enterprises took on a new level of complexity in the organisation of their operations, and became more commonly engaged in various industries.

3.3 Analysis

Several independent factors could explain the pattern of British investment in Russia. Firstly, it is important to consider the determining influence of British trade, especially during the 1890s. Historians of British overseas investment before the First World War have argued that British overseas investment tended to seek out markets where British firms had a good knowledge of the local business environment, through geographical proximity, political links (such as the empire), or existing trade relationships.⁵⁸ British firms exported a significant amount of consumer products to Russia before 1892, although they lagged behind their German and American counterparts.⁵⁹ British shipping companies were also heavily involved in the export of textiles from Russia, such as hemp and flax. This corresponded with the initial increase in British direct investment in Russia during the 1880s; most new

⁵⁷ Wishaw, *Memoirs*, 97-109.

⁵⁸ Magee, *Empire and Globalisation*, 210.

⁵⁹ Carsten, *American Enterprise in Foreign Markets: Singer and International Harvester in Imperial Russia* (Chapel Hill: University of North Carolina Press, 1984).

companies were established in the textiles industries of St Petersburg. British trading patterns can also account for the rise in light industry in St Petersburg and Odessa in the 1890s producing manufactured and consumer goods. Historically, British investment overseas tended to prefer regions where British companies had prior experience and were familiar with local conditions, which could go towards explaining why British investment favoured St Petersburg and Odessa in this decade.

Many British shipping firms, such as Samuel & Co., a precursor company to the Dutch-Royal Shell group, were also heavily involved in the export of oil from Batumi, which can explain the tendency for British companies to become involved in Caucasian oil concessions towards the end of the first phase of British investment in Russia. This also helps to explain the boom in Maikop and Grozny towards the end of the second phase, especially as some companies in Baku were so successful and were reported as such in the financial press at the time. For Gurushina and Potkina, these pre-existing trade relations effectively determined the pattern of British investment at the end of the nineteenth century and the beginning of the twentieth. English enterprise 'migrated' to Russia along these pre-existing trade routes due to tariffs and increasing levels of production in Russia.⁶⁰

However, British trade does not explain British movement of capital into Siberian mining and oil concerns, and also to an extent the Caucasian oil industry, the two largest destinations for British capital. British trade had very little prior experience in this sector, the only tenuous link between British industry and Siberian extractive industries being a limited supply of machinery to this region.⁶¹ The failures of British engineering and manufacturing firms to successfully export their goods to these regions was frequently the topic of many consular and diplomatic reports to London. Buchanan recognised these failings, and in 1914 called for an extension in British consular services in Russia in order to assist British trade in these regions so as not to lose more ground to international competitors.⁶²

⁶⁰ Gurushina and Potkina, 'Angliiskie kapitally i chastnoe predprinimatel'stvo v Rossii', 108.

⁶¹ Janet Hartley, 'A land of limitless possibilities: British commerce and trade in Siberia in the early twentieth century', *Sibirica: Interdisciplinary Journal of Siberian Studies*, 13, 3 (2014), 2.

⁶² TNA, FO 368/756, f. 10143, Buchanan to Grey, 2 May 1912.

According to consular reports, the export of machinery and other materials to Siberia and the Caucasus was almost entirely in the hands of German and American companies, and British firms failed to compete for a variety of reasons. Writing after the outbreak of the First World War on the subject of the possibilities opened to British companies in the Russian market vacated by German enterprises, R. McDonnell wrote that trade in Baku and the Caucasian district had been ‘almost entirely’ in the hands of Germans, who had studied local conditions and requirements, listed their prices in roubles, and were prepared to offer long terms of credit, none of which their British competitors were willing or able to do. German companies were better organised, often forming combines of non-competing firms exporting different goods in order to reduce costs in Baku. These combines were well linked to Hamburg trading houses, which commonly re-exported British products to the Caucasus via these German companies. German subjects also dominated the Trans-Caspian region, due to this region being closed to foreign merchants without a special permit. German companies were commonly able to make use of Baltic Germans employees, who were Russian citizens, and thus held a significant advantage over British firms in these regions.⁶³

German and American competition similarly dominated the export market in Siberia. Such was the advantage of the Germans in this market, and the failures of their British counterparts, that just before the outbreak of the war the British Engineering Company of Siberia was formed in order to advance British engineering exports to this region. The company was intended to be a combine similar to the German model, with a large number of British firms exporting different non-competing engineering products to Siberia under the umbrella of this company. In the prospectus, it detailed the failures of British companies in Siberia in comparison to their American and German counterparts, which included the unclear knowledge of local requirements and needs, and the unwillingness to extend credit. According to the management of this company, this was a particularly bad mistake in Siberia. ‘There are ample natural resources but not much capital there- which makes giving

⁶³ TNA, FO 368/1088, f. 64866, McDonnell to Grey, 1 September 1914.

long terms of credit an absolute necessity, as capital is scarce but the need for machinery is very great.’⁶⁴ The British dependency on middlemen or agents to market their stock in Siberia also hit British exports, as these individuals typically had little engineering knowledge, aimed to make substantial profits thus raising the price of British products, and in some cases outright defrauded some British exporters.⁶⁵ It is therefore very difficult to explain the massive movement of British capital into the Siberian and Caucasian extractive industries on the basis of trade links, when by many accounts British exporters generally failed to make significant inroads into these markets during the period.

Similarly, British trade networks inadequately explain the switch from the textile industry towards light industry in the 1890s. While British direct investment in the 1890s increased over the levels of the 1880s, the proportion of investment that went into textile firms fell dramatically. If British investment was primarily determined by pre-existing trade networks, it is likely that the 1890s would have seen a growth in textile investments. The complete collapse of investment in these types of industries after the industrial downturn of 1900 to 1904 also indicates that British trade was not a predetermining factor in investment decisions.

These discrepancies could be put down to changes in government policy towards foreign companies as detailed in the previous chapter. Certainly, Witte’s changes to Russia’s tariff policy on foreign manufactured goods could account for the increase in British investment in manufacturing and light industry, resulting in the uneven proportions of investment in this sector in comparison to textiles. Witte’s 1892 tariff was designed to encourage foreign firms to establish manufacturing enterprises in Russia behind the tariff wall, instead of simply exporting their goods to Russia. However, the tariff regime continued throughout the period, and cannot account for the sudden fall in British investment in manufacturing industries after the industrial downturn of 1900-1904.

⁶⁴ TNA, FO 368/1075, f. 7, Prospectus of the British Engineering Company of Siberia, Ltd, 10 July 1914.

⁶⁵ TNA, FO 368/1075, ff. 7-8, Prospectus of the British Engineering Company of Siberia, Ltd, 10 July 1914.

Similarly, Witte's favourable programme of concessions for foreign companies in priority industries towards the late 1890s can account for the increase in British investment at this time. As previously discussed, Witte's policies heavily favoured British companies in the Caucasian oil industry, and were designed to stimulate industries connected to the trans-Siberian railway. This could to some extent explain the increase in British investment in Siberia. However, after Witte's departure from the Ministry of Finance this regime of special concessions came to an end, yet mining and oil investments came to dominate British investment in the second phase of British investment after the industrial downturn. Therefore government policy can to an extent explain some of the increases in direct investment in the 1880s, but inadequately explains the developments in certain industries and the oil and mining booms of the second phase of British investment.

The factor that can be linked to all the above developments is the economic cycle of Russia and its impact on how British companies viewed the profitability of Russian investments. The economic downturn in the Russian economy from 1900 to 1904 had such an impact on British investment that firstly the establishment of British companies in Russia fell dramatically, and secondly patterns identifiable in the first phase of investment are completely different to patterns of investment after 1904. Whereas before the crisis light industry and the manufacture of consumer goods accounted for over half of British investment in the preceding 10 years, after the crisis these industries accounted for only 10 per cent of the total number of British companies established in Russia during the second phase.⁶⁶

We know from the records of two British companies in the textiles industry that the textiles trade in St Petersburg was beginning to become less profitable for British companies in the 1890s. According to the records and letters of the Anglo-Russian Cotton Factories Ltd, run by the Hubbard family, the situation of their three enterprises (two cotton mills and a printing plant) were dire in the 1890s. Both mills

⁶⁶ Table 2, Appendix.

reported falling profits, and the printing plant was being run at a loss. This acted as part of the stimulus to form the above named joint-stock company in 1897, so that the profits of the mills could offset the losses made by the printing plant.⁶⁷ Similarly, James Wishaw, the head of an important British family involved in the export of Flax from St Petersburg, reported in his memoirs that fewer and fewer British firms were established in this industry during the 1890s due to dwindling profits and increasing competition from German firms.⁶⁸ This is in distinction to the general trends of the Russian textile industry in Russia, however, which was growing throughout the period and was relatively unaffected by the industrial downturn of 1900-1904.⁶⁹ This should be set against the fact that textiles made up one of the largest growth sectors in St Petersburg in the late nineteenth century, so it is significant that British firms ran into trouble in these areas and fewer new investments were made in this sector after 1900.⁷⁰

It is likely that the diminishing economic opportunities in St Petersburg for foreign textile firms led to a reorientation in the proportion of British direct investment towards other industries. Witte's tariff must have given some firms that previously had a purely export relationship with the Russian market an incentive to commence direct investment. However, more recent research into the Russian consumer market has shown that as a long term result of the emancipation of the serfs Russia's consumer base grew throughout the last half of the nineteenth century, and represented a lucrative market for both foreign and domestic firms, suggesting the primacy of economic considerations during this phase of British investment.⁷¹ The fact that British textile firms did not relocate from St Petersburg to other Russian destinations where the prospects of the textile industry were very positive could indicate a significant failing of British enterprise in both the first and second phases of British FDI in Russia to take advantage of profitable conditions. However,

⁶⁷ LMA, CLC/B/227/MS10364/001, Capital List, 1899; CLC/B/227/MS10364, Circular to Shareholders, 10 November 1896.

⁶⁸ Wishaw, *Memoirs*, 97.

⁶⁹ Gatrell, *The Tsarist Economy*, 144; Gregory, 'Economic Growth and Structural Change in Tsarist Russia', 432; I.V. Potkina, *Na olimpe delovogo uspekha: nikol'skaia manufaktura morozovikh* (Moscow: IGM, 2004), 319.

⁷⁰ Bater, *St Petersburg*, 221.

⁷¹ Crisp, *Studies in the Russian Economy*, 33.

Guruschina and Potkina have also shown that increasing trade costs among textile firms significantly ate into the profits of these companies, making investments in these sectors less profitable.⁷² The increase of British FDI in other industries to take advantage of these more profitable conditions was strong, indicating that the malaise among textile firms was not applicable to other industries.

As will be demonstrated in the next chapter, Siberian and Caucasian mining and oil enterprises attracted a disproportionate amount of coverage in contemporary British financial literature, focussing mainly on the returns that could be achieved on investments due to a large amount of resources in Russia and the comparative lack of domestic capital to exploit them. As this section has already shown, British companies utilised joint-stock companies more frequently in the second phase of British investment in Russia; these were commonly open for public subscription of shares and advertised as such. Many companies involved in the initial exploitation of Russian oilfields in the second phase of investment took out advertisements in the latter paper in order to advertise their shares for general subscription, such as the Nerchinsk Oil Company Ltd in 1907.⁷³ Private and commercial investors clearly held mining and oil corporations in higher regard, so it is likely that these companies found it easier to raise capital via the stock market to fund their investments. The lack of British investment in this region during the 1890s, where comparatively fewer British oil companies were formed later in the decade, is also partially explained by this profit model. In the early 1890s the British oil market was dominated by American oil marketed by the Standard Oil Company, and it was only due to this company losing its grip on the oil market towards the end of this decade that British companies began to exploit foreign oilfields.⁷⁴

Much less was written about the opportunities in Russia of establishing manufacturing enterprises behind Witte's tariff wall, although the opportunity was certainly there. British commercial agents and diplomats throughout the period

⁷² Gurushina and Potkina, *Angliiskie kapitaly i chastnoe predprinimatelstvo v Rossii*, 108.

⁷³ 'Public and Other Companies' *The Times*, February 23 1902, 14.

⁷⁴ Chshieva, *Istoriia nefitianago sopernichestva*, 114.

lamented how British firms failed to take advantage of this emerging market. For example, Buchanan in 1912 wrote that British companies had lost ground in the past due to competition from other nationalities.⁷⁵ The failures of British exporting to Siberia and the Caucasus has already been documented in this chapter. Therefore it is likely that the mere existence of economic opportunity was not enough for British companies to engage in direct investment in Russia, and that the level of potential profit that could be gained became increasingly more important for British investors than government policies or prior experience with a particular market. Many companies in Russia, British included, suffered significant losses in the industrial downturn of 1900-1904, which may have adversely affected British assumptions about investment in Russia apart from in the oil and mining sectors where profits were faster to recover.⁷⁶ It is also possible that the lack of British manufacturing firms being set up in Russia was also due to the increased complexity with which British firms entered the Russian market at the beginning of the twentieth century. For example, in St Petersburg industries there was a tendency towards amalgamation between banks, industrial enterprises and between foreigners and Russians, so British capital may have entered the Russian market disguised as Russian capital in this second phase.⁷⁷

The body of Russian commercial law, which was never substantially updated in the period, continued to act as a hindrance to British investment in Russia. As late as 1911 the charters issued for oil companies caused much concern for British interests in this industry due to the powers given to local officials. According to the records of the Anglo-Maikop company, many of the constituent companies of the corporation were very wary of the wide powers that their company charters gave to local officials, and, importantly, they were unsure of their applications that were still being processed, and how much power over their activities the government would give to local officials over their activities.⁷⁸ Therefore even in the partially reformed oil industry, commercial law did not result in British companies forming stable

⁷⁵ TNA, FO 368/756, f. 10143, Buchanan to Grey, 2 May 1912.

⁷⁶ Gatrell, *The Tsarist Economy*, 176; Jones, *The State and the Emergence of the British Oil Industry*, 56.

⁷⁷ Bater, *St Petersburg*, 260.

⁷⁸ LMA, MS 24062, ff. 1-4, C. Agnew to Speyers and Sons, 16 June 1911.

assumptions about the Russian regime, and does not indicate that improvements in law and its implementation resulted in increased British investment in the oil industry in the later part of the period in question.

3.5 Conclusion

The data presented here indicate the existence of two separate phases of British FDI, separated by the economic downturn of 1900-1904. Characteristics of these two distinct phases indicate that Russian government policy had little effect on the pattern of British FDI in Russia. During the first phase, British FDI responded slowly to Witte's policies, and favoured industries and geographical locations that British firms had a pre-existing trading relationship with, such as light industry producing consumer goods. However, investment in extractive industries did take place, although not to the extent of the second phase.

During the second phase of investment, instances of British FDI were more frequent, and concentrated mainly in the extractive industries of the Caucasus and Siberia. Therefore, while pre-existing trade networks to an extent explains the patterns of the first phase, they cannot explain the investment patterns in the second phase. Nor can this be adequately explained by government policy, which became less accommodating in the second phase.

The overriding factor behind investment decisions by British firms is therefore likely to have been the prospect of high returns. Witte's policies may have influenced this perception in the first phase of British investment, but friendly government policy was clearly not the determining factor for how British firms gauged the potential profitability of a Russian enterprise, given the frequency of British company formations in the second phase of investment. This hypothesis is supported by the tendency for British investment to focus on industries linked to British trade in the first phase, where companies knew there was a good market in Russia following a strong previous export relationship, and the focus on the Siberian and Caucasian

extractive industries in the second phase, which, as this thesis will demonstrate, were widely known to be lucrative investments by the second phase.

On the other hand, the above findings could be indicative of the effect of government policy on investment decisions. More British companies opted to incorporate as Russian companies in the second phase, and their company structure became more complex. The frequency of investments in Siberia and the Caucasus during the second phase also demonstrates a level of trust in local laws and regulations, as these enterprises would have naturally carried more risk due to their remote nature, arising from communication difficulties and the effectiveness of local authorities in these areas. Study of the perceptions of the British business community about Russian investments and how these changed throughout the period will be able to shed more light on these findings, and determine on what basis British companies made investment decisions, and how they viewed the Russian government's treatment of foreign business interests.

Chapter 4: British Perceptions of the Russian Market and Russian Investments, 1892-1914

To help further determine the relationship between government policy and British investment, it will be useful to survey the effects of this legislation and policy change on British perceptions of the Russian market and Russian investments. These perceptions can be studied through analysis of the financial press, including newspapers, journals, and books published during the time period in question. Key to this analysis will be whether British business interests had moved away from the traditional literary image of Russia that had been established before 1900, which characterized the Russian government as the antithesis of English principles of freedom, and associated profitable areas such as Siberia with the brutalities of the Tsarist penal system.¹ The institution of the Anglo-Russian Chamber of Commerce and the dispatch of Cooke as a commercial attaché have been cited as evidence of an improved British attitude towards the Russian government after the 1907 agreement, so it will be significant if this body of literature reflects this.²

Other approaches taken to investigate British business perceptions of the Russian regime have looked at the methods used by British businesses to penetrate the Russian market. These approaches have found that negative perceptions of the Russian regime were still present before the First World War, as British businesses missed opportunities due to aversion to complex laws, and were forced to hire local agents to deal with the local authorities.³ However, these approaches do not take account of the effect of Russian economic policy on the long term development of British perceptions of the Russian market.

Two distinct, yet in some respects overlapping, trends can be observed when analysing British literature about the Russian government and business environment

¹ Neilson, *Britain and the Last Tsar*, 91-93; L. Magill, 'Joseph Conrad: Russia and England', *Albion* Vol. 3, No. 1 (1971): 3-8; Collins, 'British Interest and Interests in Siberia, 1900-1922' *Revolutionary Russia* Vol. 9, No. 2 (1996), 207.

² Neilson, *Britain and the Last Tsar*, 102.

³ C. White, 'British Business in Russian Asia Since the 1860s: an Opportunity Lost?', in R. Davenport-Hines and G. Jones (eds.), *British Business in Asia Since 1860* (Cambridge: Cambridge University Press, 1989), 68; J. McKay, 'Foreign Enterprise in Russian and Soviet Industry', 349.

throughout the period 1892-1914. The success of British and companies of other nationalities, such as Nobel, at the Baku oil fields resulted in an acknowledgment, and fascination, with the profitability of Russian enterprises. This development can be observed to begin at around 1900. The second process was a discussion of the nature of the Russian government, with special reference to its treatment of foreign business interests within the Empire. Significantly, this discussion largely ignores Witte's contributions and is focused on the government's attitude to foreign enterprise after the period of industrial downturn and revolutionary unrest. Even though Witte made more of an effort to attract foreign companies, and implemented more policies to attract them, the Russian government after 1907 was seen to be friendlier to foreign enterprise, but there is little to link this with investment decisions and the perception of profitability.

This chapter will analyse British financial literature on Russia in order to further explore this relationship. It will attempt to show that government policy became an increasingly dominant reason for the attractiveness of Russian investments and trade for British business interests. Firstly, it will then investigate how the actions of the Russian government affected these perceptions of profitability, and how the Russian government as a whole was perceived to assist or hinder businesses. It will address the manner in which Russian investment and trade opportunities were presented as being profitable, identifying trends in sectors that were seen as profitable, and the economic reasons presented as underpinning this profitability. It will connect this analysis to wider trends among British writers at the time whereby old literary stereotypes about Russia were re-examined and challenged in the early 1900s. Finally, it considers the effect of political instability on British investors.

4.1 The Russian government, economic policy and foreign companies

Despite the ending of the concessions of Witte after the industrial downturn of 1900-1906, the Russian government was perceived to be much more accommodating to British businesses and less arbitrary than before the downturn. This suggests that for British commercial interests the contradictory policies of the Witte system resulted in

the perception of arbitrary government, and that more rigid government policy after 1907 was interpreted more favourably.

After the first Baku oil rush in the late 1890s the Russian government was seen to be relatively friendly towards foreign companies in some sections of the financial press, which may have been a reflection of some of Witte's pro foreign capital policies.

Henry Norman's *All the Russias*, published in 1902, stated that, 'The official conditions of the investment of foreign capital are more liberal than those of the United States, and the official attitude is one of sympathy and intelligence.'⁴

However, this positive attitude should be taken in conjunction with his indictment of the manner in which the Russian government dealt with foreign businessmen, which was not up to western standards in his opinion due to procedural delays and jurisdictional crossovers.⁵

However, along with the increased interest in Russian investments that occurred as a result of the Baku oil rush, there emerged a number of works that criticized the Russian government's attitude towards foreign companies, as well as the effectiveness of local officials to cut down on crime and corruption. These works featured a number of similarities with earlier literary traditions; the spectre of the repressive Russian government trampling all over the rights of its subjects and foreigners, and the corrupt local official both feature heavily, and can be compared to earlier works.

Such concerns about the government's treatment of foreign business and capital is evident in Gerrare's *Greater Russia*, published in 1903. The general policy of the Russian government towards private enterprise was attacked by Gerrare, especially in relation to the mineral wealth of Siberia, and indicates that the Russian government took arbitrary measures towards foreign business interests.

The Russian government regards the natural resources of Siberia as its most valuable asset. It wishes to exploit Siberia in such a manner as will return the largest continuous revenue to the state, enrich Russian subjects rather than foreigners, and remain so far unpledged that the real estate must revert to the crown. In short, the state will not part with its property, but in exchange for Russian labour will relinquish part of this yield.

⁴ Norman, *All the Russias*, 384-85.

⁵ Norman, *All the Russias*, 385.

If by any means the natural resources of the country are exploited in such a manner as to infringe this principle, or the result in any instance proves contrary to the general policy, then that particular method of working is ruthlessly and peremptorily stopped by administrative order.⁶

The Russian state was therefore perceived to act ruthlessly towards foreign interests profiteering from Siberian resources. Although this is to an extent to be expected, it is Gerrare's reference to the Russian government using administrative orders to shut down such enterprises which has a lot in common with other common negative stereotypes in Britain about the Russian government.

This attitude is also present in Thompson's work on the Russian oil fields in 1904. Thompson, the late chief engineer of the European Petroleum Company's Russian properties, claimed that the Russian government was effectively the sole possessor of all the mineral wealth in the Caucasus, and that private enterprise was only allowed to continue at the government's behest.

The Russian government is the possessor of most of the mineral wealth of the Caucasus, which it jealously guards, and only permits of prospection and exploitation on the deposit of substantial guarantees to assure the good faith of the promoters, thus giving the Minister of Finance an immense reserve to fall back on should occasion demand.⁷

Similar concerns are also evident in British travel literature, even though these works do not particularly concern themselves with business matters. For example, Meakin, writing just before the 1905 revolution, voiced the opinion that many English russophobes were the relations of the large English family trading houses in Russia who had been ill-treated by the Russian regime.⁸ The Russian government was also seen as jealously guarding its Armenian and Caucasian possessions from foreign interference; for example Lynch's travel book on the Armenian region described the myriad of restrictions placed upon foreigners, such as the need to apply to St

⁶ Wirt Gerrare, *Greater Russia the Continental Empire of the Old World* (London: Heinemann, 1903), 199.

⁷ Thompson, *The Oil Fields of Russia and the Russian Petroleum Industry*, 16.

⁸ Annette Meakin, *Russia, Travels and Studies* (London: Hurst and Blackett, 1906), 69.

Petersburg to be in the region, as well as the restrictions placed upon the movement of foreign consular officers.⁹

Other, more obstructive views were presented of the Russian government in the financial press, which fitted into the traditional tyrannical view of the Russian government. In 1902 the Anglo-Russian Petroleum Company, a British concern in Baku, reported that its poor performance was largely due to, ‘...the tyrannical interference with the company’s surveyors by the Government officials, and the difficulty of settling the troublesome question of boundaries in the northern district’.¹⁰ Thus issues of business regulations, in this case complicated land disputes, were conflated with the traditional image of the tyrannical local government.

Commercial law and procedural issues represented a significant problem for the British financial press when considering Russian investments. The regulations surrounding these companies were so problematic that they formed a major section of the *Russian Commercial Handbook of 1904*, published by the secretary to the Russian consul-general in London. The author, in the preface, sets out to persuade the reader that Russian commercial law was in the process of improving, and that antiquated laws were in the process of being revised.¹¹ Therefore this book was published as a response to the fact that Russian commercial law was viewed poorly in Britain. This is supported by Gerrare’s *Greater Russia*, in which he pointed out that due to the requirement of appointing a Russian trustee to hold real estate, ‘there is really no tangible security to offer shareholders as guarantee for their investment, and without this the general investor is unlikely to respond liberally’.¹²

Difficulties surrounding Russian business regulations also often featured in the financial press. In the company report in *The Times* of the Schibaeff Petroleum Company of 21 June 1898, the directors aimed to allay shareholder fears over the rights of British companies to own oil bearing lands. The directors stated that, ‘...naturally, all those interested in Petroleum undertakings had been somewhat

⁹ H. Lynch, *Armenia: Travels and Studies* Vol 2 (London: Longmans, 1901), 39.

¹⁰ ‘Public Companies’, *The Times*, 22 March 1906, 14.

¹¹ Norrgren, *Russian Commercial Handbook*, vii.

¹² Gerrare, *Greater Russia*, 176.

agitated by the remarks that had been made by His Excellency Count Tatischeff, with regard to the rights of foreigners to own such properties in Russia.’¹³ This report, which detailed the action taken by the company to secure legal recognition in Russia, was therefore constructed to address this specific fear of British investors.

Significant changes in the way that the Russian government was deemed to interact with British business interests occurred in the aftermath of the revolutionary disturbances of 1905-1907. There existed many different strands of thought at this time. Many members of the liberal government, especially the radicals, felt that the Russian government’s treatment of its citizens and undemocratic government meant a diplomatic accord between Britain and Russia was impossible. This attitude was also prevalent in other sections of society, such as in Tyneside.¹⁴ However, there also emerged a section of British opinion that recognised the new opportunity that Russia offered for commercial investment, and this led to a reappraisal of the Russian governments’ dealings with foreign business interests.

Such an emphasis on a reappraisal of the Russian business environment is evident in Williams’ *Russia of the Russians*, in which he states that the Russian business environment was becoming modernised, and that the government purchase of the railways had done much to ensure stability in the business sphere.¹⁵ This revision is most clearly present, however, in Barrett’s *Russia’s New Era*, published in 1908, which seems to have been written mostly to allay fear among British investors about the Russian government’s treatment of foreign business interests. He produced various examples of different companies throughout his book in a variety of different industries that reported a good relationship with the Russian government. In the public works sphere, he presented the case of the American company, J. F. Cummings & Co., who were constructing the St Petersburg underground telephone system, and reported no problems with the Russian government. According to this company, the Russian government paid them on time, and no difficulties were placed in their way.¹⁶ In the mining industry, he mentioned two British firms, the Central

¹³ ‘Railway and Other Companies’, *The Times*, 21 June 1898, 4.

¹⁴ Saunders, ‘Tyneside and the Making of the Russian Revolution’, 262.

¹⁵ Harold Williams, *Russia of the Russians* (New York: Charles Scribner’s Sons, 1915), 381-83.

¹⁶ Barrett, *Russia’s New Era*, 74.

Siberian Mining Company, and the Spassky Mines Company, both of whom had allegedly only received help and assistance from the authorities.¹⁷ This theme is again repeated in a chapter that deals with trade openings in Russia. Barrett stated that,

I do not know of any disappointments, and have never heard a word against the treatment meted out, or of difficulties being put in the way by the people or the Government. On the contrary, I have hear nothing but praise and satisfaction.’

It is unfortunate, detrimental to our national interests, and tends to throw cold water on our efforts towards expansion of our business in that country, that the reports we hear about the general commercial and industrial life of Russia are mostly far from correct. The supposed ‘difficulties’ are magnified, and ‘facts’ distorted and exaggerated to such an extent that any idea we may have in the way of Russian possibilities is absolutely driven from our minds on account of insurmountable ‘difficulties’.¹⁸

In a similar manner, Hodgetts suggested that corruption was becoming much less rife throughout the official world, stating that, ‘...it is nevertheless far milder in its forms and much less dangerous to the state’.¹⁹ An article in *The Times* also suggested that a general distrust of Russia was still harming Anglo-Russian trade, which should not have existed in 1909 due to the constitutional reforms in Russia.²⁰ These works in conjunction suggests a re-evaluation of the Russian government. It is especially clear from Barrett’s work that there still existed in 1908 a certain antipathy towards the Russian government’s treatment of business interests, as the second paragraph of the above passage seems to be explicitly constructed to address this. But at the same time, these works illustrate a certain re-evaluation of the Russian government’s attitude towards foreign business interests, and a direct challenge to the status quo of the traditional literary image of the Russian government as a tyrannical and repressive institution.

Part of this new perception was also due to better technical assurances of the law. Some works did raise serious concerns about the adequacy of Russian law, pointing out that it was far from unified, and that the unreformed 1836 company statutes

¹⁷ Barrett, *Russia’s New Era*, 150, 203-204.

¹⁸ Barrett, *Russia’s New Era*, 209.

¹⁹ Edward Hodgetts, *Glorious Russia* (London: Simpkins, Marshall, Hamilton, Kent & Co., 1915), 42.

²⁰ ‘British Overseas Trade’, *The Times*, 5 November 1909, 13.

carried little weight in the day to day application of company law.²¹ However, Barrett's work contained technical assurances that foreign joint stock companies operating in Russia enjoyed the same privileges as Russian companies. 'Foreign joint-stock companies are allowed to operate in Russia without any hindrance, and, since they enjoy this right, their position in no way differs from that of the corresponding Russian companies.'²² These technical rights are therefore cast in broader terms of foreign companies enjoying a positive relationship with the Russian government. The only restriction that he mentions is that in particular fields, enterprise was open to Russian firms only, although these difficulties were not insurmountable.²³

As well as the idea that the Russian government had become more accountable and less arbitrary, it was also seen as becoming more encouraging to foreign business in general, even though this was not reflected in policy. Kennard, in his *Russian Year Book of 1911*, stated that the Russian Minister of Finance was 'firmly convinced of the necessity of encouraging British companies at Maikop'.²⁴ This idea that a new attitude had been adopted by the Russian government is also evident in other sources such as the financial press. In the published minutes of a shareholders meeting in *The Times* in 1907, for example, the directors of the Nerchinsk Company, undertaking gold mining in Siberia, stated that they had received every assistance from the Imperial government in St Petersburg and local officials in setting up their company, and that, 'This courtesy was... extended to all foreign companies who proposed to deal legitimately with the Russian government'.²⁵ This sentiment was also repeated in the records of the Russian Mining Corporation, established in 1907, whose directors stated that, 'Russia had innumerable resources, but money was required to work them; and if friendly foreign capital were embarked in them the Russian government would certainly accord all possible facilities for ensuring success.'²⁶

²¹ Kennard, *The Russian Year-Book for 1911*, 98; Rastorguev, *The Legal Position of English Companies in Russia*, 5.

²² Barrett, *Russia's New Era*, 212.

²³ Barrett, *Russia's New Era*, 212.

²⁴ Kennard, *The Russian Year-Book for 1911*, 102.

²⁵ 'Public Companies', *The Times*, 23 February 1907, 14.

²⁶ 'Public Companies', *The Times*, 15 February 1907, 15.

The Russian government therefore underwent a change according to British business interests. Towards the end of the period it was no longer portrayed as treating foreign companies in an arbitrary manner, but according to legal standards. Its laws became easier to understand and British companies became more assured of their consistent implementation. The government was also regarded to be more accommodating and welcoming to British enterprise as a result of its tendency to implement the law consistently. This change is significant because it suggests that the effect of the Witte system was to inculcate perceptions of arbitrariness within the British business community, which the increase in British investment in Russia did little to challenge, especially during the period of economic uncertainty when many aspects of the Witte system were changed. It was only in the later period that the Russian government was able to foster more stable and positive assumptions among the financial press. Significantly, these perceptions had little to do with the profitability of Russian enterprise, and mainly focussed on the extent to which the Russian government did not act as an obstacle for foreign investment.

4.2 Considerations of Profitability

The perceived profitability of Russian enterprises closely followed the beginning of British involvement in the mining and oil industries of Siberia and Baku. Although there existed many successful British companies in Russia before 1900, it was the advent of the Baku oil fields, and the lure of the fortunes that could be made from them, that excited the British imagination the most. As chapter 3 showed, British involvement in these industries increased significantly towards the end of the 1890s, and after a lull as a result of the industrial depression in Russia increased exponentially after 1906. The key aspect that made Baku so profitable for a number of foreign companies was then projected on to Russian investments as a whole from 1900. This was the wealth of natural resources in Russia, in the case of Baku, oil, and the lack of sufficient domestic capital to work them. Therefore, British perceptions of the profitability of Russia generally conforms to the model whereby British capital was pushed out of Britain due to low interest rates there as a result of an over

saturation of the market with capital, to countries with many unworked natural resources and a dearth of capital, such as Russia.²⁷

Probably the clearest demonstration of the effect that Baku had on British opinion was the sections devoted to the oil trade in Norman's *All the Russias*. As an illustration of the oil rush at Baku, Norman stated that in 1899, there were 160 oil companies in Baku, of which 62 had been formed in the past two years. This was due to the enormous profits which Norman described could be made at Baku by just hitting oil, let alone the profits, and dividends that could be paid, that could be had if one hit a 'spouter'. While he did acknowledge that it was likely that the Baku oil field was becoming exhausted, he also pointed out that there certainly existed other good oil fields in the Caucasus.²⁸

This perception was also prevalent in similar works in the period. For example, James Henry, the editor of *Petroleum World*, in 1905 showed a positive attitude towards the attractiveness of Russia as a place to invest in, specifically in the petroleum industry. He described Baku as a wealthy oil city, and where the production of oil had been increasing steadily since 1893.²⁹ Gerrare also paints an attractive picture of Russia's material wealth that could potentially be exploited by foreign firms, citing the fact that Baku oil production was increasing at a 15 per cent higher rate than American production, and that very high profits could be made in the textile industry and logging.³⁰ This positive assessment is balanced out by his assertion that the Baku oil fields would soon be exhausted, and that the Siberian gold mining industry offered comparatively small and decreasing yields.³¹ Even Thompson stated that, although much British capital would be lost in Baku due to exhausted fields there, the transmission of modern methods to Russia via English companies would lead to the opening up of new profitable oil fields.³²

²⁷ Cotrell, *British Overseas Investment*, 27.

²⁸ Norman, *All the Russias*, 223-25.

²⁹ James Henry, *Baku, an Eventful History* (London: Archibald Constable and Company, 1905), viii, 132.

³⁰ Gerrare, *Greater Russia*, 28-33.

³¹ Gerrare, *Greater Russia*, 28, 120.

³² Thompson, *The Oil Fields of Russia*, 7.

One of the more significant aspects of Norman's work is that the wealth that was available to British companies in Baku was also available for enterprising foreign investors willing to exploit the variety of natural resources present in Russia, such as gold, magnesium and timber, as a result of Russia's lack of domestic capital.³³ This model is also clearly demonstrable in a report by Wynnard Hooper for the Royal Statistical Society, published in *The Times*, which stated that Russian production of gold was under performing in the international context in 1900.³⁴ This article suggests that there was an opening in Russian gold mining ventures that could be exploited by British companies utilising superior gold mining technology.

Other works, such as that of Declé, stressed the importance of foreign capital in developing the natural resources of Russia in order to promote the financial stability of Russia in the future.

Russia must, therefore, if she wishes to develop her mineral wealth, open her doors to foreign prospectors until her own people have gained sufficient experience from them. This, of course, leads me to point out that Russia is entirely dependent upon foreign enterprise for her future expansion. There is no capital in Russia, and for that reason, also, care will have to be taken not to overburden large landowners with excessive taxation.³⁵

This view is also repeated in the *Economist* in August 1909, where it was observed that due to funds being siphoned off by the Ministry of War for the army and navy there was very little capital in Russia in order to successfully work Russia's rich natural resources.³⁶ Generally, the perception emerges that due to a lack of capital in Russia, British investment could result in higher returns.

Works published after the industrial downturn and revolutionary disturbances also highlighted the favourable investment conditions in Russia, particularly the richness of Russian material resources and the lack of domestic capital. A key development of this period, however, is that destinations for profitable investments were perceived to be wider than just the extractive industries. This interest in new sources of wealth

³³ Norman, *All the Russias*, 374-76.

³⁴ 'Recent Gold Production', *The Times* 20 June 1901, 13.

³⁵ Lionel Declé, *The New Russia*, (London: E. Nash, 1906), 257.

³⁶ 'Russia in 1908', *The Economist*, 21 August 1909, 373.

was particularly strong in the emerging Siberian districts, which were beginning to be opened up to foreign enterprise with the lifting (and circumventing) of restrictions and the extension of the infrastructure. Hodgetts was particularly keen to press home the advantages of Siberian investments.

To the British public, Siberia will for many years to come be interesting principally on account of its undoubted mineral wealth, its gold-fields and coal-fields, its petroleum and similar deposits, and in order that these may be economically worked, and thus contribute to the development and wealth of the Russian Empire, abundant efficient labour is essential.³⁷

A report in *The Times* also supported this view of Siberia, strictly in terms of the lack of native capital and the abundance of natural resources.³⁸ This was further discussed in relation to the copper mining industry, which stated that the domestic supply of copper in Russia in 1912 did not adequately supply the home demand, leading to an opening for British investment.³⁹

These perceptions are significantly different to the perceptions of the profitability of Russia before the increase of British investment in Baku, suggesting that British investment in oil and perception of the profitability of Russian enterprises was closely linked. Assessments of the wealth of Russia and the potential for investment to make large returns was much more mixed in the period 1892-1900, despite Witte raising the tariff barrier to encourage foreign investment. The earliest example of Russia's profitability can be found in travel books about Russia, which are indicative of a trend towards factual accounts of Russia, as opposed to the demonization of Russia present in late nineteenth century fiction. For example, in 1892 Harry de Windt described a shift of attitudes in Russia towards Siberia, with Russians associating it less with hardship and exile, and more as a road to richness.⁴⁰ On the other hand, other assessments could be quite different. A much more negative view of the Siberian gold mining industry is given by the travel writer, Jefferson, in 1897. His view of this particular industry is in contradiction to that established by later writers who focus on the money that could be made. He stated that the poor

³⁷ Hodgetts, *Glorious Russia*, 121.

³⁸ 'Siberia as a Field for British Capital', *The Times*, 4 September 1908, 15.

³⁹ 'The Copper Industry in Russia', *The Times*, 5 September 1912, 16.

⁴⁰ Harry de Windt, *Siberia as it is* (London: Chapman and Hall, 1892), 475.

techniques used by the current gold mining industries were causing enormous damage to the whole area, mainly through the tendency for companies to dump their debris on unworked land.⁴¹

Reports in the financial press about the profitability of Russian investments were scarce, although Russia as a market for British goods was not overlooked. The *Economist* carried articles throughout the 1890s on the demand for British agricultural machinery in Russia, particularly in the Southern districts. English agricultural machinery was generally regarded as being better quality than its German and American counterparts, although British firms generally failed to cater to the specific needs of the Russian market and extend sufficient credit.⁴²

However, after the Baku oil rush, the British financial press began to emphasize the profits that could be made in industries other than oil and mining. Importantly, they began to portray the high resources, or number of consumers, to domestic capital ratio. Stephen Graham's *Changing Russia*, written in 1913, shows evidence of perceptions in Britain that portrayed Russia as a place where good returns could be made from a wide variety of investments. 'We think that Russia is the new America which we propose to develop with our capital, becoming millionaires thereby. It is for some, even for many, the land where money is invested, the place where the treasure is.'⁴³ He also cites a growth in writing about Russia for this reason, especially in the liberal press. For Graham, British investments had also taken a remarkable number of forms by 1913.

Money has been forthcoming from Britain for all manner of projects- for Caucasian oil, Ural gold, copper and platinum, new railways, old railways, for making harbours and reconstructing towns, for trams, etc. etc. One of the tangible results of the visit of the English delegates was the purchase of the whole stock of two Russian home railways. Various other schemes were promoted. Moscow, Nikolayev, and Baku have raised money in London.

⁴¹ Robert Jefferson, *Roughing it in Siberia, with some account of the trans-Siberian railway, and the gold-mining industry of Asiatic Russia* (London: Sampson Low, Marsten and company, 1897), 197-98.

⁴² For example, 'Agricultural Machinery in Russia', *The Economist*, 18 July 1893, 7; 'British Machinery in Russia', *The Economist*, 13 October 1894, 9; 'Agricultural Machinery in Russia', *The Economist*, 12 January 1895, 9.

⁴³ Stephen Graham, *Changing Russia* (London: John Lane, 1913), 4.

Money has been found for the new railway along the Black Sea shore, and for the railway from Vladikavkaz to Tiflis.⁴⁴

A similar attitude displayed in *The Times* in 1909, which stated, in an article about Russia's resources in general, that British capital would in the future be entering Russia to develop a wide variety of resources.

An important item of importation into Russia in the non-too distant future will be British capital, for the country teems with undeveloped resources awaiting the investor. Vast deposits of mineral wealth promise handsome profits, while, for the more conservatively minded, there are practically unlimited possibilities of gilt-edged investments in railways and municipal and public works. British interests in Russian mining are already considerable, chiefly in gold (the Lena goldfields), petroleum (Baku), copper (Kyshtim), and manganese.⁴⁵

The main development here is that new opportunities were not simply confined to extractive industries. The British literature of this period also stressed the importance of investment in manufacturing industries. In fact, this was recognized as early as 1902, when the commercial agent to Russia, Henry Cooke, visited the London Chamber of Commerce in February 1902. This meeting was publicised in *The Times*, and the article detailed how there was an opening for British goods in Russia due to the Russo-German tariff war and the boycott of German goods in Poland, resulting in a large number of potential consumers with no competition from German products.⁴⁶

This emphasis on the number of consumers and the size of the market commonly centred on the demand for agricultural products. Barrett's 1908 book presents a very positive view of the Russian empire as a place to establish manufacturing industries, stating that due to Russia's large population, it offered British manufacturers an unlimited market. He placed particular emphasis on agricultural reports for 1907 for Russia, furnished by the foreign office that pointed towards a period of relative prosperity for the Russian peasantry.⁴⁷ Certain regions of Russia were also portrayed as being particular havens of British manufacturing success, for example John Hubback described the ship building at Nikolaev to have been in the hands of the

⁴⁴ Graham, *Changing Russia*, 8-9.

⁴⁵ 'Russia's Resources', *The Times*, 19 November 1909, 17.

⁴⁶ 'Anglo-Russian Trade', *The Times*, 13 February 1902, 11.

⁴⁷ Barrett, *Russia's New Era*, 61-62.

British to the extent that football was extremely popular, and districts of Odessa with many British families who had been established there for a generation or two.⁴⁸

Although these reports bear some resemblance to the descriptions of the Russian market before 1900, a new emphasis was placed on the size of the Russian market and the relative lack of competition from domestic and international firms.

While the improvement of Anglo Russian relations occurred approximately at the same time as the changes in how Russia was viewed as being profitable, Diplomatic relations had very little effect on these considerations, and are rarely mentioned in financial and economic literature. The only mention in the *Economist* of the economic ramifications of the 1907 Anglo-Russian agreement was the affect that it would have on British trade interests in Persia, which according to the author's analysis was limited as British trade interests in Persia were not extensive. According to the article the main significance of the treaty was political, not economic.⁴⁹ In a retrospective article on the agreement in the same publication, the Anglo-Russian friendship was desirable from an economic perspective, but the article doesn't elaborate on why this is the case, and such a statement could apply to any country.⁵⁰ Williams similarly argued that by 1914 efforts to improve commercial relations between Russia and Britain had been improved by the formation of the Anglo-Russian chamber of Commerce, and that as a result English investments had been increasing in Russia very prominently.⁵¹ Other than these passing references, there is very little in the financial literature at the time to suggest that the Anglo-Russian agreement of 1907 had much effect on investor perceptions of Russia.

The profitability of Russian investments was instead closely related to the Baku oil boom at the end of the 1890s. It was focused on economic conditions in Russia, where British companies and the British financial press identified a lack of capital and a wealth of natural resources, which would make British enterprise very profitable. Identification of the profitable nature of the Baku oil industry translated into interest in the Siberian gold mining industry, and later, throughout the first

⁴⁸ John Hubback, *Russian Realities: Being Impressions gathered During Some Recent Journeys in Russia* (London: John Lane the Bodley Head, 1915), 29, 69.

⁴⁹ 'England and Russia in Persia', *The Economist*, 28 September 1907, 1619

⁵⁰ 'England, Russia and the Tsar', *The Economist*, 3 July 1909, 4.

⁵¹ Williams, *Russia of the Russians*, 379.

decade of the twentieth century, into a greater interest in the Russian market for manufactured goods. Although the wider interest in the Russian market developed concurrently with the improvement of Anglo-Russian relations and the Anglo-Russian agreement, there is little to suggest that this had much of an effect on the perceived profitability of Russian investments.

It is important to note the effect of the 1905 revolution on British perceptions of the profitability of Russia. The two years of industrial unrest that followed the 1905 revolution, and the accompanying troubles in the Caucasus understandably dented British confidence in the Russian market. The British financial press at the time was filled with depressing news of falling Russian industrial stocks,⁵² and this depression had an effect on wider literature surrounding the profitability of Russian investments. This can be demonstrated by Rudolf Martin's study of Russia, published in 1907. He stated that the upward rise in shares in Russian enterprises and state bonds was due to the behaviour of buyers under the mistaken impression that the 1905 revolution had come to an end.⁵³ For this particular writer, it is evident that the revolutionary unrest in Russia had created a poor business environment, and did not offer good security for investments. He makes reference to the 'modern fallacy' that Russia was 'boundlessly rich', and that contemporary English investors generally did not believe in this in 1907.⁵⁴

The problems created by unrest in Russia are evident in later works. Barrett went to great pains in the first chapter of *Russia's New Era* to emphasize the stability of the Russian regime. He initially points out that the third Duma represented a significant for the peaceful development of Russia, and that Stolypin was likely to be able to implement gradual reform, removing the threat of further revolutionary activity.⁵⁵ This stabilizing effect, for Barrett, was also evident in Russian industry.

So far as industrial progress is concerned, the trade returns and reports from various manufacturing centers have passed away and that the worst effects of the

⁵² For example, 'Continental Bourses' *The Times*, 16 December 1905, 12; 'Continental Bourses', 17 May 1906, 12; 'Continental Bourses', 17 June 1907, 14.

⁵³ R. Martin, *The Future of Russia* (London: Smith, Elder & Co., 1906), xvii.

⁵⁴ Martin, *The Future of Russia*, 126-27.

⁵⁵ Barrett, *Russia's New Era*, 5, 17.

war and of subsequent disturbances in industrial centers have passed away and that a period of material recuperation has set in.⁵⁶

Barrett's audience are therefore likely to have harbored concerns about the political stability of Russia, and that the recent political instability and revolutionary upheavals had had on Russian business. A similar opinion is evident in how Barrett characterizes the finances of the state. Barrett states that due to the flotation of the Russian loan, it was now no longer fashionable to talk in terms of Russian insolvency.⁵⁷ This could have been designed to allay British fears of the Russian government defaulting on its debts, and the resulting economic consequences this would have for Russia.

It would seem from comparisons to later works in this period, however, that the damage to British perceptions of the profitability of Russia was merely temporary. Overall, the picture that emerges of British opinions of the profitability of Russian investments is one of continuity with the period before the outbreak of revolutionary unrest. Investments were still rationalized in terms of the high wealth of natural resources to domestic capital ratio, but in a far wider range of different industries, indicating an opening up of the Russian investment market in this period for British investors. This strongly corresponds with the financial models of capital being pushed out of Britain towards countries with low levels of domestic capital before 1914. Significantly, this development corresponded with a tendency to include positive views of the Russian government's attitude towards foreign business interests in examinations of the profitability of Russia, indicating the Russian government in the post-1907 period was viewed less in terms of its traditional tyrannical image in this period by business interests.

4.3 Attacking old literary stereotypes

These perceptions of Russia as a place to invest did not exist in isolation, and may have been influenced by wider trends in British society about the nature of the

⁵⁶ Barrett, *Russia's New Era*, 41.

⁵⁷ Barrett, *Russia's New Era*, 43.

Russian regime. Although there was a re consideration among British society of the Russian government, it did not substantially resemble the changes among the financial press, which were quite distinct to developments among wider society.

During the 1890s, there was a well-established literary perception of Russia as a land of an arbitrary, repressive government that sent its citizens to Siberia or summary execution, and the anarchists and revolutionaries who wreaked havoc with their bombs and assassination attempts. Particularly striking are novels published towards the end of the nineteenth century depicting a fictional war between Britain and Russia, depicting Russia as the antithesis to British values of freedom and democracy.⁵⁸ These depictions influenced British perceptions of certain aspects of the Russian government that were connected to business.

A general indictment of the Russian bureaucracy can be found in Joubert's *Russia as it Really Is*, published in 1904, which claimed that Russia only possessed the outward signs of justice, and that the Russian courts, juries, and regulations were really just for show for the outside world.⁵⁹ Further, corruption also ran rife within Russia.

From the Baltic to the Yenisei the whole country is corrupt. From governor to urgadnik every man has his price, and is anxious to be offered it. The government, the synod, the army, and the bench are putrid with corruption. Every man preys on his poorer neighbours and cozens his superiors if he can.⁶⁰

Joubert, in his later work, further repeated his assertion of corruption, and attributed the defeat of Russia to Japan to the effect of widespread corruption on the Russian war effort.⁶¹

This view of the corrupt local official is one that is comparable to earlier characterizations of Russia that are not concerned with business. For example, Stadling and Reasons's *In the Land of Tolstoi* characterized the local Russian official

⁵⁸ Nielson, *Britain and the Last Tsar*, 91-3.

⁵⁹ Carl Joubert, *Russia as it really is* (London: Eveleigh Nash, 1904), 22-23.

⁶⁰ Joubert, *Russia as it really is*, 27.

⁶¹ Carl Joubert, *The Truth about the Tsar and the Present State of Russia* (London: E. Nash, 1905), 54-61.

as colluding with local money lenders for the purpose of ‘stripping the peasants to the bone’, by taking a portion of their gains for their tacit support.⁶² This sentiment is comparable to Hare’s travel book, published in 1896, which claimed that bribery was rampant throughout the Russian Empire, and that, ‘All the public offices in Russia are full of civilised robbers who have not courage to work in open day. How the people hate and despise the official world which pillages them!’⁶³ Further, in a discussion of the obstacles that the first Duma faced in 1906, Declé claimed that officials in Russia, ‘Must be made to understand that the system of the past- bribery, oppression and arbitrary proceedings will no longer be tolerated’, in order to promote the further political stability of Russia.⁶⁴ Thus this particular stereotype permeated many different branches of British opinion about Russia.

The Anglo-Russian agreement of 1907 heralded a new discussion of the Russian government in British public opinion. There existed many different strands of thought at this time. Many members of the liberal government, especially the radicals, felt that the Russian government’s treatment of its citizens and undemocratic government meant a diplomatic accord between Britain and Russia was impossible.⁶⁵ On the other hand, many general works on Russia after the revolutionary period attacked this previous depiction of Russia. The barbaric actions of the Russian government in retaliation to unrest were reassessed by Dearmer. In his pamphlet *Russia and Britain*, he rationalised Russia’s methods in terms of its rapid development and extremes of opinion that existed in the country.⁶⁶ Williams also rationalised the incompetence and exploitation of the Russian bureaucracy in terms of the impossibility of exercising popular control over it in a country the size of Russia.⁶⁷ Similarly, Hume argued in 1914 that Russia should not be viewed through English eyes, as it was ‘still a country in the making’.⁶⁸

⁶² Jonas Stadling and William Reason, *In the Land of Tolstoi: Experiences of Famine and Misrule in Russia* (London: James Clarke & Co., 1897), 23.

⁶³ Augustus Hare, *Studies in Russia* (London: George Allen, 1896), 19-20.

⁶⁴ Declé, *The New Russia*, 248.

⁶⁵ Saunders, ‘Tyneside and the Making of the Russian Revolution’, 262.

⁶⁶ Percy Dearmer, *Russia and Britain* (London: Oxford University Press, 1915), 5-6.

⁶⁷ Williams, *Russia of the Russians*, 54.

⁶⁸ George Hume, *Thirty Five years in Russia* (London: Simpkin, Marshall, Hamilton Kent & Co., 1914), xxi.

A more direct challenge was posed by Stephen Graham, who wrote widely about his travels in Russia, in his *Undiscovered Russia* and later works.⁶⁹ In the preface to his work, Graham pointed out that contrary to certain sections of popular opinion Russia was not the land of, ‘...bomb throwers, intolerable tyranny and unhappiness’.⁷⁰ Maurice Baring also alluded to this tendency, stating that many people formed their opinions of Russia in terms of, ‘English fiction such as is written by English journalists and novelists’.⁷¹ Similarly, Stewart in *Provincial Russia* stated that the Russian authorities had been portrayed to be worse than they actually were in relation to the peasantry.

Sentimental and sensationalist writers have been so successful in blurring the real outlines that in England the term moujik too often seems to connote at once the darkest and deepest degradation and the victim of a crushing tyranny. The facts are otherwise. On the one hand, the Russian authorities are not so black as they are often painted, and the taxes are comparatively light.⁷²

This misunderstanding of the Russian government was due, according to a pro-Russian pamphleteer publishing after the outbreak of World War One, to ‘distorted legends’ arising from fiction.

Not only is there great ignorance of Russia in England, but, as always is the result of ignorance, great misunderstanding. The popular notions about Russia are not only imperfect but absurd. They are derived partly from a distorted legend of the Crimean War, partly from sympathy with nationalities or causes which the Russian government has treated badly, and very largely from fiction.⁷³

These authors were therefore challenging the old stereotypes of the Russian government, both in a general sense, and in its relationship with the Russian peasantry, in a similar way to which other authors challenged the prevailing notion of the Russian government’s treatment of foreign business interests.

However, the traditional literary images of Russia, most noticeably the corrupt government official, still crop up in the later period. For example, Kennard in his *The*

⁶⁹ Michael Hughes, *Beyond Holy Russia: the Life and Times of Stephen Graham* (Cambridge: Open Book Publishers, 2014).

⁷⁰ Stephen Graham, *Undiscovered Russia* (London: John Lane, 1912), ix.

⁷¹ Maurice Baring, *The Mainsprings of Russia* (London: Thomas Nelson and Sons, 1914), 16.

⁷² Hugh Stewart, *Provincial Russia* (London: Adam and Charles Black, 1913), 12.

⁷³ J. W. Mackhail, *Russia’s Gift to the World* (London: Hodder and Stoughton, 1915), 2.

Russian Peasant stated that in 1908, the greatest cause of all Russia's problems, and especially those of the peasant, was the corrupt bureaucracy.

Till Russia has been swept of the last vestiges of Bureaucracy, it will remain stagnant as a state, its policy a party one born of the self-seeking motives of its corrupt officialism, incapable of being trusted, respected, or carrying real weight amongst the powers of the word, incapable of being accepted as the true expression of the feeling of the true, great Russian people.⁷⁴

For Kennard, local officials, especially, tended to be 'devoid of all pretensions to education, intellect, culture, or natural refinement'.⁷⁵ According to Walter, who published a travel book about Russia in 1910, this was due to local officials being poorly paid. 'They are poorly paid, and are, amongst all Europeans, the men most notorious for receiving bribes.'⁷⁶

These wider perceptions vary significantly from the perceptions of the financial press and business community. Although there was a certain re-imagining of Russia in general among wider society, the Russian government continued to be portrayed as anachronistic, repressive and corrupt, whereas the in the business and financial press it was generally portrayed as efficient and welcoming to foreign enterprise. Thus wider perceptions prevalent in Britain about Russia probably had little effect on the perceptions of the business community, and it must be assumed that these perceptions were primarily formed through experience of the Russian business environment, either directly or indirectly.

4.4 Conclusion

British business interests began to view Russian investments more favourably from the beginning of the twentieth century, and this was mainly linked to the advent of the Baku oil boom. Such profitability was viewed very narrowly in terms of the significant availability of natural resources in Russia and the lack of domestic capital and expertise available to work them. Interest in the Baku oilfields, after an interval

⁷⁴ Howard Kennard, *The Russian Peasant* (London: T. Werner Laurie, 1908), 210.

⁷⁵ Kennard, *The Russian Peasant*, 217.

⁷⁶ L. Walter, *Peeps at Many Lands: Russia* (London: Adam and Charles Black, 1910), 14.

due to the revolutionary situation in Russia from 1905 to 1907, translated into wider interest in investments in other industries, initially in related extractive interest such as Siberian mining, but then progressing into other sectors such as manufacturing.

These findings correlate roughly with the expansion of British controlled companies in the extractive industries as investigated in chapter 3. Thus increased perceptions of profitability in these industries led to sustained British investment in various oil and mining concerns, to the very high levels observed towards 1910. Similarly, towards the end of the period many companies diversified their activities into other industries such as municipal contracts for lighting and sewers. Where it does not match the previous findings is in patterns of manufacturing industries. Although there was a lot of interest in Russian manufacturing companies in the financial literature described above, alongside the opportunities that were identified in oil and mining, it did not translate into increased investment into these industries. It is possible that this is because British companies entered these industries indirectly, or did not begin manufacturing operations in Russia and engaged in exporting materials to Russia instead. This may have been a result of the Russian government introducing policies in the latter half of the period in question that heavily favoured Russian owned companies, so it is possible that British manufacturing companies entered the Russian market through participation in Russian companies, a method which is practically impossible for the historian to trace on the macro-level.

At the same time, there was a reconsideration of the Russian government and its attitude towards foreign businesses. Instead of being portrayed to act arbitrarily towards foreign business interests in order to guard its national interests, assets and security, the Russian government was increasingly seen as being more welcoming to foreign businesses. This was perceived to have a limited impact on the profitability of Russian investments, although these perceptions were predominantly focused on the wealth of natural resources in Russia, the lack of domestic capital and the large consumer base. This could also have been due to a general reassessment of the Russian government that occurred as a result of closer Anglo-Russian relations after 1907. Typical literary tropes of the Russian government of the 1890s were reassessed, and the spectre of repression and the violation of citizens' rights were downplayed. This could have underpinned the reassessment of the Russian

government according to British business interests, although it is difficult to identify the link between these wider societal perceptions and the perceptions of the former group. Most likely it was a complex interaction of this wider reassessment and the effect of actual experience of the Russian government through business operations in Russia.

The impacts of the Anglo-Russian agreement and the revolutionary unrest were limited. While the revolutionary unrest of 1905-1907 produced a noticeable effect on investors while it was occurring, it had a limited long term effect, and this is supported by the data on British company formations, 1907-1914. Similarly, while there is a correlation between improving Anglo-Russian relations and British investment, there seems to be little causal link from this analysis of the financial literature. It is reasonable to assume that as it became clearer that Britain and Russia would not be drawn into a war against each other that British companies would be more likely to make Russian investments. However this idea was never articulated in any of the financial publications or even company records consulted in this study. Thus it is reasonable to conclude that Russian investments were rationalised mainly in terms of the potential profits that could be made due to the unique conditions of the Russian business environment, and later in the period, the pro-foreign business attitude of the Russian government. The remainder of this study will attempt to ask why this attitude developed, especially given the fact that it was not backed up by Russian economic policy, and only partially by changes in the law.

Chapter 5. British use of the Diplomatic and Consular Service

As the preceding chapters have indicated, despite an inadequate system of commercial law and an inconsistent policy towards foreign companies, Russian investments became an attractive prospect for British companies from the late 1890s onwards because of their perceived profitability, particularly in the oil and mining sectors. As a result, the period saw a substantial increase in British investment after 1900. At the same time, the British diplomatic service underwent several fundamental changes in Russia and the rest of the world, becoming larger and more professionalised, and more concerned with offering commercial assistance to the rapidly increasing number of British companies undertaking foreign investment before 1914. In Russia the size and commercial orientation of the British diplomatic service increased in size after the increase of British investment in Russia, and the relationship between these two bodies can offer significant conclusions about the approach that British businesses took towards Russian investments and the Russian government.

To this end, this chapter analyses the fundamental assumptions that lay behind British requests for diplomatic intervention in disputes between British companies and the Russian government. Requests for assistance are analysed in terms of what they tell us about the experience of these companies in Russia: what did they think that British diplomats and consuls could achieve on their behalf, and how did they think they could achieve these requests? What do such requests tell us about British companies' wider perceptions of the Russian government, as a result of continued exposure to the Russian business environment? This chapter analyses two categories of requests for diplomatic assistance: requests for assistance in court cases, and requests for assistance in order to avoid or modify unfavourable Russian economic regulations and policies.

This chapter examines the extent to which these requests were underpinned by stable assumptions about the Russian government. How far did British companies possess a reasonable knowledge of Russian economic regulations and law? To what extent did they expect the Russian government to act in a lawful and non-arbitrary manner?

The chapter seeks to determine whether negative stereotypes about the Russian government held in Britain, and the tendency of the government to follow an inconsistent economic policy towards foreign companies throughout Witte's tenure as Minister of Finance, resulted in British companies basing their assumptions about the Russian government on arbitrariness, or being unable to form consistent assumptions about the Russian government. It will also consider to what extent these perceptions arose out of an Anglo-centric worldview among British investors and businessmen, and an expectation that they be treated according to similar principles to British commercial law.

5.1 The British diplomatic service in Russia, 1892-1914

The diplomatic and consular organisation in Russia consisted of officials at the British embassy in St Petersburg, and a network of consular officials spread throughout the country in cities that the Foreign Office viewed as commercially important to British interests. Most notably, these included St Petersburg, Moscow, Odessa, Kiev, Warsaw and Batumi. These included both salaried and unsalaried consuls who attended to their official duties alongside their own business interests. There were roughly seven to eight senior diplomats at the British embassy in St Petersburg at any one time, alongside a collection of more junior officials, including a commercial attaché from 1908.¹

The addition of a commercial attaché to the St Petersburg embassy was a feature of the changing functions of the Foreign Office and diplomatic service towards professional commercial support for British exporters and companies based overseas in the late nineteenth and early twentieth centuries. This development took place in a

¹ Hughes, *Diplomacy before the Russian Revolution: Britain, Russia and the Old Diplomacy, 1894-1917* (New York: St. Martin's Press, 1999), 109.

context of increased professionalism and concern with information gathering as well as increased specialization within the Foreign Office and diplomatic service in the late nineteenth century.² In response to a similar development among its European counterparts and concerns over Britain's industrial and export performance, diplomatic and Foreign Office officials began to take on a number of different responsibilities such as producing reports on regulations, maintaining good relations between British companies and host-country regimes, and interceding on behalf of British companies.³ A significant result of this process was the outcome of the Walrond Committee, which in 1903 set new grounds for the appointment of suitable consuls with the required amount of commercial knowledge, in response to complaints by British businesses.⁴ As a result of this reform the role of the consuls changed to offering support to individual British companies, providing that their competitors were not British. This support included information on local trading conditions, the introduction of British firms to local firms, and offering advice to British litigants in commercial disputes.⁵ In Russia, the British ambassador Charles Hardinge established a system in 1904 whereby consular reports on local conditions played an important part in diplomatic intelligence gathering and the subsequent dispersal of commercial information.⁶

Despite these developments, historians' treatment of the Foreign Office and diplomatic service has been somewhat negative, and it is important to bear in mind the limitations that they highlight. These interpretations stress the professional isolation of the Foreign Office that resulted in a reactive outlook, and receipt of deficient information, which ultimately contributed to its inability to adequately deal with the rising threat of Germany.⁷ Certainly, the capabilities of diplomats and consuls were limited due to intense time and financial pressures. Since the 1906 reform of the Foreign Office only indirectly affected the diplomatic service,

² T. Otte, 'Old Diplomacy: Reflections on the Foreign Office before 1914,' in G. Johnson (ed.), *The Foreign Office and British Diplomacy in the Twentieth Century* (London: Routledge, 2005), 36; Muriel Chamberlain, *Pax Britannica? : British Foreign Policy, 1789-1914* (London: Longman, 1988), 167.

³ L. Sounpaa 'Financial Speculation, Political Risks and Legal Complications. British Commercial Diplomacy in the Balkans, c. 1906-1914,' *Historical Journal*, Vol. 55, No. 1 (2012), 98.

⁴ D. C. M. Platt, 'The Role of the British Consular Service in Overseas Trade, 1825-1914,' *EHR*, New Series, Vol. 15, No. 3 (1963), 509.

⁵ Platt, 'The Role of the British Consular Service,' 509.

⁶ Hughes, *Diplomacy before the Russian Revolution*, 109.

⁷ Steiner, *The Foreign Office*, 210-211; Otte, 'Old Diplomacy,' 46.

diplomats continued to be burdened with clerical work.⁸ The lower ranks at the British embassy were also notoriously underpaid, and had a large number of other tasks to complete as well as commercial intelligence gathering. Consuls found themselves in a similar position; they were usually part-time which would have affected how well they carried out their duties.⁹ Where they were salaried, they were often overworked and not given the financial resources to employ assistants.¹⁰ It must be recognised, therefore, that their perceptions of the Russian business environment would have been limited by these working conditions.

Historians have also pointed towards the diplomatic service and Foreign Office's limited social composition as a source of weakness. Even though the Foreign Office introduced entrance examinations in 1905, the service was still dominated by individuals from aristocratic or wealthy landowning backgrounds; from 1908 to 1914, 25 out of 37 new entrants to the diplomatic service came from Eton.¹¹ Social exclusivity is likely to have been particularly accentuated in Russia, where living expenses in St Petersburg far outstripped the meagre salaries of most officials, who were forced to supplement their earnings with other sources of income, or request a less expensive posting, and where high social standing conveyed particular advantages in the court-orientated capital.¹² Even in the Balkans, this social homogeneity resulted in a significant social gap between the members of the British business community and the members of the diplomatic service who were supposed to be assisting them.¹³

⁸ Steiner, *Foreign Office*, 82.

⁹ Hughes, *Diplomacy before the Russian Revolution*, 100-103.

¹⁰ Platt, 'The Role of the British Consular Service in Overseas Trade', 495.

¹¹ Steiner, *Foreign Office*, 19-20; V. Cromwell, 'A World Apart': Gentlemen Amateurs to Professional Generalists,' in M. Dockrill and B. McKercher (eds.), *Diplomacy and World Power: Studies in British Foreign Policy, 1890-1950* (Cambridge: Cambridge University Press, 1996), 3; T. Otte, 'Almost a Law of Nature? Sir Edward Grey, the Foreign Office, and the Balance of Power in Europe, 1905-12,' in E. Goldstein and B McKercher (eds), *British Power and Foreign Policy* (London: Frank Cass, 2003), 79.

¹² Michael Hughes, *Inside the Enigma: British officials in Russia, 1900-1939* (London: Hambledon Press, 1997); Keith Neilson, 'Only a D. D. Marionette?' The Influence of Ambassadors on British Foreign Policy, 1904-1914,' in Dockrill and McKercher, *Diplomacy and World Power*, 76; Eugene Trani, 'Russia in 1905: the View from the American Embassy,' *The Review of Politics*, Vol. 31, no. 1 (1969), 48.

¹³ Suonpää, 'Financial Speculation, Political Risks, and Legal Complications', 113.

This background to some extent applied to salaried consuls. There was a prevailing attitude among the senior consular staff that consuls should have a high social standing amongst the community. Smith regarded this as an important factor in the process of appointing a replacement vice-consul in Theodosia in mid-1907. In the case of one candidate Smith wrote to the British ambassador, Arthur Nicolson, that 'Nothing definite has been alleged to his discredit, but on the whole my conclusion was that his standing was hardly as well established as is desirable for a vice-consul'.¹⁴ Another candidate, the then current vice-consul at Warsaw was turned down on the basis that 'If appointed, he proposes to set up business at Theodosia, but he has no private means and is not well established there... I fear he may be unsuitable'.¹⁵

The British diplomatic service underwent a significant change in this time period, and became more concerned with commercial considerations, largely due to the influence of Hardinge and as a result of the Waldron Committee's findings, as opposed to the expansion of British trade and investment in Russia. Despite it becoming more sophisticated and attuned to commercial matters, the diplomatic service in Russia still operated under a set of difficult conditions and with limited resources, especially in the case of the consuls in the provinces, and came from a limited social sphere. At the same time it included a great many officials with a lot of experience in Russia, who were adept at navigating the social circles of the Russian court and ministries. Such a service provided British companies with an important and knowledgeable tool with which to pursue their interests in this period, as this chapter and the next explores.

5.2 Economic regulations and British companies

During the period 1892 to 1914 British companies often requested British diplomats acting on their behalf to mould Russian economic policy. This reveals a set of twin assumptions held by British business interests in Russia: the extent to which the Russian government was perceived to act arbitrarily towards foreign business

¹⁴ TNA, FO 369/96, f. 42, Smith to Nicolson, 7 June 1907.

¹⁵ TNA, FO 369/96, f. 30, Smith to Nicolson, 18 April 1907.

interests, and the extent to which British companies expected British diplomats to be able to effect change to Russian economic regulations on their behalf through use of their influence and personal connections with the Russian government. This section analyses this trend among British shipping companies throughout the first stages of British engagement with the Russian market in the 1890s, before exploring the persistence of these assumptions among British companies undertaking direct investment in Russia.

British shipping companies and customs regulations

British shipping companies had significant expectations of the ability of British diplomatic staff to influence Russian customs regulations throughout the period 1892-1900. These expectations can be linked to inconsistent government economic policy towards foreign companies in this period, whereby various companies were granted exemptions to shipping rules in order to stimulate particular industries. However, Russian customs regulations in the 1890s were clearly spelt out in the code of laws, and prescribed clear requirements for documentation, including certificates of origin and the right of customs officials to board vessels and inspect cargoes. The process for appealing customs fines was also clearly defined in the code of laws; an appeal should be addressed in a particular format to the Ministry of Finance, accompanied by the relevant stamps. Appeals against the decision of the Ministry of Finance could then be directed to the fourth department of the Senate.¹⁶ Despite the fact that these rules were contained in the code of laws, and generally only changed when tariffs were altered by the Russian government, an analysis of British diplomatic requests in the period suggests that a number of British companies believed these rules to be malleable and open to the influence of British diplomats. However, as this section will explore, the majority of these cases were not resolved by either the diplomatic service or the Russian government.

Over the period 1892 to 1902, there were 47 different incidents of British shipping companies writing to the foreign office requesting diplomatic action in order to have

¹⁶ SZ Tom VI, st. 139-164.

customs fines remitted. The embassy in St Petersburg decided to take diplomatic action in 11 of these cases, all but one of which were successful. Of these 11 cases, four occurred in 1899 and two in 1900; the latter two being the last successful cases of diplomatic action in the period 1892-1914 over customs disputes.¹⁷ Not all of these cases involved shipping companies; some involved companies that had undertaken investment in Russia. For example, in 1900 Kodak unsuccessfully applied to the foreign office to have a customs fine on photographic materials remitted, which they had been attempting to import into Russia for use in their camera factory.¹⁸ These types of request were therefore not just limited to shipping companies who may not have had much experience of the Russian market, but also manufacturers who had undertaken manufacturing operations behind the tariff barrier.

The most common request was when the British shipping company claimed to have made a clerical error in their bill of landing and had subsequently been fined. These companies requested diplomatic involvement in order to resolve their cases, instead of taking the proscribed steps of presenting a petition to the Ministry of Finance. For example, the British insurance company, the North of England Protecting and Indemnity Association contacted the Foreign Office in April 1892 on behalf of one of its ships, the *Fitzroy*, requesting that the British ambassador intervene in the case at Batumi, where the ship had been fined due to an error over the amount of tin plates that had been unloaded. The permanent under-secretary, Phillip Currie, noted that this request was inappropriate, adding that it was due to mismanagement by the English shippers and there was not much that the diplomatic office could do about the Russian fine.¹⁹ Currie was well placed to make such a judgement; before becoming PUS in 1889, he had worked on a number of diplomatic missions involving eastern affairs and Russia.²⁰ A similar case occurred a year later concerning the ship *Sandal*, where the owners contacted the foreign office with a request for the remittance of a fine that arose as a result of a clerical error. The

¹⁷ From an analysis of the diplomatic archives, 1892-1902, Russian section, TNA, FO 65. See table 3, appendix.

¹⁸ TNA, FO 65/1617, f. 147, Kodak to FO, 9 June 1900.

¹⁹ TNA, FO 65/1424, f. 40, NEPIA to Currie, 1 April 1892.

²⁰ K. Neilson and T. Otte, *The Permanent Under Secretary for Foreign Affairs, 1854-1946* (London: Routledge, 2008), 78-79.

owners of the *Sandal* believed both that the fine was unlawful, and that diplomatic intervention could be used to have it remitted.²¹ In both cases it appears that the British ships had been in contravention of Russian customs regulations, but the companies assumed that the customs authorities had applied the fines illegally, and that diplomatic intervention could be used to have them overturned.

A case involving the British ship *Exe* indicates that such companies also overestimated the reach of British officials over the day to day work of customs offices in Russia. In 1892 the British shipping company Glover Bros. contacted the Foreign Office to request that the ambassador at St Petersburg make sure that the *Exe* should not be obstructed at Batumi on its way to Japan. The owners admitted that it was within the rights of the port authorities to inspect the cargo and to take all necessary steps to ensure that none of it was disembarked illegally, but requested that British diplomatic staff prevent any further obstructions to the ship.²² The British owners initially contacted the Foreign Office due to concerns that the Russian customs authorities at Batumi were unnecessarily holding up cargoes of foreign vessels passing through the port. According to later correspondence, the *Exe* passed through the Russian port without any problems, but this was not due to British diplomatic assistance.²³

These examples illustrate a much wider tendency among British shipping companies to resort to diplomatic intervention. The tendency for British companies to request diplomatic assistance when faced with customs fines in Russia led Morier to write a memorandum to Roseberry in February 1893 on the subject, stating that the correct form of procedure in these instances was to petition the Minister of Finance directly.

I fear that it is not sufficiently well known in England that in cases such as the above and also in others where a fine is enforced for a breach of customs regulations the proscribed form of procedure, is for the owner or the agents of the ship or goods upon which the fine is imposed, to send a petition -- drawn up in the Russian language and furnished with the required Russian stamps -- to the imperial Minister of Finance,

²¹ TNA, FO 65/1458, ff. 25-26, Stanley-Todd to Currie, 7 January 1893.

²² TNA, FO 65/1433, f. 24, Glover Bros. to Kennedy, 9 February 1892.

²³ TNA, FO 65/1433, f. 23, Glover Bros. to Kennedy, 9 February 1892.

setting forth all the facts of the case and praying for the remission or reduction of the fine.²⁴

Rosebery shared Morrier's opinion, that the 'proper mode of procedure seems to be insufficiently known to British ship owners'.²⁵ This illustrates the distinctive and widespread assumption among British shipping interests that they would have more success in resolving customs disputes through diplomatic intervention than through the proscribed system of petitioning the Russian government. Although it is possible that many of the companies that made such requests simply did not know the proscribed method, British companies clearly identified Russian customs regulations to be flexible and open to diplomatic intervention in this time period.

The 10 cases where diplomatic action was successfully taken indicates the instances where British officials believed they could take action. In the majority of the cases, British officials only took action once the companies had lodged petitions with the Ministry of Finance in the correct manner, and then acted in support of these petitions. This support involved using their personal connections within the ministry of Finance in order to draw Witte's attention to the incidence of the fine to get it remitted.²⁶ While this did not constitute an extra-legal aspect of the process of the appeal of customs fines in Russia, it does indicate the importance of personal connections in the successful completion of this process. The only case where diplomatic action was overtly taken before the company had launched petitions was in the case of the SS Mauritius in 1899, where Russian customs authorities in Reval confiscated the ship's anchors, because they were not included on the cargo manifest. In this case, British diplomats did not wait for the company to lodge a petition in St Petersburg, and privately met Witte in order to have the ship's anchors returned.²⁷ This exception was due to the fact that the customs authorities at Reval had clearly acted illegally and that the British ship was in the urgent situation of not being able to leave port without its anchors. The role that personal connections played in the way that diplomats supported the petitions of British shipping companies is

²⁴ TNA, FO 65/1451, f. 5, Morier to Rosebery, 17 February 1893.

²⁵ TNA, FO 65/1451, f. 10, Rosebery annotation on Morier to Rosebery, 17 February 1893.

²⁶ For example, TNA, FO 65/1459, f. 195, FO to Holzapfel & Co, 6 November 1893; TNA, FO 65/1546, f. 110, Blackhead & Co. to FO, 22 April 1897.

²⁷ TNA, FO 65/1596, f. 99, London Chamber of Commerce to FO, 08 August 1899.

important, however, as they supplemented the existing legal process in an undocumented and unregulated manner, meaning that British companies could not form concrete expectations about how the system of redress for customs fines worked.

The perceived influence of the Foreign Office and the British embassy in St Petersburg over Russian shipping regulations also extended to matters of maritime insurance. English insurance companies attempted to induce the Foreign Office to influence Russian economic policy covering statements of average, a document stating the financial liabilities of the insurance company and the owners. Due to a fire on the English-owned ship *Winchester*, a statement of average was compiled by the owners of the ship at Sevastopol at a rate that favoured the owners of the ship over the insurance company. The insurance company, Lloyds, had lost a subsequent case in the Russian courts, and therefore requested diplomatic assistance in order to persuade the Russian government to revise its rules on statement of averages as it inflicted ‘great injustice’ on the underwriters. Other associations from Liverpool and Glasgow also shared their concerns.²⁸ The secretary of the embassy, R. Howard replied that the Russian commercial code was ‘very antiquated’ on the subject of statements of average, and was currently being revised, but that some time would elapse before the modified version would be published.²⁹ The owners and the associations therefore made these requests on the assumption that Russian regulations on insurance were malleable by outside influences in the interest of economic development of the Witte period. However, in the particular case of the *Winchester* the company was unsuccessful in their appeal, because according to Russian law statements of average were legally binding once they had been compiled. Any further changes to the law in this area would also have not benefited the company due to these regulations.³⁰

²⁸ TNA, FO 65/1451, f. 235, Institute of London Underwriters to FO, 24 April 1893; FO 65/1503, f. 127, Memorandum of the Liverpool Underwriters Association, 30 March 1895; FO 65/1450, f. 31, Glasgow Chamber of Commerce to FO, 10 August 1892.

²⁹ TNA, FO 65/1451, f. 67, Howard to Institute of Liverpool Underwriters, 18 July 1893.

³⁰ TNA, FO 65/1451, ff. 69-70, Howard to Institute of Liverpool Underwriters, 18 July 1893.

Russian laws surrounding the importation of goods into Russia that were covered by Witte's new tariff regulations were also considered to be susceptible to diplomatic influence. In order for British merchants to pass goods not manufactured in Britain through Russian customs houses, they were required to possess a certificate of origin, which British shipping companies believed was in many cases impossible to obtain. As a result, London, Bradford and Manchester Chambers of Commerce wrote to the Foreign Office in order to have these regulations modified, which they attributed to a misinterpretation of the law by the customs officials, or an attempt by Russia to hinder German exports to Russia that also hit British trade.³¹ Throughout the 1890s, therefore, British shippers tended to view Russian shipping regulations as open to influence from members of British diplomatic staff, due to a tendency for Russian business regulations to be flexible under Witte. While this could be due to an arrogant view of the failings of the Russian government, the fact that requests were based on the assumption that Russian customs regulations could be modified through diplomatic pressure speaks to the perceptions that British companies had of the system of economic regulation in Russia, and not a judgement on its arbitrariness or backwardness.

British investment companies and customs tariffs

These assumptions were sustained and further developed among British companies undertaking foreign direct investment in Russia, and the Witte system contributed heavily towards this. This is significant, as during the period of increased British investment in Russia, Russian practices surrounding imports and customs changed dramatically. With Witte's departure from the Ministry of Finance in August 1903 and the economic downturn of 1900-1904, Russian economic policy became much more conservative towards foreign companies, which included allowing fewer exceptions to individual companies to import items such as machinery from abroad in order to protect Russian domestic industry. This shift was generally not observed by British companies, which continued to request British diplomats to intercede on their behalf in order to secure favourable import exceptions for their businesses,

³¹ TNA, FO 65/1459, f. 6, Bradford Chamber of Commerce to FO, 2 September 1893; f. 22, London Chamber of Commerce to FO, 13 September 1893; FO 65/1458, f. 147, Sheffield Chamber of Commerce to FO, 29 July 1893.

usually to import higher quality machinery and materials from abroad for their operations, such as mining equipment. Thus the environment of the 1890s and the early 1900s had a long term impact on the assumptions of British businesses after Witte's departure from the Ministry of Finance.

A key part of the Witte system was the granting of privileges and exemption to companies in industries that were regarded to be particularly important for Russian economic development, such as industries connected to the trans-Siberian railway. The British company, Vesty & Co., obtained a concession from Witte to import components for a cold storage facility in Riga for the export of Siberian butter without paying import duties or tariffs in 1900. However, Witte's departure from the Ministry of Finance meant that Vesty & Co. was unable to gain a remittance for import duties paid on cold storage equipment imported in 1902 to meet the growing demand for Siberian butter. Vesty then went on to request diplomatic assistance in his case.

It seems to me that when the facts are explained to the proper authorities they cannot in justice refuse to pay me what they would have undoubtedly have given me for the asking. My house in Riga has already made three applications but they do not seem able to make any progress, as they have not any influence.³²

According to Vesty British diplomats should have been able to use their personal connections with the Russian government in order to get the customs duties remitted by illustrating the benefits to the Russian economy by doing so. This constituted an appeal to an arbitrary intervention in Russian economic regulations, as it appears that the Ministry of Finance under Eduard Pleske and Vladimir Kokovstov simply followed existing customs regulations on cold storage components.

Excise duties were clearly seen to be open to diplomatic influence in other sectors, and diplomatic assistance was often called upon when British investment companies in Russia had suffered fines, or when Russian customs regulations changed in a

³² TNA, FO 65/1696, ff. 24-25, W. Vesty to M. Law, 4 February 1904.

manner that would affect their business. For example, Hepburn & Gale, Ltd made a request to the Foreign Office in 1901 in connection with their leather belting factory in Moscow. After having undertaken investment in Russia in order to be able to market their goods behind the tariff wall, the Russian government had imposed a higher import duty on leather hides, which the company imported to Russia from Britain in order to produce leather belting in Moscow. The company requested British diplomats to conduct inquiries in St Petersburg as to the possibility of obtaining a remission of these export duties, which it considered to have been temporary due to the Manchurian war. The British company attempted to demonstrate how it would have been in the Russian government's interests to change the import duty, as it had initially been to attract British investment. However, no diplomatic action was taken in this case.³³

Similarly, a British insecticide factory in Rostov attempted to utilise British diplomatic assistance in order to obtain duty free importation of tobacco tailings, sweepings, and damaged leaves used in the production of insecticides. Such permission would have taken the form of a specific exemption from importation regulations, which the company clearly believed that British diplomats would be able to effect in this case because the company was involved in the development of a factory. The company's successful operations seem to have hinged upon being able to successfully apply for an importation concession, as the British interests stated that without the concession it would be impossible for the company to continue its operations.³⁴ This case is particularly illustrative of the attitude of British companies towards Russian economic regulations. As they were involved in developing industry in a particularly underdeveloped region of Russia, and therefore furthering the goals of Witte's economic programme, the company assumed that they would be able to take advantage of largesse shown towards such companies by Witte and the Russian government and that British diplomatic staff could effect this through use of their personal connections.

³³ TNA, FO 65/1638, ff. 345-47, Hepburn and Gale to FO, 21 November 1901.

³⁴ TNA, FO 65/1692, f. 1710, Brophy to Lansdowne, 3 May 1904.

Such withdrawal of special exemptions granted under Witte continued to cause British companies to appeal for diplomatic assistance after the upheavals of 1904-1907. In 1908, the Troitzk Oil Fields Company, a British mining company located south of the Urals, attempted to import mining equipment duty free. This privilege had been granted to them since they had begun mining operations there. However, the Russian customs authorities claimed that import duty on the machines was payable, and levied a significant fine on the machinery. This case therefore stems from these two British gold mining companies attempting to induce the British diplomatic service to pressure the Russian government into withdrawing the customs fine, and to preserve their privileges to import mining machinery from Britain free of duty. The company also believed that the action of the customs authorities in this matter was ‘against published enactments’, and asked for embassy assistance because they believed that the authorities had acted in an unlawful manner.³⁵ According to Hugh O’Beirne, who had been an attaché to the British embassy since 1892, and who’s opinions on the Russian economy were well respected by the Foreign Office, the company did not receive the benefit of their special privileges because the Ministry of Finance and the Ministry of Trade and Industry had formed a committee to consider the advisability of the future of the provisions of customs regulations that allowed the free importation of mining machinery to the Urals.³⁶ Even though such exemptions and privileges were in the process of being withdrawn throughout the period, the management of the Troitzk oilfields clearly assumed that diplomatic pressure could be applied to gain special exemptions to rules that had been malleable under Witte. The Troitzk Oilfields Co. also assumed that the customs authorities had acted illegally. As late as 1907, therefore, British companies still connected arbitrary actions of local officials with weak economic regulation that could be easily modified through diplomatic pressure to suit their needs.

Other British companies also attempted to induce the British government to make representations to the Russian government in order to circumvent regulations on the importation of mining machinery. The Central Siberia Company attempted to import

³⁵ TNA, FO 368/217, f. 8678, W. J. Mitchell & Co. to FO, 12 March 1908.

³⁶ On Hugh O’Beirne’s career, see Neilson, *Britain and the Last Tsar*, 43; TNA, FO 368/217, f. 17785, Hugh O’Beirne to Grey, 22 May 1904.

foreign mining machinery in 1909, and requested the British embassy in Russia to make representations and to present a petition to the Russian government, in order to have the customs fine rescinded.³⁷ In a report on the matter Cooke stated that 'Big British interests involved in mining in Siberia are unlikely to let this matter drop; they do not want to utilize inferior Russian gold dredgers, and put the change in policy down to powerful protectionist agencies within Russian government.'³⁸ Cooke also reported that British companies involved in cold storage had made representations to the Russian government in order for them to import cold storage duty free, which the Minister of Commerce had informed him was only possible if passed by the legislative chamber.³⁹ This demonstrates how widespread the assumption was among British companies that Russian commercial regulations were open to modification through direct pressure by British diplomats.

Clearly, the tendency to view Russian customs regulations as flexible and open to diplomatic influence was also exhibited by British companies undertaking investment in Russia after Witte's reforms, and has much in common with the attitude of British shippers in the 1890s. British companies still regarded Russian economic regulations relating to import duties as flexible if it could be demonstrated that they were contributing to the industrial development of Russia, and expected British diplomats to be able to intercede with the Russian government in order to gain exemptions. Where regulations had interfered with their business, they often attributed these events to unlawful handling of their case by customs authorities. Although to some extent the later change in Russian economic policy reduced the arbitrary nature of exemptions and concessions of the Witte years, the Russian government had not been able to foster concrete expectations among British companies that their customs regulations were above external influence by diplomats.

Joint-stock companies regulation

³⁷ TNA, FO 368/324, f. 23542, Gerhard & Hey to Grey, 9 June 1909; f. 32478 Grey to Gerhard & Hey, 24 August 1909.

³⁸ TNA, FO 368/324, f. 39169, Cooke to Grey, 25 October 1909.

³⁹ TNA, FO 368/324, f. 26859, Cooke to Grey, 16 July 1909.

These findings can be replicated across other Russian business regulations pertaining to British companies. There were similar assumptions held by companies in many industries, particularly those that played an important part in the Witte programme, and were thus more susceptible to the regime of special concessions and exemptions. In 1898, Samuel and Co., a precursor company to the Royal Dutch Shell group, attempted to induce the Foreign Office to use its influence in St Petersburg to reverse recent regulatory changes in the Russian coasting trade. After having sunk large amounts of capital into their operations at Batumi and Vladivostok the Russian government was in the process of introducing new legislation whereby all vessels involved in the coasting trade would be required to fly the Russian flag, and be owned by Russian companies, under Russian statutes. As a result, the company wrote to the Foreign Office to request that the British diplomatic staff in St Petersburg, 'induce the Russian Government to except from the regulation which they have formulated, steamers carrying petroleum in bulk'.⁴⁰ Samuel clearly believed that Russian shipping regulations in this instance were open to a level of flexibility given the application of diplomatic pressure. The Foreign Office also received a letter from the Chamber of Shipping of the United Kingdom, and several other ship owners' societies, urging that representations should be made to the Russian government with regard to the Russian coasting trade to the Far East. This body emphasised the importance of the potential amount of trade that might develop between Batumi and Vladivostok.⁴¹

Diplomatic staff at the foreign office seemed to concur with Samuel's assessment that an exception in the Russian regulations could be obtained for tank steamers specially constructed for the transport of petroleum. In the minutes on Samuel's initial letter to the Foreign Office, T. Jacceron wrote that it would be impossible to induce the Russian government to relax its regulations on the coasting trade, but that it might be possible to persuade the Russian government to make an exception for tank steamers. This was relayed to Samuels, stating that the British ambassador in St Petersburg had been given instructions to 'endeavour to obtain some relaxation of the restrictions in question in the case of tank steamers specially constructed for the

⁴⁰ TNA, FO 65/1570, ff. 104-105, Samuel & Co. to T. Sanderson, 10 March 1898.

⁴¹ TNA, FO 65/1584, f. 26, PUS to Scott, 8 April 1899.

carriage of petroleum'.⁴² However, it was later confirmed that no such relaxations of the laws could be obtained, as the laws existed in order to develop Russian navigation, shipbuilding, and other branches of industries related to shipping in the Russian empire.⁴³

This case also demonstrates underlying negative assumptions about the arbitrariness of the Russian government in its dealings with British business. Batumi had been designated a free port under the provisions of the 1878 treaty of Berlin. Batumi became a Russian port in 1886 through a separate treaty, and therefore the Russian government was perfectly legitimate in imposing restrictions on foreigners engaged in coasting trade. However, Samuel & co. cast this decision in terms of the arbitrary actions of the Russian government. The company accused the Russian government of disregarding the positive impact that their company had made in the region, putting undue and illegal pressure on their company to reform under Russian statutes, and of disregarding the Treaty of Berlin.

We do not know how far this step is within the rights of the Russian government, seeing that an assurance was given by them that Batoum should be considered a free port when they annexed it; but be that as it may, the position is this. If the Russian Government insist on enforcing this regulation no bulk oil can go to Vladivostok, because this port only takes about 2,000 tons per annum, and this small quantity can only be delivered by a steamer discharging the balance of her cargo of bulk oil at other ports not under Russian jurisdiction.

We have embarked a capital of about £16,000 in the tanks at Vladivostok, and as British subjects we will not consent to transferring our steamers to the Russian flag; although we can assure you (in confidence), great pressure has been constantly brought to bear on us to do this.⁴⁴

Samuel & co therefore portrayed the Russian government as acting arbitrarily in order to force their company to reform under Russian statutes. The fact that Russia was perceived by the British company to be going back on promises that the Russian

⁴² TNA, FO 65/1570, ff. 104-105, Minute note on A. Samuel to T. Sanderson, 10 March 1898; FO 65/1570, f. 123, FO to Samuel 18 March 1898.

⁴³ TNA, FO 65/1563, f. 137, O'Connor to Salisbury, June 1898.

⁴⁴ TNA, FO 65/1570, f. 104, Samuel to Sanderson, 10 March 1898.

government made at the Congress of Berlin was cast in terms of typical Russian intransigence and arbitrariness.

[...] but we would earnestly impress upon the Marquess of Salisbury in view of the position which we now complain, how utterly impossible it is to place any reliance upon Russian promises, and that if therefore Talienwan and Port Arthur are allowed to fall under Russian jurisdiction, it seems quite certain that in process of time British steamers will be refused equal rights with Russian, which they now enjoy.⁴⁵

This assessment of the Russian government's actions has much in common with the stereotyped view of the Russian government that was common in the 1890s and much earlier; the Russian government was seen to act with contempt towards international obligations respected by more 'civilised' nations. That Samuel & co. came to these conclusions is of particular significance given their involvement in Russian business.

In a similar fashion to this case, a group of oil interests contacted the Foreign Office in 1898 to protest about the insistence of the Russian government under Witte that British companies employed in the petroleum trade in Baku should register their companies in Russia, instead of purchasing land via Russian subjects and holding it in their name. According to Consul-General Michell, registering a British company in Russia carried with it requirements that were quite onerous for British companies, such as the requirement that two Russian citizens must sit on the board, and that the majority of shares should be nominative and not made out to the bearer. Michell seemed to believe that a Russian company 'would not labour under the latter restriction'. According to Michell, the Russian government also had a tendency to insert into the statutes of foreign companies a clause that stated that the government could withdraw permission to operate at any time for no reason, which had an adverse effect on investor security.⁴⁶ O'Connor warned Salisbury that there was little that British diplomats could achieve in this case on behalf of British oil interests because Witte had confirmed the new regulations to him and stated that they were designed in order to induce British capital to move

⁴⁵ TNA, FO 65/1570, f. 130, Samuel to Sanderson, 19 March 1898.

⁴⁶ TNA, FO 65/1563, ff. 121-22, Michell to O'Connor, 21 May 1898.

into Russia.⁴⁷ There is evidence that in the 1890s not all British companies looking to enter the Russian market were aware of the system of the Russian government granting permission for foreign companies to operate in Russia, and the process of forming a Russian company if required.⁴⁸

Often, while attempting to have economic regulations modified British companies requested that diplomats draw attention to the economic benefits that their companies had. This was a particular product of the Witte system, whereby companies operating in industries deemed to be important often were more likely to receive special exemptions. In 1899 the Tank Storage and Carriage Company applied to Salisbury to make representations to the Russian government over the government's decision to dismantle petroleum storage facilities erected by the company in Batumi. According to their request the lease for the land held by the company contained a clause that if the land was repossessed by the government the leasers had no right to put forward a claim for compensation. According to the company, their agent in Batumi had informed them that the government was contemplating preventing the construction of further tank storage, and to also remove existing storage, which could interrupt or destroy the companies' business. The company therefore requested the British ambassador at St Petersburg to 'make strong representations with regard to the hardships which it is in contemplation to inflict upon the trade, especially after the late announcement of the Russian government encouraging the investment of English capital in Russian industries'.⁴⁹ According to the enclosed letter from their agent in Batumi, Wagstaff & Bley, this had been effected by the military commander of the district sending around circulars cancelling permission to construct tanks, which had made it difficult to do business in Batumi as companies were fearful for their investments. He urged the English company to seek diplomatic assistance in the matter.⁵⁰

⁴⁷ TNA, FO 65/1563, f. 148, O'Conner to Salisbury, 10 June 1898.

⁴⁸ TNA, FO 65/1639, f. 191, FO to Scaramanga Bros., 8 August 1901.

⁴⁹ TNA, FO 65/1595, ff. 69-71, The Tank Storage and Carriage Company to Salisbury, 7 February 1899.

⁵⁰ TNA, FO 65/1595, f. 73, Wagstaff & Bley to The Tank Storage and Carriage Company, 11 January 1899.

These new directives by the military commander at Batumi utilized existing regulations surrounding government control of land leased for petroleum storage in order to secure the defense of Batumi. According to a report by the British consul there, Stevens, the commander sent the memorandum because in the event of a bombardment, the petroleum reservoirs would form a source of danger to the forts, and that the smoke which would be produced by the burning mineral oil products would completely obscure an attacking fleet.⁵¹ Thus the regulations existed for a legitimate purpose, which the British company attempted to use the influence of British diplomats in St Petersburg to circumvent, invoking the damage that it would do to the economic development of the region. It is likely that such action was countenanced in the first place because of the overproduction crisis that was beginning to threaten the Baku oil trade by severely depressing prices, yet the attempt to induce the Russian government to abandon its plans in this area aptly demonstrates that the Russian government under Witte failed to foster concrete expectations of the way in which it dealt with foreign businesses among British companies.

There also seems to have been a degree of inter-ministerial disagreement about the plan; Stevens reported that the commission had been divided between those who recognized that Batumi was the only place that Caucasian oil could be effectively exported, and the influence of the military who argued that the presence of oil storage units represented a danger in times of war.⁵² Such disunity obviously contributed to the perception of the malleability of government policy and its susceptibility to outside intervention, especially given the amount of confusion caused by the overlapping jurisdictions of the Ministry of Finance and the Ministry of War in this area.

The apparent irregularity of the application of Russian economic regulations therefore helped to persuade British companies that the Foreign Office and

⁵¹ TNA, FO 65/1588, f. 50, Stevens to Salisbury, 20 January 1899.

⁵² TNA, FO 65.1590, f. 38, Stevens to Salisbury, 12 June 1899.

diplomatic staff could influence the implementation of such regulations in Russia. British companies throughout the period regularly requested these bodies to intervene when Russian regulations proved to be contrary to their interests. This could have been the result of an Anglo-centric world view among British companies and the expectation that they be treated according to British legal standards. However, the shift of Russian economic policy away from granting concessions and exemptions after the economic downturn brought these expectations that had arose as a result of Witte's policies into further relief as British companies' expectations further clashed with official policy. It is also evident that British companies engaged in industries that they considered to be favoured by Witte's industrialising policy, i.e. extractive industries and industries connected to the trans-Siberian railroad, attempted to stress the importance of their companies towards Russian economic development when making their appeals, further indicating a connection between the concessions given by Witte and the expectations of British companies.

5.3 British diplomatic involvement in court cases

The assumption of the flexibility of Russian economic regulations and their susceptibility to British diplomatic influence was closely matched by similar assumptions about the power of British diplomats to intervene in commercial cases before the Russian courts. Many British companies throughout the period requested that British diplomats intercede in court cases, or to support appeals made to the higher courts in Russia, most usually the fourth department of the Senate and the office of petitions. These requests took two separate forms: requests for interference in ongoing court cases, and requests for British diplomats to circumvent Russian courts, usually through direct appeals to the Ministry of Finance or the Ministry of Foreign Affairs. By making requests for diplomatic involvement in court proceedings, British companies usually sought to utilize the personal contacts that British diplomats possessed within the Russian government to act within their interests. Such requests throw light on the ways in which British companies viewed the implementation of commercial law in Russian

courts, and on their views of the government's capacity for intervention in the due process of law.

Requests for diplomatic assistance in cases 'sub-judice'

The case of the *Penyghent* arose as a result of the court of Odessa in 1892 finding that both parties were to blame in a collision at sea between the steamships *Penyghent*, belonging to Myers Brothers, and the *Tsar*, belonging to the Russian Steam Navigation and Trading Company. The English owners, along with their assurance body, the Newcastle Steam Ship Insurance Association (NSSIA), felt that a miscarriage of justice had occurred, as their vessel had taken the correct evasive action as per the international rules of the road at sea, and had displayed the correct signals, whereas the *Tsar* had not. As a result, they proceeded to refer the case to the IV department of the Senate, and when this was unsuccessful, submitted a petition to the Tsar. Their petition was ultimately unsuccessful, and later records indicate that the owners of the *Penyghent* were never able to recover damages from the Russian company.⁵³

During the course of the case, the NSSIA wrote to the Foreign Office to ask for diplomatic assistance with their case. In their original letter, the NSSIA stated that the court at Odessa had referred the case to the opinion of a board of five naval experts, three of whom found both parties to blame. The NSSIA stated that this was necessary because the Russian Steamship Navigation Company probably influenced the experts in some way, and that the ruling at Odessa violated the international rules for the prevention of collisions at sea.⁵⁴

When the Senate eventually upheld the judgment of the Odessa court, the NSSIA requested further diplomatic assistance for their petition to the Tsar, on the advice of their solicitor in Odessa, a Mr Antonini. Antonini stressed that the intervention should take place in a non-official manner. The British representative at St

⁵³ TNA, FO 65/1424, f. 197, NSSIA to Rosebery, 19 November 1892; FO 368/577, f. 12991, Board of Trade to Grey, 1 January 1906.

⁵⁴ TNA, FO 65/1424, f. 197, NSSIA to Rosebery, 19 November 1892.

Petersburg should ‘call the attention of General Richeter... to the importance of the case, on the irregularities of the judgement of the IV department of the senate and on the necessity to submit it to the general assembly of the ruling senate’.⁵⁵ It appears that during this case, the NSSIA and their agents expected that the British diplomatic service in Russia could achieve reasonable results in support of their case whilst it was before both the Senate and the Office of Petitions. In this case both Antonini and the NSSIA assumed that diplomatic intervention in a case before the courts could have positive results; in reality such action was never countenanced by British diplomats while cases were *sub-judice*.

British companies that undertook direct investment in Russia expressed similar confidence in the power of British diplomats to intervene in court cases. In March 1899, Colonel John Denny, of the shipbuilding firm Denny & Co., contacted the Foreign Office regarding some difficulties that his business partners, the Amur Steam Navigation Company, had encountered in their dealings with the Russian government. According to Denny, this company had been contracted by the Siberian Railway Committee in 1895 to build and operate a fleet of five steamships and fifteen steel barges on the Amur River.⁵⁶ In return they had been given a loan of 500,000 roubles, as well as a contract guaranteeing a certain volume of government railway traffic amounting to over three million poods over a period of five years. The Amur Company proceeded to purchase and construct the required shipping from British companies. The fifteen barges were furnished by Denny & Co., and one steamer was purchased from Armstrong & Co. and Alley Maclellan & Co., respectively.⁵⁷ However, due to the Sino-Japanese war and the subsequent rerouting of the Manchurian railway, Denny claimed that after the company had erected the required shipping at a total cost of 1,400,000 roubles, during 1896 and 1897 the company only carried 1,000,000 poods worth of railway goods. During 1898 this dropped sharply to 100,000 poods, as opposed to the contracted 670,000, and in 1899 the company was informed by the Siberian Railway Committee that no more goods could be assigned to them.⁵⁸

⁵⁵ TNA, FO 65/1459, ff. 89-90, De Antonini to E. Schofield (Copy), 23 August 1893.

⁵⁶ TNA, FO 65/1584, f. 10, Denny to Scott, 4 March 1899.

⁵⁷ TNA, FO 65/1617, f. 305, Denny to John Brodrick, 12 September 1900.

⁵⁸ TNA, FO 65/1595, f. 95, Denny to John Broderick, 10 January 1899.

Accordingly, a commission was convened in order to determine the amount of compensation that was due to the Amur Company on account of this breach of contract by the Russian government. Denny stated, however, that the work of this commission was being held up by counter-charges bought by the government. The government claimed that the shipping season on the Amur from 1897 to 1899 had been shorter than usual, and that the government was therefore not responsible for a dip in the profits of shipping companies on the Amur in these years.⁵⁹ Colonel Denny, in a letter to the Foreign Office, requested that the British ambassador at St Petersburg should make diplomatic representations to the Russian government on the subject of the amount of compensation due to the Old Amur Company due to the Russian Government's breach of contract and seizure of the company's ships, which was at that point being determined by the commission.⁶⁰

In response to this request, Hardinge's position was that the Foreign Office could not intervene in such a case that was still before the special commission.

I consider that under the circumstances the only action which I can properly take is to seek the first fitting opportunity of calling M. Witte's attention privately to colonel Denny's letter to His Excellency's representative in London, and to the importance and influence of the interests at stake, and to urge the advisability of a prompt and generous settlement of the Company's legitimate claim.⁶¹

Hardinge was later able to call Witte's attention to the case in a private manner and to draw his attention to the 'commercial interests directly involved in the prompt and equitable settlement of a claim, which I understood, was not disputed by the Imperial Government...'⁶² There clearly existed an information gap in this case between the influence Colonel Denny and his company believed British diplomats could use on their behalf, and the constraints that British diplomats operated under in the period.

⁵⁹ TNA, FO 65/1585, f. 103, Hardinge to Salisbury, 23 March 1899.

⁶⁰ TNA, FO 65/1617, f. 305, Denny to Broderick, 12 September 1900.

⁶¹ TNA, FO 65/1585, f. 103-4, Hardinge to Salisbury, 23 March 1899.

⁶² TNA, FO 65/1585, f. 114, Hardinge to Salisbury, 4 April 1899.

Further legal complications in the Russian courts led to further appeals for diplomatic assistance in this case. In 1902, its passage through the Russian courts had been delayed by government obstruction. The government claimed that the paperwork guaranteeing the amount of railway traffic to be connected with the steamship concession, a crucial feature of the contract undertaken by the Old Amur Steamship Company, was not legally in the company's possession and could not be used as evidence for the amount that the company was owed in compensation.⁶³ It was because of the arguments advanced by counsel on behalf of the Russian government that Denny believed that diplomatic action was required.⁶⁴ Citing the delay and the cost associated with the length of time the case had been before the Russian courts Denny wrote to the Foreign Office, demanding further diplomatic intervention in the Russian justice system.

The English Bondholders of the Amur Company urgently begs the Foreign Office to use its immediate and most urgent endeavours with the Government of H.I.M. to prevent the very serious losses with which they, being British subjects, are threatened owing to the acts of local officials for whom the said government is undoubtedly responsible. Nothing short of the immediate payment to the Company of a very considerable sum of money say from 3/4 to a million roubles can save it from disaster and if the exact amount of compensation cannot be settled (as is probable) at once, this need cause no difficulty as the whole fleet and other property of the company to a far greater value is at the command of the Russian government.⁶⁵

This clearly shows how powerful the perception was among British capitalists that Russian courts could be influenced by ministers and diplomats, especially when such companies operated in areas of the economy that Witte held to be important, in this case industries connected to the trans-Siberian railway.

Other requests for British diplomatic intervention into cases before the Russian courts indicate that similar assumptions to those of the Amur Company were held by other British companies operating in Russia. In February 1895 the British engineering firm Thomas Wilson & Sons sought assistance from the British ambassador in St Petersburg in support of a petition before the Senate that arose as a result of disagreements with another British company, Bailey Leatham & Co.

⁶³ TNA, FO 65/1647, f. 151, Scott to Lansdowne, 14 May 1902.

⁶⁴ TNA, FO 65.1657, ff. 184-85, Denny to Lansdowne, 27 May 1902.

⁶⁵ TNA, FO 65/1617, f. 311, Denny to John Brodick, 12 September 1900.

The two firms had initially decided to share a government contract for municipal works, but disagreements between the firms had caused the former company to petition the Russian government to undertake the contract on their own.

According to Lascelles, the only action that he could take was to raise the issue of the petition with the Minister of Ways and Communications.⁶⁶ The British company in this instance seems to have assumed that British diplomats could influence the passage of a case, and that the successful acquisition of contracts for municipal works depended upon successful use of personal contacts, and that only firms with contacts with the British ambassador in St Petersburg could successfully bid for government contracts and move into the Russian market.

The increase in British investment, especially in Caucasian oil and Siberian mining industries, brought about a new host of court cases surrounding taxation of properties and profits of these companies. For example, in 1908 the Troitzk and Orsk gold mining companies contacted the Foreign Office regarding taxation by the Russian government. These two mining concerns had been purchased from their Russian owners that year, and were operated as English companies registered in Russia. In 1907 the Russian tax authorities taxed the companies on the basic gold production projections for the whole of 1906, even though they had only acquired the properties in October 1906, and as such had not made any profits that year.⁶⁷ This action is similar to that of another British financed manufacturing firm, Hilferich-Sadet, in Kharkov. This company stated that additional taxes had been applied to their firm that included capital expended on the cost of new buildings and plant. This firm also advocated the strategy of British diplomatic staff pointing out to the Minister of Finance that the enforcement of such taxes would have the effect of driving foreign investment away from Russia, and did not request assistance with their appeal to the Senate.⁶⁸

⁶⁶ TNA, FO 65/1496, ff. 152-55, Lascelles to Kimberley, 12 February 1895.

⁶⁷ TNA, FO 368/217, f. 30006, Goldie to FO, 28 August 1908.

⁶⁸ TNA, FO 368/323, f. 16258, Blakey to Smith, 27 April 1909.

However, unlike previous cases in the 1890s and early 1900s there was a very clear distinction between the actions that the British company took in the Russian courts against the tax assessments of the local authorities, and the diplomatic assistance that the British company requested from the Foreign Office. The Troitzk and Orsk gold mining company drew the Foreign Office's attention to the phenomenon of the Russian tax authorities using irregular methods to calculate income tax, pointing out the prejudicial effect this would have on British interests, 'If English capitalists are subject to these exactions, they will certainly cease to invest in Russian enterprises.'⁶⁹ Therefore although they recognized that British representatives could not interfere in cases before the courts, they still assumed that appeals to the importance of British investment in Russia could produce effective results.

Although it was noted that the process of obtaining redress might be protracted, the case of the Troitzk and Orsk Oilfields Companies does not indicate a lack of confidence in Russian commercial justice. According to the British consul at Kharkov, Charles Blakey, the company had not asked for assistance in the case: it had 'the right to appeal to the Senate, but in the meantime the extra assessment has to be paid, and the decision in the senate takes years'.⁷⁰ Although the application of the tax was deemed to be unfair, the company mainly blamed the 'extremely vague lettering of the law that makes it possible for the allocation board to draw up arbitrary calculations'.⁷¹ Although local authorities had implemented the law in the case in a way that was deemed to be unfair, this was not associated with a more general arbitrary government of the affairs of companies by the Russian government in the period after the industrial downturn and before 1914.

Where British businesses attempted to involve British ambassadors in incidences that had been before the courts, they attempted to invoke British influence after the case had been heard. For example, in the case of Briskin Brothers, the British company attempted to involve British diplomats after the court case had been concluded. The

⁶⁹ TNA, FO 368/218, f. 28280, Goldfields to PUS, 12 August 1908.

⁷⁰ TNA, FO 368/321, f. 93, Charles Blakey to Smith, 22 December 1908.

⁷¹ TNA, FO 368/323, f. 9696, Goldfields to FO, 12 March 1909.

British company acquired two timber concessions in the Crimea in 1911, but did not obtain permission to undertake operations in Russia until 1912. Part of the original agreement was that the Russian landowners would sign over the concession upon the British company gaining their charter, however after this date the Russians refused to sign over the land or even let British representatives examine company books and documents. The British company took the case to the Simferopol court, but lost the case due to legal technicalities in the original contract. They applied to the Foreign Office requesting that they use diplomatic influence in St Petersburg in the hope that diplomats could use their influence with the Russian government in order to resolve their situation, as they recognised that the letter of the law had been applied in their case, but on the basis of a technicality that they regarded as unjust.⁷² The British company was eventually unsuccessful; the Foreign office replied that they could not take any action in such cases until all of the company's legal avenues had been exhausted, and even then there was little that they could do. Cooke commented on the case that it was typical of many British companies in the later part of the period in question, who entered into agreements and investment in Russia with little care an attention.⁷³ Therefore the British company did not attempt to involve the Foreign Office in a case before the courts, and understood the impartiality of the Russian courts to outside influence. It indicates that they believed that British influence could be used to alter Russian economic policy in order to make such a judgement on a technicality invalid, a significant change from earlier cases covered in this chapter.

It is important to note that many requests from British companies in the period arose as a result of an expectation that their companies should be treated in accordance with British law, as a result of an Anglo-centric world view among some British companies. In the case of the Amur Company, this perception can be connected to underlying assumptions that the Russian government would act arbitrarily in order to protect its interests, regardless of the law. Although the Russian government admitted the breach of contract in this particular case, the subsequent complications that occurred in the case regarding the amount that would be due to the company and the delay caused to the company obtaining redress as a result were often cast in terms

⁷² TNA, FO 368/1074, f. 17318, Briskin Bros to FO, 18 April 1914.

⁷³ TNA, FO 368/1074, f. 17318, Law to Briskin Bros, 27 April 1914, f. 17318; Cooke to FO, 22 April 1914.

of the arbitrary nature of the Russian government. This can be observed in Denny's request for diplomatic intervention to determine the level of compensation to be awarded to the company.

Since then [The government's admission of wrongdoing] matters have not progressed in any way except insofar as bringing the case before the Courts of Justice. The Russian government freely admit the claim, and have made a ridiculous offer of compromise, and the matter has therefore had to come before the Courts. There are several other instances of gross ill treatment over and above this particular one, but the last has occurred since the war [the Manchurian war] broke out. The Russian government have seized a number of the company's steamers for their service, and have done nothing in the way of compensating the company. This treatment is so opposed to what ought to have been expected, and to what our own government, for example, metes out to its own citizens, that I am sure you will not hesitate to represent on our behalf.⁷⁴

Their treatment is directly compared to the treatment that would have been accorded to them at the hands of the British government, suggesting that they believed that their company should have received the same treatment in Russia as it would do in Britain. Denny further stated that, 'Whatever be the absolute truth, the case as made out by Mr Hardinge is to my mind bad enough to make any government thoroughly ashamed of itself'.⁷⁵ After the submission of Hardinge's official representation to the Russian government, Denny requested that the British representatives in St Petersburg should remind the Russian government of their official representation, stating that, 'You will never get much out of them unless you keep poking them up.'⁷⁶ Therefore, some British companies certainly compared their treatment to what they would have received in Britain, and it is likely that many requests arose out of these expectations, although this is the only example of a company comparing Russian justice to British justice in the diplomatic archives.

Whether or not a request arose due to the expectation that the company should be treated according to British law, it is significant what sort of action British companies believed the diplomatic service should take, which in most cases before

⁷⁴ TNA, FO 65/1617, f. 305, Denny to Broderick, 12 September 1900.

⁷⁵ TNA, FO 65/1617, f. 340, Denny to PUS, 27 October 1900.

⁷⁶ TNA, FO 65/1617, f. 356, Denny to PUS, 20 November 1900.

and during the industrial downturn amounted to diplomatic involvement in cases that were *sub judice*. This suggests that the inconsistencies of the Witte system had a knock on effect on the assumptions held by British companies about the Russian justice system and the role of the state in the justice system. These perceptions were altered as a result of stricter government policy after the end of the industrial downturn of 1900-1906.

The circumvention of the Russian courts

British companies at the beginning of the period also believed that British consuls and diplomatic staff could completely circumvent the Russian law courts in certain cases. Unlike the requests for diplomatic involvement in cases before the courts, requests for British diplomats to assist British companies in circumventing the Russian courts occurred throughout the period in question, suggesting that even though British companies formed stable assumptions about the Russian judicial system, there still remained a great deal of uncertainty about the actions that the Russian government could take in cases outside of the court system.

Many of these requests resulted from distrust in the ability of local Russian courts to enforce the law, especially in peripheral provinces of the Russian Empire. In 1894 the Foreign Office became involved in a case that arose as a result of Samuel & Co.'s attempt to load oil onto their tanker, *Clam*, from a government railway pipeline, to which Nobel claimed sole right of use. According to Samuel & Co., Nobel fixed a padlock to a section of the valve, and refused to give up the key. When the captain of the *Clam* appealed to the local stationmaster, this official ordered the padlock to be broken in the presence of a gendarme. Undeterred, Nobel proceeded to uncouple the *Clam* in the night, and to attach the railway pipeline to one of their steamers. The whole process caused a great loss to the British company, who pointed out to the Foreign Office that they had sunk capital amounting to over £2 million into the distribution of Russian oil to the Far East.⁷⁷ The first traces of the case appear as part of a request by Samuel & Co. for

⁷⁷ TNA, FO 65/1503, f. 259, H. Samuel to FO, 9 September 1895; FO 65/1496, ff. 282-83, Stevens to Lascelles, 29 July 1895.

diplomatic assistance in St Petersburg in conjunction with its legal proceedings against Nobel.

We are much gratified to inform you that the opinion of Mr. Bienstock (the lawyer with whom Her Majesty's Consul General at St Petersburg placed us in communication), is unequivocally in favor of the fact that the action of Messrs. Nobel in interfering with the loading of our SS *Clam* is absolutely illegal, and that they have rendered themselves liable for damages and to a criminal prosecution.

We crave the assistance of the Foreign Office in placing these facts before the Russian Government.⁷⁸

It is worth considering what Samuel & Co. wanted the British Embassy to do in this case. It is evident from further correspondence that the company was going to initiate legal proceedings in Russia against Nobel.⁷⁹ The British company in this case clearly assumed that for their litigation to be successful, diplomatic action in St Petersburg would be required. In the end, Samuel & Co. decided to abandon legal proceedings having been informed '...that there would not be the slightest chance of getting justice done there'.⁸⁰ This particular case also points towards a very inadequate enforcement of the law in areas such as Batumi, where central governmental control was weak and the activities of companies often went unchecked. According to Stevens, the British consul at Batumi, Nobel had managed to obtain exclusive use of the pipeline in the area by forming an illegal syndicate of major oil producers in the region. Yet Nobel seem to have been able to act with impunity according to a telegram from L. Samuel in Batumi.⁸¹ It is worth noting, however, that in this instance the British diplomatic service in St Petersburg initially declined to offer diplomatic assistance to the firm, because it was believed that there was every reason to have confidence in the court at Batumi, and that they could later carry the case to St Petersburg if the court at Batumi found against them. There was also a recognition that British diplomatic staff could not interfere with the Russian legal system, however this attitude was clearly not shared by the company involved.⁸²

⁷⁸ TNA, FO 65/1503, f. 259, H. Samuel to FO, 9 September 1895.

⁷⁹ TNA, FO 65/1503, f. 266, H. Samuel to FO, 13 September 1895.

⁸⁰ TNA, FO 65/1503, f. 274, Samuel & Co. to FO, 24 September 1895.

⁸¹ TNA, FO 65/1496, f. 302 Joseph Bienstock to M. Samuel & Co., 12 August 1894; f. 291, Telegram from L. Samuel to Samuel & Co., 20 July 1894.

⁸² TNA, FO 65/1503, f. 325, PUS to H. Samuel, 2 November 1895.

Lack of confidence in the Russian courts in the peripheral areas of the Russian Empire is also evident in the case of the Anglo Continental Produce Company Ltd. In August 1905 the company wrote to the Foreign Office concerning a shipment of butter that the company had ordered from Messrs Brandt Bros. of Petropavlovsk. Brandt was obligated to supply the British company with 10,000 barrels of Siberian butter. However, part of the shipment was defective and not to the standard of the original contract. The British company subsequently took court action and were issued with a writ from the British courts for £1,558 in damages. Brandt then returned to Siberia and obtained a judgement from the Siberian courts against the English company for the sum of 14,061 roubles. According to the English company, this was obtained because of the defective nature of the Russian courts.

How such judgement was obtained is not known. My clients have no agent in Siberia, and there is no person representing them upon whom any summons or like paper from the Russian Court could be served, and they have had no notice whatever of any claim having been made against them, so that they could defend it. It is thought that the judgment has been obtained by Messrs. Brandt by a false statement of facts, and also of bribing the Court Officials. The result it, that about £1,400 worth of butter which was being dispatched from the railway station at Omsk to my clients has been seized by Messrs. Brandt under the authority of their judgement.⁸³

Further, if Siberian courts could pass such a judgement so easily on the basis of such false statements, trade to Siberia would become quite impossible, according to the company.⁸⁴ It therefore requested that British diplomats intervene in a dispute that had already been before the courts, as they felt that it would be impossible to overturn such a decision using normal legal means of appeal in the Russian legal system. British diplomatic action in this case was able to secure the release of the goods, through the use of a diplomatic note to the Russian government, illustrating the reach and influence of British diplomatic action with the Russian government in 1905.⁸⁵

Revolutionary turmoil in 1905 affected some peripheral parts of the Empire particularly severely, and in many areas such as the Caucasus became conflated

⁸³ TNA, FO 65/1723, ff. 225-26, J. W. Browne to FO, 9 August 1905.

⁸⁴ TNA, FO 65/1723, f. 226, J. W. Browne to FO, 9 August 1905.

⁸⁵ TNA, FO 65/1711, f. 238, Hardinge to Lansdowne, 18 August 1905.

with ongoing banditry and organised crime.⁸⁶ In the aftermath of these disturbances, British companies in search of redress looked not to local courts but rather to the diplomatic mission in St Petersburg and to its local consular officials. In the case of the Chatma Oil Fields Company, the Cossack guards posted at the approaches to the oil fields left their posts during the upheavals, and the company's property was destroyed in revolutionary disturbances, at an estimated cost of £35,000.⁸⁷ At the point at which the company began its correspondence with the Foreign Office, the company was still maintaining engineers at £10 a day, but was unable to carry on with its work until it had obtained assurances that the Russian Government would grant compensation or furnish with a loan. Diplomatic action was requested by the Chatma Oil Fields Company because it assumed that there was little prospect of being able to obtain the immediate redress through the local courts, the company only just having set up business paying significant overheads. In this case, the company's aim was to circumvent the Russian courts entirely.⁸⁸

The ambassador's subsequent correspondence with the Russian foreign minister indicates that the British diplomatic mission in St Petersburg concurred with the view of the company that there was little prospect of getting redress from the local courts. Nicolson stated that even if the culprits were caught, 'the company is well aware that no compensation can be expected from any legal proceedings which may be instituted against the marauders'.⁸⁹ Due to the unrest prevalent in the region in 1907, and the immediacy of the case, diplomatic action in this case cannot be viewed as an interference in the Russian justice system. However it does indicate that British companies placed little trust in the effectiveness of local justice.

British attempts to circumvent the courts partly arose out of misunderstandings of the jurisdiction of various Russian government bodies. This can be demonstrated

⁸⁶ Ascher, *The Revolution of 1905*, 223.

⁸⁷ TNA, FO 368/123, f. 11906, Nicolson to Izvol'sky, 27 March 1907.

⁸⁸ TNA, FO 368/123, f. 10739, Ernest Scott to Law, 3 April 1907.

⁸⁹ TNA, FO 368/123, f. 11906, Nicolson to Izvolsky, 27 March 1907.

in the case of Thomas Garfitt & Son, who contacted the Foreign Office in 1906 due to the non-payment of a contract by the Novouzensk zemstvo in Samara province for agricultural machinery, requesting that British diplomats pursue the Russian government for payment of the contract. On further investigation of the case by Nicholson, he was informed by the Russian foreign minister that the zemstvos were a separate body from the government, and that Messrs Garfitt's proper course of action was to bring an action against the debtors under the zemstvo articles. The Ministry of the Interior was able, however, to contact the governor of Samara province, requesting him to urge the zemstvo to discharge their obligations to the company.⁹⁰

5.3 Conclusion

Requests by British companies to the Foreign Office and diplomatic mission in St Petersburg indicate a number of significant continuities over the period 1892 to 1914. Most significantly, Russian economic regulations were viewed as being the product of a highly arbitrary system that was not necessarily bound by law. British shipping and trade companies requesting British diplomats to intervene in customs disputes in the first half of the period attests to this view; it was common for British companies to view these regulations as being arbitrarily imposed to hurt British trade, or on the whim of the local customs authorities without authorization from St Petersburg. The perception of the flexibility of regulations in this particular field was sustained among British companies that undertook direct investment in Russia, influenced by Witte's tendency to grant special concessions and exemptions for various companies. Although this practice did not outlive Witte's tenure as Minister of Finance, British companies continually requested British diplomats to obtain exemptions from customs throughout the period. This phenomenon was translated to British companies throughout the period requesting special exemptions from a large amount of various regulations surrounding foreign joint-stock companies in various industries.

⁹⁰ TNA FO 368/45, f. 28584, Thomas Garfitt & Son to FO, 4 August 1906, f. 26989; Nicholson to Grey, 24 September 1906.

This perceived arbitrariness in regulations was also mirrored in the way that British companies treated the courts in Russia. Before the revolution of 1905 British companies commonly expected British diplomats to intercede on their behalf in cases that were before the courts. Although this trend disappeared with the new conservative economic policy direction of the government after 1905, British companies continually used the Foreign Office in order to attempt to circumvent the Russian courts throughout the period. This was partly due to the way that Russian justice was perceived to be deficient, especially in peripheral areas, and slow to act. However, it also indicates a widespread opinion among British companies that the Russian court system was open to manipulation by the government. Although it was recognized that British diplomats could not intercede in court cases towards the end of the period, it is likely, and the evidence bears this out, that British companies altered their tactics to circumvent the court system entirely instead.

These findings have several implications for whether a law governed state in the field of government-industrial relations evolved in Russia before 1914. The first is that the Russian government failed to foster concrete expectations among British companies of Russian rules and regulations relating to various aspects of trade. This could in part be due to common perceptions of Russia in Britain in the 1890s, however, Witte's tendency to grant various special exemptions in an arbitrary manner certainly made an impact on British companies and did not work to the fostering of any expectations of due process or the building of trust. Secondly, it highlights the importance that personal connections had in doing business in Russia; British companies appealed to the foreign office to use their personal connections with the Russian government in order to pursue a successful outcome of their cases. This is an aspect of these particular appeals that appeared constantly throughout the period, as well as requests to provide assurances to the Russian government of particular firms' respectability. This indicates that British companies placed little or no trust in Russian regulations and commercial law,

instead tending to rely on the effectiveness of the personal contacts of British diplomatic and consular staff in Russia to resolve their cases.

A limitation of these findings is that it is difficult to determine to what extent these requests were conditioned by perceptions of the Russian government common in British society at the time, or whether this lack of trust resulted as a direct consequence of business activities in Russia. This requires an analysis of how the Russian government provided redress to British companies throughout the period, as will be examined in the next chapter.

6. The Provision of Redress for British Companies

Of central importance to this study is the ability of British companies to claim redress from the Russian government where it overstepped the law. A key aspect of the power of individuals against the state is that such methods of holding the government to account are publicly declared, widely disseminated and consistently applied.⁹¹ This approach has been applied to the study of trust in past societies. Hosking, for example, recently suggested that when the modes for the provisions of redress from governments break down or become unclear, a ‘trust breakdown’ within society emerges along with a division between the government and the general population. Breakdowns of trust are instrumental in exacerbating tensions between the government and civil society, a process that has much significance for the study of the Russian government’s relations with the emerging civil society between 1892 and 1914.⁹²

This chapter asks whether such a framework of redress and accountability based on law existed in the relationship between the Tsarist government and British multinationals in Russia before 1914. As this thesis has already shown, an important component of Witte’s project to encourage foreign investment in Russia was the promotion of the rule of law in government-industrial relations. In doing so, Witte faced considerable opposition from many governmental agencies that sought to preserve the use of arbitrary power in order to protect state interests against the perceived threat posed by foreign owned companies, as well as the inherent contradiction in the autocratic manner in which he implemented his system. This chapter addresses two interrelated questions: to what extent did Witte’s reforms affect the provision of redress for British companies in the period, and to what extent

⁹¹ Formalistic definitions of the law governed state focus solely on the framework of procedural guidelines of the law, whereas substantive definitions assumes the justness of the law itself, proscribing certain conditions that are derived from the rule of law such as the freedom of the individual. Both assume that the law in a law governed state is implemented uniformly and is widely disseminated and understood. Paul Craig, ‘Formal and Substantive Conceptions of the Rule of Law: an Analytical Framework’, *Public Law* (1997), 1-15; Mathew Stephenson, ‘Rule of Law as a Goal of Development Policy’, World Bank Research (2008).

⁹² Geoffrey Hosking, *Trust: A History* (Oxford: Oxford University Press 2014).

was such a framework recognized by the British industrial community in Russia as it attempted to claim redress from the Russian government.

This section focuses primarily on two cases: the case of the Amur Steam Navigation and Trade Company 1899-1903, and the case of Vickers's construction of the cruiser *Riurik*, 1907-1913. Both cases involve questions over a similar point of law, that of the validity and applications of terms of contracts agreed between a company and the government. In the case of the Amur Company, the case revolved around a breach of contract by the government on two points: it under-delivered stipulated amounts of military freight due to geopolitical changes caused by the Boxer Rebellion in 1900, and undercompensated the company for the requisition of its vessels for the transportation of troops during Russian military operations in Manchuria in the same period. In the Vickers case, the Russian government was deemed by the British company to have penalised the company excessively for the delayed construction of the *Riurik*, contrary to the stipulations in the contract agreed in 1907. In both instances the British companies were able to obtain redress from the Russian government, but as the following section demonstrates, this process was strewn with significant obstacles.

These two studies are supplemented by a selection of cases concerning British companies involved in the Caucasian oil industry and shipping on the Black Sea. These sectors were particularly sensitive for the Russian government since it viewed these oil- rich lands as a particularly important national asset. The companies in question also commonly sought the aid of British diplomatic staff in their disputes with the Russian government, whose intervention provides a unique perspective of the provision of redress for British companies.

Both of the major case studies covered by this chapter involved the intersection of the lawful observation of contracts and the interests of various departments of the Russian government, generally characterised as being in the interest of the Russian state as a whole. Although an attempt was made by Witte and the Ministry of

Finance to make the provision of redress to foreign companies dependent upon the law, discussions of contextual considerations of state interests in the cases played a significant, if not decisive role in the interpretations of the relevant contractual stipulations involved in each case.

The law on government contracts in Imperial Russia was first codified, along with laws on property, by M.M. Speranskii between 1825 and 1830 in an attempt to contribute to the development of a modern economy.⁹³ A fairly standardized system of contract law therefore existed in the period 1892-1914 comprising a loose collection of legislation and rulings of various courts that had been promulgated before 1826, and in some cases as early as the seventeenth century.⁹⁴ Of these laws the significant points were that the stipulations of an agreement signed by two parties, including the government, were legally binding so long as the terms of the agreement did not contravene the laws of the Russian Empire. Of course, given the multiple sources of law and the contradictory nature of the *PSZ*, with its multitude of overlapping statutes, considerable scope still remained for the negation of contracts.⁹⁵ The historian therefore needs to examine the process by which companies were granted redress, considering whether contracts were disputed due to procedural issues, i.e. because the terms of the contract contravened a particular law, or whether they were disputed on grounds of state interests.

6.1 The case of the Amur Steam Navigation and Trade Company

In 1895 the Ministry of Ways and Communications put out to tender a government concession of a steamship company on the Amur River. As well as being responsible for the delivery of postal freight the company was guaranteed by the government to receive a minimum of one million poods of government freight a year relating to the construction of the trans-Siberian railway and other governmental construction

⁹³ M. Raeff, *Michael Speransky: Statesman of Imperial Russia, 1772-1839* (The Hague: M. Nijhoff, 1957), 335.

⁹⁴ *SZ* Tom. X Kn. 4, 1528-53.

⁹⁵ Pipes, *Russia Under the Old Regime*, 298; Zyrianov, 'The Development of the Russian State System', 115.

projects in the region, in return for the company undertaking a stated capital investment in the region of five steam ships and twenty barges of a certain tonnage. Crucially, because this project was aimed at attracting foreign capital, the contract included penalty clauses for the non-delivery of this stated amount of freight on behalf of the government. Of significance for the following investigation, the contract also included a clause detailing the compensation to be paid to the company in the event that the company's ships should be requisitioned for military purposes.

This concession was taken up by the British company, subsequently named the Amur Steam Navigation and Trade Company, drawing its capital primarily from the City of London. According to the documents on the case presented by the Ministry of Ways and Communications, in 1896 the government exceeded its freight obligation, and in 1897 it under-delivered by a very small margin. However, between 1898 and 1903, the government delivered on average only 150,000 poods of freight, substantially less than the contracted amount.⁹⁶ This was due to the re-direction of the trans-Siberian railway as a result of Russian military intervention in Manchuria during the Boxer rebellion in China. The Boxer rebellion also resulted in the requisition of some of the company's ships and barges for the transportation of Russian troops in the region in 1900. Under the terms of the 1895 contract, the Russian government was therefore obliged to compensate the company for the non-delivery of freight from 1897 to 1902, and for the requisitioning of its ships in 1900.⁹⁷

In 1903 both the Amur military council, Witte, and the State Comptroller agreed that the company had the 'indisputable right' to receive compensation as set out in the terms of the 1895 contract, and that the company's carriage of private freight should not be considered as deductible from the total amount of undelivered government freight. From this point forward, discussions between the Ministry of War, the Ministry of Ways and Communications, and the Ministry of Finance were based on disputes of the company's calculations of the amount of freight delivered, and the

⁹⁶ RGIA, f. 1203, op. 1 d. 1, l. 5, Petition of the Amur Company to the Ministry of Finance, 9 February 1903.

⁹⁷ RGIA, f. 1203, op. 1 d. 1, l. 5-8ob, Petition of the Amur Company to the Ministry of Finance, 9 February 1903.

distance that the freight was transported, the latter two ministries asserting higher figures than the company had submitted.⁹⁸ Witte and the State Comptroller also intervened in the separate case of the calculation of the remuneration to be paid to the company for the requisition of their ships for the purpose of transporting Russian troops in 1900, both stating that the company should be remunerated according to the terms of the original contract.⁹⁹ These interventions show the influence and effect of Witte's attempts to create a defined legal framework for the provision of redress for foreign companies from the government, and his success in forcing the government to act according to the law and the 1895 contract is significant, especially in comparison to earlier cases from the 1890s where state interests received more weight in government and judicial decision making, as discussed below.

Witte's interventions in this case, however, were symptomatic of the fact that there was a significant level of opposition to the observance of contract law within the other ministries and organs of the Russian government, and that despite his success in enforcing the rule of law in this case, his goal of a clear legal framework for government-industrial relations was not quite a reality at this stage. In the case of the Amur Company's claim for the non-delivery of freight, the Minister of War initially claimed that to compensate the company at the level of the 1895 contract would not only be ruinous for its own budget, from which compensation would be taken, but 'against the interests of the Russian government in general'.¹⁰⁰ This suggests that according to the Ministry of War, specific state interests, here defined as the protection of its own budget, should override the law of contracts in this case; the Minister did not attempt to make the legal argument that the contract was legally invalid. It is worth noting, however, that this intervention was in response to the local Primorsk military council, which had previously decided that the Amur Company should be compensated according to its original contract, suggesting Witte's efforts had a limited initial effect on local organs of government.¹⁰¹

⁹⁸ RGIA, f. 1203, op. 1 d. 1, l. 212ob, Review of the claim of the Amur Company 28 March 1895.

⁹⁹ RGIA, f. 1203, op. 1 d. 1, l. 19-19ob, Journal of the Military Council, 10 October 1902.

¹⁰⁰ RGIA, f. 1203, op. 1 d. 1, l. 18, Ministry of War to the Primorsk Military Council, 30 November 1901.

¹⁰¹ RGIA, f. 1203, op. 1 d. 1, l. 18, Ministry of War to the Primorsk Military Council, 30 November 1901.

Similarly, the Amur Company's claim for compensation for the requisitioning of their vessels hit extra-legal obstacles of considerations of state interests. According to the company's petition to the Tsar in 1903 the local military council set the levels of remuneration for all ship owners on the Amur well below the level stipulated in the company's original contract. This finding was later reviewed by a military commission, which found that although the company's charter stipulated the level of remuneration it should receive, the company should receive the level set by the local military council.¹⁰² When a separate commission convened for the purpose of transporting Russian troops to the Far East suggested that the company should be paid compensation as per its original charter, the Minister of War overruled this decision on the grounds that it was impermissible to do so for the entire fleet of the Amur Company; and that in any case the levels of remuneration should be lowered because the company had recourse to private shippers to carry out their freight obligations.¹⁰³

The Minister of War objected to Witte and the State Comptroller's intervention in the case, asserting first that his ministry and its local organs had the right to set the amount of compensation in cases of requisitioning, and secondly that the amount of compensation to be given to the company would be 'unprofitable and ruinous' for the ministry, and unnecessary because by 1903 the company had effectively ceased to be operational.¹⁰⁴ Other extra-legal arguments, unrelated to the provisions of the 1895 contract, were advanced, such as the assertion by the Primorsk military council that the water levels of the Amur and Shilk rivers were very low during the navigation season of 1900 making freight operations particularly unprofitable that year. On this basis Lieutenant-General Nidermislser suggested a reduction of 2 per cent of the contracted figure of compensation.¹⁰⁵

¹⁰² RGIA, f. 1203, op. 1 d. 1, l. 7, Petition of the Amur Steam Navigation and Trade Company, 9 November 1903.

¹⁰³ RGIA, f. 1203, op. 1 d. 1, l. 7ob, Petition of the Amur Steam Navigation and Trade Company, 9 November 1903; f. 1203, op. 1 d. 1, l. 18, Ministry of War to the Primorsk Military Council, 30 November 1901.

¹⁰⁴ RGIA, f. 1203, op. 1 d. 1, l. 19ob-20, Journal of the Military Council, 10 October 1902.

¹⁰⁵ RGIA, f. 1203, op. 1 d. 1, l. 21, Journal of the Military Council, 10 October 1902.

As a result, although the Amur Company was eventually awarded compensation for the breaches of contract that occurred as a result of the Russian government's military activities in Manchuria to the levels stipulated in the original contract, there was still considerable opposition to the adhesion to the contractual obligations of the Russian government towards the company. Led primarily by the Ministry of War, these objections were not concerned with the technical terms of the contract itself and whether they contravened Russian law. Instead they were based on concerns that originated from the ministries' perception of the best interests of the state, which here can be equated with protection of the military budget in the Far East. Immediately after Witte's efforts to attract foreign capitalists, this case suggests that there was still significant conflict between Russian ministries over the state's ability to act arbitrarily in pursuit of its interests.

The resistance of some government departments to the implementation of the law in this case arose due to problems caused by jurisdictional crossovers in the Russian government. As we have seen, Russian commercial law gave various different ministries considerable oversight of the affairs of foreign companies, and this was extended to questions over the provision of redress to them. Although the case of the Amur Company was eventually determined by Witte and the State Comptroller, a substantial role in the process was played by the local Primorsk military councils. The company's initial claims for redress for the non-delivery of freight and the requisition of their ships were handled by the Primorsk military council and a specially convened military council respectively. Further appeals to the Ministry of Finance and the State Comptroller were constantly hampered by the interference of the Ministry of War, which was vehemently opposed to the Amur Company receiving compensation in line with the stipulations in its contract.

Even within the Ministry of War there appeared to be jurisdictional crossovers between the main office and the local commissions. For example, the commission headed by Colonel Volkivinsky found that the company should have been subject to special considerations in the determination of remuneration for the confiscation of its

vessels in 1900 to 1901, but was subsequently overruled by the Ministry of War.¹⁰⁶ The number of government agencies involved in the calculation of the losses incurred by the Amur Company as a result of the change of direction of the Trans-Siberian railway is also instructive in this matter; although the contract was originally under the purview of the Ministry of Ways and Communications, the final committee for the decision was composed of members of this ministry as well as the office of the State Comptroller, the Ministry of Finance and the management of the Trans-Siberian railway.¹⁰⁷

6.2 Vickers Ltd and the construction of the 'Riurik'

A similar process of negotiation between the perceived interests of the state and the necessity of following the law on contracts arises from the case of Vickers's construction of the cruiser *Riurik*, which was agreed in 1907 and finally settled in 1913. In this case, state interests worked in both directions between the various ministries involved; while the Admiralty was keen to protect its budgets, it seems that other elements of the Russian government including the State Comptroller sought to secure preferential treatment for the company, on the grounds that it possessed an important relationship with the Russian government for the supply of arms and associated expertise within the context of growing international tensions before the outbreak of the First World War. However, in this case, the Russian government followed the rule of law more consistently than it had done in the case of the Amur Company. However, there remained some key continuities, such as the problem of overlapping jurisdictions within the Russian government leading to inconsistent action in the case, and the British company attempting to appeal to state interests in their pursuit of redress.

Vickers, after an existing export relationship to Russia, was originally awarded the contract to construct the *Riurik* in the aftermath of the sinking of the Russian Far

¹⁰⁶ RGIA, f. 1203, op. 1 d. 1, l. 19-20, Journal of the Military Council, 10 October 1902.

¹⁰⁷ RGIA, f. 1203, op. 1 d. 1, l. 212ob, Review of the claim of the Amur Company.

Eastern fleet at Tsushima in May 1905. However, due to the Russian government's insistence on the use of Russian materials and Russian labour, the construction of the ship was significantly delayed. As these delays were mostly outside of Vickers' control, and lay, as the company argued, with Russian managers, workmen, and materials, the size of the penalty incurred was protested by Vickers. It was reduced in 1913, the difference between the original penalty and the reduced penalty being repaid to Vickers in the same year.¹⁰⁸

Although this case was eventually decided upon the provisions of the company's contract with the government, there was substantial opposition to the adherence to the contract by certain sections of the Russian government on the basis of safeguarding the interests of the state. In particular, the State Comptroller argued that it was in the state's interest to remit a portion of the fine. In their reasoning, the council of the State Comptroller cited the 'exceptionally difficult' circumstances of the delivery of the Riurik, and the firm's 'faithful execution' of the project. Thus the State Comptroller saw the company's good conduct and difficult circumstances as sufficient to reduce the financial penalty due to the firm by half. Here it is clear that the State Comptroller recognized the importance of acceding to the wishes of the company in part; during the deliberations on the case Vickers was in negotiation with the Russian government for the construction of a new arms factory in Tsaritsyn, clearly there were elements within the Russian government that felt that as a result Vickers should get special treatment as far as the rule of law was concerned.

On the other hand, the Admiralty advocated preserving the original level of the financial penalty applied to Vickers, on the grounds of protecting its budgets, while also making reasoned legal arguments relating to the contract itself. The Admiralty insisted on applying the letter of the contract and including the initial delay in the

¹⁰⁸ The logistics of Vickers' involvement in the construction of the 'Riurik', the delays in the construction of the same, and the proposed arms factory in Tsaritsyn have been extensively documented by Goldstein, 'Vickers Limited and the Tsarist Regime', and to a lesser extent by Scott, *Vickers: a History*. Goldstein and Scott do not, however, consult the Russian sources surrounding the reduction of the financial penalty imposed upon Vickers. The Russian insistence on the use of Russian labour and materials interestingly seems to have come from the Naval Minister, RGIA, f. 1276 op. 3 d. 628, l. 4, 30 June 1907.

fine while the State Comptroller attempted to have the fine only imposed from the time it took to make corrections to the towers.¹⁰⁹ This reasoning was eventually supported by the State Comptroller and the Ministry of Justice in 1913, on the grounds that to not adhere to these conditions would be against the law of contracts, given that it concerned the implementation of the terms of the 1907 contract.¹¹⁰ However, while the actions of the State Comptroller does indicate a respect for the necessity of upholding the law on contracts, in its final verdict on the case, ruling against a reduction in the size of the financial penalty, the State Comptroller pointed out that such a reduction would not be in the interests of the treasury.¹¹¹ These developments represents two conflicting conclusions: while the State Comptroller eventually overruled any attempt by other government agencies or the company itself to reduce the financial penalty due to the recognition of binding contractual regulations, it also stated that to do so would be against the interests of the treasury, implying a level of flexibility where government interests were involved. This suggests that the Admiralty in the Vickers case pursued the strict implementation of the contract for purely altruistic reasons of adherence to the rule of law.

Vickers were therefore unable to obtain any form of redress for the delay that they felt had been applied to them in a harsh or unfair manner, although the final resolution of the case was governed by the law on contracts. However, there was still a persistent trend from the earlier period of deference to state interests, both by the State Comptroller and the admiralty. In particular, the track record of hostility to foreign companies by the various ministries concerned with military matters where their interests clashed is a particularly significant continuity from the case of the Amur Company and the attitude of these ministries before Witte's reforms.

In contrast to the case of the Amur Company a more legalistic relationship between the ministries involved in the Vickers' case existed. In a letter to the governing

¹⁰⁹ RGIA, f. 1276 op. 3 d. 628, l. 152-60, Report of the committee of the State Comptroller to Kokovstev, 23 September 1911.

¹¹⁰ RGIA, f. 1276 op. 3 d. 628 l. 228ob-229, Ministry of Justice, 1st Department, 22 March 1913.

¹¹¹ RGIA, f. 1276 op. 3 d. 628, l. 191, Report on the Vickers case in the Governing Senate, 16 September 1911.

Senate in August 1912, the Minister of the Marine stated that on the basis of the most recent statutes of the management of the Naval Office the Senate did not have the ability to cancel such agreements made between the admiralty and third parties. Secondly, the referral of the case from the office of the State Comptroller to the Senate for review was incorrect, as the case did not meet the requirements for referral to the Senate set out in Statute 969 of the laws of the institution of the governing Senate, as the case did not require any clarifications of the general law. Thirdly, the case clearly fell within the remit of the Admiralty, and according to the guidelines on the matter cases did not qualify for removal to the Senate when the Admiralty was authorised to make a judgement on the case. Thus the Minister of the Marine in attempting to preserve the purview of his department drew on the institutional statute law of the governing Senate.¹¹²

6.3 Caucasian Oil and Siberian Mining

The Caucasian oil industries represented a similar intersection between state interests and the need to encourage foreign investment. Especially at the beginning of the period in question Russia lacked the domestic capital needed to exploit the oil reserves in the Caucasus and Witte recognised the need to employ foreign capital. However, the Russian government clearly had no wish to allow Russia's reserves of natural resources to fall entirely into the hands of foreign capitalists, and legislated strictly against foreign landholding in these areas. Moreover, the Caucasian oil fields were located in a strategically sensitive area close to the Ottoman and Persian borders. Although foreign and British capital moved into these regions much later, the Siberian mining industry exhibited a similar problem. While foreign capital was encouraged to enter these regions in order to develop Russia's natural resources, geopolitical tensions in the Far East led the Russian government to attempt to restrict the activity of foreign companies in Siberia. Throughout the period 1892-1914, the Russian government therefore acted according to a complex consideration of adherence to the rule of law and the protection of state interests when resolving disputes with British companies in these industries. The general picture that emerges,

¹¹² RGIA, f. 1276 op. 3 d. 628, l. 174-175ob, Minister of the Marine to the Governing Senate, 8 June 1912.

however, is one that follows the trends of the above two cases. During the 1890s, the government decided cases based upon state interests and to a very limited extent on the law, whereas after the industrial downturn cases were decided according to the law.

Before Witte's modernising reforms, the government in the oil-producing regions of the Caucasus clearly prioritised government interests above those of the law. For example, the British Anglo-Petrovsk Oil Company was unable to expand its share capital and land holdings in 1899; because, as the Minister of Foreign Affairs informed Witte, notwithstanding provisions allowing foreigners to engage in the oil business in the Dagestan region on the production of trustworthy certificates, such an increase in share capital and land for a foreign company was 'not appropriate to our interests in the region.'¹¹³

Such adherence to state interests as opposed to the law before Witte's reforms led to a sense that the provision of legal redress was unobtainable, especially when it clashed with state interests. In the case at the beginning of the period involving the sinking of the British ship *Penyghent* by the Russian ship *Tsar*, both British diplomats and consuls believed that the decision in the case at the local court at Odessa, and the outcomes of appeals lodged at the fourth department of the Senate and the office of petitions were motivated by preserving the interests of the Russian state. According to the British consul at Odessa, both ships were found to be at fault by the courts because the owners of the *Tsar*, the Russian Steam Navigation and Trade Company, had very close ties to the Russian government. The company was originally set up to arrange pilgrimages to the Holy Land and had not lost its benefaction and ties to the Romanovs.¹¹⁴ According to Stevens, 'It was quite evident that the *Tzar* was entirely to blame, nevertheless both steamers were condemned in order to prevent the owners of the *Penyghent* from recovering damages from the Russian Company.' He hoped that diplomatic influence could be exercised in St Petersburg, otherwise in his

¹¹³ RGIA, f. 20 op. 4 d. 4298, l. 80ob, Ministry of Internal Affairs to Witte, 31 December 1899.

¹¹⁴ Mosse, 'Russia and the Levant, 1856-1862'.

opinion, ‘a grave miscarriage of justice would occur’.¹¹⁵ Further, according to Stevens, the Russian company had also been involved in two other incidences where the courts had arrived at conclusions favourable to the Russian company, at odds with the facts of each case.¹¹⁶ Clearly, Stevens believed that state interests had overridden the observance of the law in these cases, and this opinion was shared by Lascelles in 1895.¹¹⁷ While it is difficult to analyse the legal validity of the rulings of the Russian courts on the basis of diplomatic reports, these reports show that the primacy of state interest over the law before Witte’s reforms led to a reduction in confidence in the effectiveness of justice and of obtaining redress in Russia due to the interaction of state interests and the law in its determination.

This situation can be contrasted to disputes between British companies and the Russian government in the Siberian mining and oil industries in the period after Witte’s reforms and economic downturn. British companies, while clearly being unaware of the procedures involved in the provision of redress, were generally treated according to the law. The Russian government, although taking a less friendly line towards foreign capital, also dealt with disputes with British companies according to the law much more commonly than in the 1890s. For example, in 1909 the British management of the Troitzk and Orsk goldfields petitioned the Russian government to dispute tax assessments on their properties in 1906, before their investments had begun to turn profits.¹¹⁸ The Russian government, however, ruled that Russian law had been applied in these cases, and that further diplomatic efforts by British diplomatic and consular staff on behalf of the company were beyond the competence of the Ministry of Foreign Affairs, because the mines were subsidiaries of the British companies held by local Russian subjects.¹¹⁹ William Goldie in his request for diplomatic assistance with the case described the application of the law as arbitrary. However, the response of the foreign office was that his company ought to have been aware of the legal tax frameworks in place in Russia at the time;

¹¹⁵ TNA, FO 65/1496, ff. 78-79, Consul Stevens to Lascelles, 9 December 1894.

¹¹⁶ TNA, FO 65/1496, f. 79, Consul Stevens to Lascelles, 9 December 1894.

¹¹⁷ TNA, FO 65/1496, f. 14, Lascelles to Kimberly, 14 January 1895.

¹¹⁸ TNA, FO 368/323, f. 9696, William Goldie to FO, 12 March 1909.

¹¹⁹ RGIA, f. 23 op. 12 d. 7, l. 139, Ministry of Trade and Industry to Ministry of Foreign Affairs, 16 June 1910.

From the petition presented it appears that the ground for complaint is not so much the failure to apply the law as laid down as that in this particular case its literal application has borne hardly on your companions. If this appears to be the case Sir E. Grey fears that it will not be possible for HMG to intervene to protect your companies from the result of a situation which they might have foreseen.¹²⁰

However the initial application of the company for diplomatic assistance in the case belies a certain lack of confidence in the legal process for the provision of redress, and that state interests in this case, i.e. the collection of taxes, had overridden the correct application of the tax laws in question. This suggests a certain continuity in the expectations about the Russian government's treatment of foreign businesses from the 1890s as detailed in the previous chapter.

Disputes between British companies and the Russian government also became centred on questions of legal jurisdictions, as opposed to state interests. For example, in 1909 the British Spassky Mining Company contested the tax assessment carried out on its properties by the regional mining board. The company argued that the assessment was too high, due to its inclusion of the necessary infrastructure for its workers, and that the evaluation should have been carried out in conjunction with the mining engineer and the district tax inspector.¹²¹ The argument of the company, that infrastructure such as dormitories, the hospital and the school had been included in the assessment against the regulations on the subject, was also an argument based on jurisdiction. In this region it was therefore unclear which authorities had jurisdiction over tax evaluations, something which the company clearly felt it was able to challenge the government on. It was subsequently decided that the Akmolinsk regional mining board did have the authority to carry out property evaluations by the Ministry of Internal Affairs, and that if the company wished exceptions to be made for its building it should apply for a motion in the Omsk district court.¹²²

Jurisdictional crossovers commonly caused conflict for companies in the oil industry with local government in the process of granting British companies authorisation to

¹²⁰ TNA FO 368/218, f. 42208, FO to William Goldie, 18 December 1908.

¹²¹ RGIA, f. 23 op. 14 d. 115, l. 1ob, Y. V. Vmilai to Ministry of Trade and Industry, 2 December 1909.

¹²² RGIA, f. 23 op. 14 d. 115, l. 6, Ministry of Internal Affairs to Ministry of Trade and Industry, 5 August 1910.

begin work in Russia. This was a particular problem for the companies operating under the umbrella of the Anglo-Maikop Corporation, whose operations were delayed due to such jurisdictional crossovers. According to the progress reports from June 1911, officials of the local Oblast administration delayed authorising company charters because they were unhappy about the wide range of powers that they granted to the companies, and that further they needed to be approved by the Tersk Cossack administration. The author of the report, C. Agnew, stated that he did not know why this should be the case, and that there was considerable uncertainty as to when their permits would be issued, ‘and that the ways of the chancelleries in the Caucasus are mysterious’.¹²³ While the legal requirements of the permission system for foreign companies in this region may have seemed difficult to comprehend for British companies, it is important to note that in the above cases the government agencies involved followed the law, and did not refuse applications based on state interests.

While it is evident that after Witte’s reforms cases were decided on the basis of the rule of law, for example the law of contracts, there was a convoluted process of considerations of state interests, usually fiscal but also geopolitical, that had a bearing on the outcome of the case in each incident. Thus it is evident that British companies never developed confidence in the infallibility of legal means of redress from the Tsarist government, although it appears that the Russian government behaved in a more legalistic way after his departure. This can be further examined through an analysis of the strategies used by British diplomats, consuls and businessmen in order to pursue redress from the Russian government.

6.3 Strategies for gaining redress

That Witte’s reforms had a limited effect on the pervasiveness of a legal system of regulation for the provision of redress is evidenced by the strategies that the British companies in question followed in order to gain redress. Even after the introduction of Witte’s new policies around 1900, British companies, and to a lesser extent diplomatic and consular staff, still attempted to impress upon the relevant sections of

¹²³ LMA, MS 24062, ff. 2-4, C Agnew to Speyers and Sons, 16 June 1911.

the Russian government the interests to the Russian state in providing redress to the companies. Such attempts usually consisted of statements to the effect that a positive outcome for the British company would encourage more British investment in Russia. Linked to this, common among all of these strategies used by British companies was an appeal for arbitrary intervention to the respective ministries, as opposed to an elaboration of a legal argument.

British companies and diplomatic staff attempted to highlight the significance of positive outcomes for British companies on the Anglo-Russian trade relationship and British direct investment in Russia throughout the period. Companies, in particular, rarely advanced legal arguments, even after 1906 when a legal argument might have been more successful, due to the Russian government's orientation towards regulation and lawfulness over the granting of arbitrary largesse. In the case of the *Penyghent*, British diplomats emphasised the benefit of a ruling in favour of the *Penyghent* in terms of an improvement in Anglo-Russian trade. When the case was transferred from the Senate to the admiralty for a professional opinion on the case, the British ambassador, Robert Morier, called the attention of the Minister of the Marine unofficially to 'the extreme gravity of the case and its bearing on the international laws in question'. Morier attempted to persuade the Minister of the Marine of the importance that the case had for the future of British and Russian trade, calling for the international rules of the road at sea to be, 'administered in good faith and without bias by the local court called upon to carry out an invidious task as that of administering international laws'. This would, according to Morier, be in the interests of the furtherance of profitable commercial relations between the two countries,

Every decision arrived at in this manner, even to the detriment of the country whose tribunals decide strictly in accordance to the rules, is so much solid ground to be gained for the future regular establishment of the rules. It is clear that this is of importance in regard to any maritime state, but now infinitely more does it apply to a country of the maritime significance and importance of Russia in the present, and still more in the future. A sound judgement laid down by the state of this magnitude may be of infinite use, just as an unsound precedent may cause infinite mischief.¹²⁴

¹²⁴ TNA, f. 324, FO 65/1424, Morier to Sehlknatcheff (Copy), 22 December 1892.

Morier evidently believed that the Russian legal system in relation to foreign commercial interests was perceived to be very weak and susceptible to pressure from the state, and that an unfair ruling in this particular case would do much to exacerbate this. While he mentioned international laws of the sea, which were incorporated into the Russian commercial code, he emphasised the benefits that would be gained by the state in following these regulations, suggesting a level of flexibility surrounding these regulations.

A very similar process was followed by R. Howard, when the case of the *Penyghent* was rejected by the Senate, and as a result formed the basis of a petition to the Tsar. Howard met the director of the Office of Petitions, General Richeter, and attempted to persuade him, in a similar fashion to Morier, of the importance of the international regulations involved to Russian and British commerce. After explaining at length how the decision of the Senate circumvented these rules by assigning more weight to an erroneous translation of the order ‘Stand By’ by the crew of the *Penyghent* than the incorrect course correction and incorrect signals given by the *Tsar*, Howard explained the positive effect of a decision that favoured the British ship.

His Excellency received me on the 10th instant, when I told him that two petitions had been presented within the last few days to the emperor in the case of the *Penyghent* vs. the *Tsar*, which were of interest to me not simply on account of the nationality of the petitioners but likewise from an international point of view, I had of course no intention to intervene between his majesty and the petitioners, but His Excellency... to ask permission to bring the case to his notice in a private and unofficial manner.¹²⁵

Therefore British diplomatic action taken on behalf of the company in this case tended to aim at attempting to persuade the various ministers involved in the case of the importance to Russia’s commercial interests of a positive ruling for the British company. Although the argument was effectively for the upholding of the rule of law and its effect on Russia’s international trade, it is significant that this was purely couched in terms of the interests for the state and no purely legal argument was put forward.

¹²⁵ TNA, FO 65/1451, ff. 316-17, Howard to Rosebery, 23 November 1893.

A similar tactic was followed by the Amur Steam Navigation and Trade Company and British diplomats acting on their behalf. Although the company in its petitions pointed out specific areas where the government had acted against the law, it also attempted to appeal to state interests by highlighting the benefits to the state that would be gained by a fast and favourable provision of redress. The initial petition seems to suggest that upon the conclusion of the initial contract with the government, the administration and its shareholders had placed a significant amount of trust in the Russian government to follow through in their obligations under the contract. This is heavily emphasised in the first section of the petition, which details the belief among the shareholders and the administration of the company of the commercial viability and of the significant costs and resulting credit obligations the company had undertaken to furnish the required ships and barges. Therefore, the petition also appealed on the basis of the dissatisfaction of foreign creditors, and implying the poor affect delays in the compensation of the company may have on the standing of Russian investments. The administration of the company claimed that the position of foreign investors was ‘desperate’, given the fact that none of the foreign creditors had received any dividends of profits from their investment, and that the price of foreign shares had fallen dramatically due to the slowness of the government’s actions in providing redress for the company’s losses. As a result, the foreign creditors ‘could not be expected to support the administration for any great length of time’, and therefore the company requested the ‘timely receipt of the sums that the company should receive from the treasury’, essentially requesting that the Tsar intervene in the legal process of granting redress to the company.¹²⁶ The company also attempted to draw attention to the position of foreign creditors in a later statement to the commission in May 1903, stating that the administration had found it necessary, in the interests of saving the business, to pay the wages of workers and outstanding debts of the company instead of paying dividends to stockholders and interest to foreign creditors.¹²⁷

¹²⁶ RGIA, f. 1203, op. 1 d. 1, l. 60b, Petition of the Amur Steam Navigation and Trade Company, 9 November 1903; l. 860b, Amur Company to the Amur Company Commission, 5 June 1903.

¹²⁷ RGIA, f. 1203, op. 1 d. 1, l. 65, Amur Company to the Amur Company Commission, 21 May 1903.

The case was drawn to the attention of the British embassy in St Petersburg by Colonel Denny, one of the main financiers of the company in 1899. British diplomatic assistance and representations to the Russian government were similar to the representations of the company in that they emphasised the benefit to the Russian state of a favourable outcome for the British company. Hardinge reported that when he discussed the subject to Witte, he called Witte's attention to the effect that a reasonable settlement would have on Witte's plans to attract foreign capital to Russia:

I also spoke to him generally in the sense of Mr. Denny's view that Monsuier Witte's well known desire to attract British capital to productive undertakings in Russia could best be advanced by giving no ground for any want of confidence in the permanence and stability of the security offered.¹²⁸

Hardinge does not seem to have put forward any sort of legal argument on the basis of the Amur Company's contract to Witte, instead focusing purely on the effect that a decision in the company's favour would potentially have on the movement of British capital to Russia.

This theme of appealing to state interests relating to British investment redress was also a feature of the petition of the Spassky Copper Mining Company in December 1909. The company's petition stated that the evaluation had caused significant fiscal hardship to the company, and that the Spassky mining company was the only foreign venture in this steppe region, located far from the railway, had built the only smelter in the region, and provided jobs for several thousand workers, as well as the necessary infrastructure such as schools, hospitals and even a bath house. It also stated that this venture held the attention of many English capitalists interested in mining investments or speculation, implying that special treatment would benefit the economy of the region and the increase the inflow of British capital into Russian mining ventures.¹²⁹

¹²⁸ TNA, FO 65/1585, f. 114, Hardinge to Salisbury, 4 April 1899.

¹²⁹ RGIA, f. 23 op. 14 d. 115, Y. V. Vmilai to Ministry of Trade and Industry, 2 December 1909.

Benefits to the Russian economy in general were also used to justify the granting of redress to British enterprises. For example, in the case of the Amur Company, the company alleged that in 1902 the Ministry of Finance should have entered into a review of the level of freight on the Amur. This was alleged to have been on the advice of the Primorsk General-Governor, who recommended increasing the level of governmental freight on the Amur in the interest of developing trade and industry in the region.¹³⁰ These extra considerations are an important part of the petition as they are not concerned with statute law or the original contract, but instead appeal to state interests in the Amur and Primorsk regions. It is clear from such content of the appeal that an insistence on the original contract being upheld would not be sufficient to guarantee restitution to the company; other factors that directly affected the state should be taken into account. Further, in their attempts to persuade the government on the importance of their claim, they emphasised the positive effect of the company's postal operations on the Amur for the economic development of the region.¹³¹

Hardinge was also involved in the drawing up of the company's 1903 petition to the Russian government, and advised the company to point out that the old Amur Company, who held the steamship concession until 1895, had already received compensation for the seizure of their ships and as a result were financially healthy enough to continue their operations. He also suggested requesting an initial payment of 100,000 roubles with the remaining balance to be paid over a longer time period.¹³² This indicates two strategies of appealing to the discretionary power of the Tsar; on the one hand a properly compensated shipping company could be operating fruitfully on the Amur, and on the other hand a fiscal strategy designed to lessen the impact on the Russian state. Both appealed to Russian state interests, and that this came from Hardinge, a diplomat with a wealth of experience in Russia who would later become the British ambassador, speaks volumes about the importance of state

¹³⁰ RGIA, f. 1203, op. 1 d. 1, l. 4, Petition of the Amur Steam Navigation and Trade Company, 9 November 1903.

¹³¹ RGIA, f. 1203, op. 1 d. 1, l. 8ob, Petition of the Amur Steam Navigation and Trade Company, 9 November 1903.

¹³² TNA, FO 65/1617, ff. 326-30, Hardinge to Denny, 13 October 1900.

interests in cases of British companies attempting to obtain redress from the Russian government.

British companies also pointed towards the maintenance of a positive working relationship between the government and the particular companies involved, and this was particularly evident in the case of Vickers. Balinskii attempted to deploy Vickers' strong record as an arms supplier to the Russian government as a reason for the company obtaining a reduction in their financial penalty. He explained that after the technical committee at Kronstadt made their recommendations Vickers' engineers immediately began effective works on the tower, deploying the chairman of the technical committee, General-Lieutenant Krilov's opinion that,

At the end of the test, I congratulated the company on their progress, and in the presence of the commander of the cruiser promised the representatives of the company on behalf of the Marine Technical Committee to request the reduction of the penalty... it is clear that the main purpose of the fine was to enable the admiralty to complete the necessary modifications to the tower reinforcements, but thanks to the energy and diligence of the firm 'Vickers' this is not necessary.¹³³

Balinskii then referred to the fact that during the Russo-Japanese war, Britain's neutrality and alliance to Japan notwithstanding, Vickers continued to supply Russian armed forces with arms and ammunition, and were privy to secret information regarding their overall strength. Thus on the strength of this past record, the petition suggests that Vickers could be due some sort of special consideration given their past track record in business with the Russian government, as referenced above. He then made reference to an incidence of another arms company, Schwartzkopf, who were able to get a penalty for non-fulfilment of contract of two million Roubles completely forgiven.¹³⁴ Thus Balinskii sought to highlight the positive relationship between Vickers and the Russian government, suggesting that a resolution that was not favourable towards Vickers might jeopardise that relationship, which would have been critical to the Russian government in the run up

¹³³ RGIA, f. 1276 op. 3 d. 628, l. 166-168ob, Petition to Nicholas II by Vickers Ltd, 2 August 1912.

¹³⁴ RGIA, f. 1276 op. 3 d. 628, l. 168ob, Petition to Nicholas II by Vickers Ltd, 2 August 1912.

to 1914. His mention of the case involving Schwartzkopf contains an appeal to the exercise of discretionary power.

As a result of the unclear relationship between the law and the maintenance of state interests in granting redress to foreign companies, and further confusion caused by the overlaps of jurisdiction caused by the autocratic system, British companies appealed to the exercise of arbitrary power in their cases. When doing so they rarely made legal arguments, and instead sought to highlight the benefits to the Russian government of a favourable resolution of their case. This continued to be the norm even when, as the above sections demonstrate, from 1906 to 1914 a legal argument would have been more successful, and generally carried more weight in the relevant ministries. Most commonly, this argument was linked to a favourable perception of Russian investments and trade in Britain, a point that British companies were aware was complex as Russian investments began to be seen as financially attractive but risky due to negative perceptions of the Russian government in Britain. However, they also took the form of highlighting the positive economic effect of their companies in Russia, and in the case of Vickers, their important role in Russian defence industries.

6.4 Conclusion

Witte's attempts to create a law governed system of redress for foreign companies in Russia can be seen as only a partial success. From the case studies above, it is evident that the law, and especially the law on contracts, was the eventual basis for the resolution of disputes between British companies and the Russian government. However, the wider goal, to be able to construct a clear, regulated, and predictable system of redress, as in a law governed state must be seen as a failure. The considerations of various state interests constantly competed with the application of the law in the cases post 1900, in several ways that mirrored the situation pre-Witte. This was exacerbated by significant problems of overlapping jurisdictions of various ministries in these disputes; a product of the autocratic system that Witte had

attempted to impose legal regulation upon. The twin effects of the considerations of state interests and the multiple layers of overlapping jurisdiction between government agencies led to British companies pursuing extra-legal strategies in order to obtain redress from the Russian government, through appealing to state interests and the exercise of discretionary power over lawfulness.

Conclusion

This thesis has attempted to test the hypothesis that over the period 1892-1914 the Russian government began to follow legal guidelines and regulations in its relations with British companies undertaking trade and direct investment with Russia. In order to test this hypothesis, Russian law and economic policy was analysed in order to better understand the legislative and regulatory framework, and to better understand the relationship between commercial law and the legal basis of economic policy. In order to further understand the ways in which the Russian government put this policy and law into practice, this thesis tracked the development of British investment in Russia, including the amount of capital invested, where it was invested, and in which industries it was invested. It also attempted to analyse these trends and connect them to investor perceptions of the Russian government among British business interests, in order to investigate the effect that Russian business interests had on British perceptions of the Russian market. Finally, it investigated the experience of British companies in the Russian market, how they interacted with British diplomatic interests and the Russian government, and whether this indicates that the Russian government followed the rule of law and economic regulations in dealing with British business in Russia throughout the time period in question.

It finds that there was a significant change in the development of Russian economic policy and treatment of foreign companies after the industrial downturn of 1900-1904. Before this period, the Russian government under Witte attempted to attract British capital to Russia using a system of industrialisation and offering a system of special concessions and privileges to British companies. At the same time, the Russian government acted arbitrarily and extra legally in order to protect their geopolitical and material interests. After the industrial downturn of 1900-1904, the Russian government attempted to engage with British businesses in a more regulated manner. Although the Russian government no longer favoured foreign investment to the extent that it did under Witte, in attempting to regulate the activities of foreign companies it abandoned the arbitrary system under Witte and enforced laws and regulations in a more consistent manner. However, this had little impact on British investment decisions; although British investment in Russia increased sharply after

the economic depression and the government's switch to a more regulated system, a closer analysis of the patterns of British investment and the way in which British companies interacted with the Russian government indicates that British companies invested in Russia due to the potential profits. Government policy did, however, produce some changes in how British companies attempted to gain redress, and there is evidence that in the second half of the period in question there was a recognition of a more law based relationship between government and industry, although this did not translate into any effect on investment decisions.

Russian commercial law and economic policy

Russian commercial law went through very few moderations in the period in question, but the body taken as a whole is of significance for the study of the relationship between the government and foreign investment. Russian commercial law gave significant arbitrary power over the affairs of foreign companies to the Russian government, specifically requiring foreign companies to apply for official permission from various government agencies in order to incorporate, begin operations, change various aspects of their business operations, and in order to liquidate or amalgamate. The law also gave the Russian government other discretionary powers such as the ability to revoke a company's permission to operate in Russia without notice or reason. Foreign companies were also severely disadvantaged in comparison to native companies, for example in bankruptcy proceedings. Further strengthening the hand of the Russian government was the lack of well-educated and organised lawyers available in commercial cases, as traditionally these were taken by advocates that did not belong to the Russian bar.

Although the majority of this body of commercial law was not updated during the period in question, some significant aspects were updated following the expansion of British capital into the Siberian mining and Caucasian oil industries, as well as regulatory changes following the industrial downturn of 1900-1904. New laws introduced into the oil industry after 1904 were intended to introduce increased regulation and government control over foreign oil companies, but effectively introduced much clearer rules and regulations surrounding their operation. Although these developments were not replicated in any other industries, they indicate a

significant advance in the rule of law and a movement away from business-government relations being based on the discretion of officials.

At the same time, Russian economic policy evolved over the period to move away from the exercise of discretion over the encouragement of foreign companies towards the stricter application of Russian law. Although this was due to anti-foreign enterprise tendencies among members of the Russian government, this translated into a legal environment that was to an extent more governed by the consistent application of the law. Although Witte had stressed the importance of this in his private correspondence with Nicholas II, it is evident that he was not able to put these ideas into practice during his tenure as Minister of Finance. Evidently, it took the industrial downturn of 1900-1904 for Russian economic policy to become more regulated, and the granting of the various special concessions and privileges became more limited. Thus the regulatory and policy environment for foreign businesses arguably became more consistent and less based upon the discretionary power of local officials, although many arbitrary aspects of the original company law remained intact.

It is difficult to determine whether this was an intentional outcome or not. Certainly, the end of the concessions of Witte and the greater regulation of foreign companies, especially in the oil and mining industries, was to an extent due to the fact that many sections of the Russian government blamed the industrial downturn of 1900-1904 on foreign capital. This gave rise to the Russian government attempting to introduce foreign capital to Russia in a more controlled manner, hence the new regulations in the oil and Siberian mining industries. However, the government evidently attempted to put an end to the system of ministerial discretion in the granting of special conditions and privileges to companies, and to proscribe their activities more closely by law in order to avoid a repeat of the industrial crisis of 1900-1904. While this was intended to control the activities of foreign companies, a side effect of this policy seems to have been to improve the legal regulation of foreign companies to a more consistent basis.

The pattern of British investment and investor perceptions of Russia

Whether this increase in regulation at the expense of discretionary power affected British investment and investor perceptions of Russia was the main question concerning the next two chapters of this thesis. Mapping the patterns of British investment over the period 1892 to 1914 indicated that there were two distinct phases of British investment in Russia, separated by the industrial downturn of 1900-1904. In the first phase, British investment entered Russia conservatively, and fewer companies were formed during this period than after 1904. British companies were predominantly established in geographical regions and industries that had prior connections to British trade, for example in the St Petersburg textile industry. Companies were generally structured around traditional structures, and complex business operations such as diversification that would have required multiple levels of authorisation from the Russian government were generally avoided. The exceptions to this trend were companies established in the Caucasian oil industries around Baku, and the handful of British companies that began operations in the Siberian mining industry. This conservatism suggests that Witte's policies towards foreign companies did not result in the development of trust in the Russian government among the British business community.

This is corroborated by analysis of British perceptions of the Russian government and business environment. Before 1900, the Russian government was portrayed as autocratic and arbitrary in its pursuit of its interests in its dealings with foreign business interests. These perceptions had much in common with wider societal perceptions of Russia in Britain at the time. Therefore, the comparatively conservative market penetration of British companies into the Russian business environment is likely to have been due to the fact that in acting arbitrarily to encourage foreign investment, the Russian government did not foster consistent expectations of how it would interact with foreign business interests in the future, and therefore did not engender trust among the British business community. The much more dynamic investment that occurred in this period in Caucasian oil and Siberian mining was predominantly driven by the perception of the large profits to be made in these industries due to the lack of domestic capital in Russia available to work them, as opposed to any kind of governmental assistance, although other

studies have illustrated that this assistance was forthcoming from Witte on an arbitrary and discretionary basis.¹

Both perceptions and the pattern of British investment changed following 1900. British investment predominantly favoured areas that had had little connection with earlier trade links, most notably the Caucasus and Siberia. The rate of expansion in Siberia was particularly significant; the remoteness of these regions indicates that a substantial change had occurred in the way in which British investors viewed the security of Russian investments. Similarly, British companies also adopted more complex structures and diversified their assets more frequently in this later period, which due to Russian commercial law would have required multiple authorisations from the Russian government. Investment in more traditional areas of British enterprise was far lower in this period, and this is difficult to reconcile with the expansion of British companies in the Caucasus and Siberia. This casts a level of doubt on the contention that British companies viewed the Russian business environment as more attractive in the period following the industrial downturn due to improvements in its regulation. However, this lack of engagement could have been due to a myriad of other factors such as the market for British goods. Certainly, there seems to have been significant concern among British diplomats and the British financial press that British companies had lost the Russian market for manufactured goods to their German and American counterparts towards the end of the period in question. The existence of complex British investments in Siberia and the Caucasus suggests that one of these alternative reasons could have been the case as opposed to the persistence of a conservative mind set among British manufacturing firms.

This is further supported by a significant change in perceptions of the Russian government among British commercial interests and British society in general after the economic downturn, and the conclusion of the Anglo-Russian treaty of 1907. While this treaty itself was viewed as being of little commercial importance, the Russian government was seen to be more welcoming to British capital and less likely to behave arbitrarily in its dealings with British capital than before the industrial downturn, despite the fact that many sections of the Russian government at this time

¹ Chshieva, *Istoriia neftianago sopernichestva*, 114.

were against the encouragement of foreign capital and enterprise. However, there is little to link this improved view of the Russian government to investment decisions taken by British companies, given that many of these investments in the second phase of British investment were concentrated in high profit areas, which took advantage of the abundance of natural resources to domestic capital. There is also little evidence that investment decisions were made on the basis of Russian economic policy, or that Russia would be more profitable because of the new economic policy followed by the government after 1906.

The Russian government and British companies

This proposition is further demonstrated by the way in which it can be shown that the Russian government acted towards foreign business interests through study of certain aspects of disputes between the Russian government and British businesses throughout the period. This study analysed how British companies attempted to utilise the diplomatic service in order to resolve their cases, how British diplomats acted in these cases, and how successful British companies were in gaining redress from the Russian government based on the rule of law.

Analysis of the use of the diplomatic and consular service by British companies in the resolution of disputes with the Russian government and some of their normal day to day operations in Russia indicates that towards the end of the period in question British companies possessed a more stable set of assumptions about how the Russian government interacted with foreign companies. This was due to a greater knowledge of their legal position and the ability of British diplomatic and consular officials to intervene on their behalf. British companies during the 1890s expected British diplomats to be able to influence Russian economic policy and to be able to change, alter or obtain exemptions from regulations such as tariffs. This indicates a direct link between the haphazard and inconsistent policies for Witte and the expectations of British companies, and it remained common throughout the period, indicating that the effect of this policy was long term and that later Russian regulations did not affect these expectations.

However, in other areas of British contact with the Russian government, British expectations underwent significant changes. In the 1890s, British companies

expected British diplomatic representatives to be able to intervene in cases that were before the Russian courts. This indicates that in this initial period the Russian justice system was seen to be very easily undermined by representatives of the Russian government, who could be encouraged to do so by British diplomatic representatives utilising personal contacts and putting forward arguments based on Russia's national interest as opposed to adherence to legal norms and standards. After the industrial downturn and the tightening of Russian regulations concerning foreign companies, British diplomatic officials stopped receiving these kinds of requests, but British companies continued to use the foreign office in their attempts to circumvent the Russian courts. This particular line of enquiry therefore suggests that the changes in Russian policy and law did not have much of an effect on British assumptions about the Russian government, aside from a change in the way that they viewed the independence of the Russian court system.

It also highlights the importance the representatives of British companies placed on the possession and use of personal contacts within the Russian government in order to conduct business successfully. Multiple requests for British diplomats and consuls to use their influence with the Russian government indicates the prevalence of the belief that such efforts could have successful consequences for businesses, and a lack of trust for such results to occur due to the normal, regular functioning of government. The prevalence of such ideas has been demonstrated to indicate a lack of trust in society in recent studies, and is similar to the system of *blat* in the USSR, where citizens used an array of personal connections in order to obtain various everyday items that were not available in state retailing outlets.²

It is difficult to determine why these perceptions persisted after Witte's departure from the Ministry of Finance. As the analysis of the provision of redress to British companies demonstrates, although the Russian government treated British businesses arbitrarily before 1900 the cases that occurred after 1900 tended to be dealt with according to the rule of law. There is a stark contrast in the conduct of the Russian government in the case of the *Penyghent* vs the *Tsar*, and the case of Vickers Ltd's construction of the *Riurik*. In the latter case although certain sections of the Russian

² Hosking, *Trust: a History*; Yoram Gornitzki, 'Structures of Trust after Stalin', *The Slavonic and East European Review*, 91, 1 (2013).

government, such as the admiralty, advocated the use of arbitrary power in order to pursue state interests, the case was decided according to the law on contracts between the government and companies. This was in clear distinction to the former case, and cases similar to it before 1900, where the Russian government aggressively protected its interests regardless of the legal ramifications.

There was therefore a significant gap between the perceptions of British companies and the conduct of the Russian government in the cases examined especially towards the end of the period. Why did such actions of the Russian government, such as putting a stop to the arbitrary system of privileges and following the rule of law in commercial cases not result in the formation of stable assumptions among British companies that invested in Russia? Certainly, it is not because of the strength of underlying attitudes in Britain about the Russian government and the Russian business environment, as this thesis has demonstrated that they underwent a significant revision among wider British society and the British business community. It is therefore to be concluded that the Russian government was not able to foster stable expectations among the British business community actively conducting business in Russia purely through its attempts to act in a more consistent and lawful way.

To explain this, we should return to the legal basis of the Russian government's interaction with foreign companies, which gave various government officials almost unlimited discretionary power over the affairs of foreign companies. This body of commercial law was never revised or updated in the period in question. As the chapter on British companies' use of the British diplomatic service indicates, British companies never managed to gain an effective knowledge of Russian commercial law and regulations. This should be viewed as a result of the discretionary powers given to Russian officials by the law; as for the most part they did not contain any guidelines as to how such power should be used, it was very difficult for British companies to form stable assumptions and a good working knowledge of Russian economic regulations, despite the efforts of the Russian government to improve its accountability, consistency and control over foreign companies in the period. It is therefore a typical account of the dilemmas of most attempts to reform the Tsarist system; while attempts were made to introduce modernisation in aspects of

government interaction with business interests in order to fuel foreign investment and economic growth, the autocratic basis of state power was never abandoned. This fundamental contradiction prevented the formation of stable assumptions and the development of trust in the government among British business interests in Russia.

Wider Significance

Like many of the ways in which the Russian government attempted to modernise itself in the decade before 1914, its changing relationship with British business interests remained underpinned by the exercise of arbitrary state power. The persistence of this *proizvol*, which was never completely abandoned, meant that although in many respects the Russian government did modernise its relationship with British businesses, these businesses never formed stable assumptions and a strong working knowledge about the Russian government. Despite this, British companies did engage heavily with the Russian market, establishing a greater number of increasingly complex companies in areas such as Siberia, but this was primarily driven by the profits that could be obtained in Russia, and they still harboured many negative perceptions about the Russian regime that were based on the government's use of its arbitrary powers.

This thesis has demonstrated the effects of the interaction and conflict between different economic, political and business cycles in a specific historical contexts. The world economic cycle saw capital moving from oversaturated capital markets in developed economies to economies such as the Russian empire where there was a dearth of domestic capital in proportion to the natural resources available. In reaction to this economic cycle, the face of international business changed, with multinational companies adopting new business structures and financing models in order to exploit these new opportunities in emerging economies. As this thesis has demonstrated in the case of British business, these two cycles did not occur at the same time or in a clearly defined relation to one another, as many British multinationals fell behind their international counterparts in various industries.

Despite the differences between economic and business trends, the main area of conflict between the above three cycles was caused by the political cycle, which was largely opposed to the other two cycles. While Witte recognised the importance of

foreign investment in Russia during his tenure as Minister of Finance, and attempted to match the government's stance to the demands of business and economic change, he was opposed by a political system that favoured multiple levels of strict autocratic control over the affairs of foreign companies. While aspects of this system did evolve over the period, the underlying stance of the Russian government towards foreign business interests always lagged behind the state of the Russian economy and the requirements of foreign capital and business, such as a law based structure of government-industrial relations, and consistent government policy towards foreign companies.

At the beginning of the period 1892-1914, companies moving their operations into Russia in increasingly complex investment patterns and new industries were faced with hostility from the Ministry of Internal Affairs and the Ministry of War, while receiving welcome but haphazard and inconsistent assistance from the Ministry of Finance. After economic downturn resulted in the government as a whole adhering to the rule of law in a more consistent fashion, it still weighed adherence to the rule of law against the protection of state interests as defined by the various ministries, often to the detriment of its relations with foreign capital. Meanwhile, British companies invested in Russian industries such as mining and oil extraction in increasingly modern and complex ways, which required substantial underpinning by the rule of law in government-industrial relations, resulting in a series of disputes that have been covered by this thesis.

The unsynchronised nature of the above political, economic and business cycles suggests that the Russian government's intervention in the economic development of Russia caused a large amount of uncertainty for British companies engaged in direct investment, and therefore did not act as a strong stimulus for economic development. While the Russian government began to recognise that it was important to follow the rule of law in government industrial relations if it was to be able to encourage foreign investment, its steps to do so were not reflected in the way in which British companies approached Russian investments and conflicts with the Russian regime.

This has implications for the development of the Russian government's relations with the developing middle classes in Russia that were engaged in business before

1914. This research suggests that such relations were progressing towards a law governed basis, but the government's failure to modernise commercial law and the persistence of autocratic power over the affairs of companies fundamentally undermined the emergence of the law governed state in this particular field of government-society relations before 1914.

Potential leads and openings for further research

This research suggests some further questions. Firstly, it opens up the question of how the changing relationship between Britain and Russia facilitated British investment and trade in Russia. This thesis has shown that, alongside wider economic trends, British investment in Russia followed the pattern of Anglo-Russian relations during the period; gradually increasing during the 1890s, abruptly tailing off in 1904 when Anglo-Russian relations plummeted due to the Russo-Japanese war and the Dogger Bank incident, where the Russian Baltic fleet sank a convoy of British fishing vessels after mistaking them for Japanese torpedo boats. British investment after the 1907 Anglo-Russian agreement improved dramatically, to far higher levels than before in the period in question.

There is little in the research presented here that can connect these two developments. The signing of the Anglo-Russian agreement did not produce a perception in the British business community that the Russian government would be especially supportive to British business interests as a result of improved relations. One can speculate that as the continental alliance systems began to take clearer shape in the aftermath of this treaty British investors felt more secure about making Russian investments, however this view was never found to have been articulated in this research.

A closer examination of Anglo-Russian relations in terms of the importance of nurturing commercial relations between the two countries might be able to shed further light on the correlation between Anglo-Russian relations and British investment. Specifically, how did joint Anglo-Russian projects to stimulate trade between the two countries result in improved relations? How did British diplomats work to facilitate trade and investment? Studies into the British diplomatic service in general have shown that British diplomats and consuls became more concerned with

supporting British trade and investment, but how did this manifest itself in the Russian business environment? This thesis primarily concerned itself with cases where British diplomats and consuls acted on behalf of requests made by British companies, but did not look at attempts by diplomats and consuls to better facilitate Anglo-Russian trade, such as the creation of the Anglo-Russian Chamber of Commerce in 1909. Such an investigation could help to explain the sudden increase in British investment after 1907.

This study has focused on many areas of British investment in Russia across a variety of industries, but could be supported by in-depth studies of the experience of single companies. This exercise has been done before by others, but these studies do not usually look at the company in question's relations with the Russian regime, instead focussing on their interaction with the market, and the social backgrounds and experiences of the various English families involved. Unfortunately due to the nature of the preservation of company records, it is rare to find the records of companies that had substantial dealings with the Russian regime. The use of free standing companies and Russian incorporation and management further complicates this, as the records of these companies were rarely transferred back to Britain, and for the most part were lost or destroyed after 1917 and the eradication of private enterprise by the Soviets.

It also leads to questions about how the Russian government treated other foreign business interests, such as French, Belgian and German companies. It would be significant if there was a discrepancy between the way in which the Russian government treated French enterprise and German enterprise in this period, as capitalists of both nationalities were heavily involved in the Russian market. Such an investigation would help to further examine the effect of diplomatic relations on how the Russian government treated foreign business interests, and whether the attitude that it adopted towards British businesses in the period after 1904 was due to improved relations or due to a commitment to the upholding of the law and acting consistently.

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Appendix

Table 1: British Companies Established in Russia before 1892.³

Company Name	Region	Date Established	Products	Profits (1902) (Roubles)	Hands (1903)
William Hartley	St Petersburg	1881	Textiles	315,000	130
William Hartley	St Petersburg	1883	Textiles	134,000	180
Henry Small	St Petersburg	1889	Textiles	115,772	55
Nevsky Thread Mills	St Petersburg	1890	Textiles	5,270,30	813
L. Southman	St Petersburg	1888	Leather belting	113,400	389
L. E Yates	Komishlov	1891	Paper	349,000	240
Lingard & Co.	St Petersburg	1881	Paper	459,000	128
Charles Stewart	Archangel	1882	Saw mill	823,600	450
A. Bohtlingk	St Petersburg	1888	Metal cables	10,000	6
George Easty	St Petersburg	1881	Nails	41,300	18
L. V. Tovey	St Petersburg	1885	Files	30,700	75
James Pulman	St Petersburg	1889	Machinery	-	-

³ TNA, FO 65/1672, ff. 285-87, Mackie to Lansdowne, 21 November 1903; ff. 374-75, Hunt to Lansdowne, 6 July 1903; FO 65/1671, f. 269, Murray to Lansdowne, 2 July 1903; FO 65/1670, ff. 234-37, Smith to Lansdowne, 5 August 1903; Wirt Gerraë, *Greater Russia: the Continental Empire of the Old World* (London: MacMillan, 1903), 31.

L. King	St Petersburg	1884	Varnish	167,000	50
The New Russia Company	Taganrog	1869	Iron		292
Greenwood & Co.	Warsaw	1873	Machinery		
E. Leigh Harris	Odessa	1884	Railway points and signals	200,000	60
R & T Elworthy	Kirov	1880	Agricultural machinery		800
Imperial Russian Cotton & Jute Factory	Odessa	1887	Textiles		1,300
Azoff Coal Company	Rostov-on-Don	1873	Coal mining	3065 (1910) <i>The Mining Year Book</i> , (1911), 601	
Holzapfel & Co.	Sevastopol	1889	Paint		8

Table 2: British Companies established in Russia, 1892-1914.

Source Key**T** *The Times***FO** The National Archives, Kew, Foreign Office.**XX XX XXXX** Russian State Historical Archive (RGIA)

Year	Co. Name	Location	Industry	Source	Date Closed
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1893	L. Knop, Ferster and Rootman & Co.	Odessa	Shipping	20 4 3059	
1894	Reddaway Co.	Moscow	Leather Belting Machinery	FO 65/1671	
1894	W. Gerhardi	Smolensk	Saw mill	FO 65/1672	
1894	James Beck Ltd	St Petersburg	Textiles	FO 65/1672	
1895	F. Cheshire	St Petersburg	Machinery	FO 65/1672	
1895	The New Amur Company	Amur	Shipping		
1896	Bromley Brothers	Moscow	Engineers	FO 65/1671	
1896	The Russian Engineering Company	St Petersburg	Machinery	FO 65/1672	
1896	The European Petroleum Company	Caucasus	Oil	T	>1914
1896	A. D. Brown		Aluminium products	20 3 1896	
1897	W. Gerhardi	Smolensk	Saw mill	FO 65/1672	

1897	The Russian Petroleum and Liquid Fuel Co.	Caucasus	Oil	T	>1914
1897	The Baku Russian Petroleum Company, Ltd	Caucasus	Oil	T	>1914
1897	G. Smith & Co.			20 4 4048	
1897	N. E. Bromley & Co.	Moscow	Ship building and mechanical factory	20 4 4056	
1897	M. Edwards & Co.	St Petersburg	Glassware	FO 65/1672	
1897	F. Hill	St Petersburg	Bricks	FO 65/1672	
1897	Voronin, Lutsch and Cheshire Ltd	St Petersburg	Textiles	FO 65/1672	
1898	Starley	St Petersburg	Cycles	20 4 4132	
1898	Shibaev Co.	Baku	Oil	20 4 4158	1913
1898	Kavkaz Oil	Baku	Oil	20 4 4179	
1898	Anglo-Russian company Ltd	Tersk	Oil	20 4 4181	
1898	W. Cughton & Co	St Petersburg	Shipbuilding	FO 65/1672	
1898	Hepburn & Gale	Moscow	Leather belting	FO 65/1638	
1899	T. Eales & Son	St Petersburg	Shipbuilding	FO 65/1672	
1899	J. Beliayeff	Archangel	Saw mill	FO 65/1672	

1899	Singer	Moscow	Sewing machines	20 4 3096	
1899	Anglo-Russian Copper Mining Syndicate Ltd.		Copper mining	20 4 4283	
1899	Eastern Oil Ltd	Baku	Oil	20 4 4290	
1899	Anglo-Petrovsk Ltd.		Oil	20 4 4296	
1899	R. Druce	St Petersburg	Retail	20 4 4300	
1899	Sakhalin-Amur Oil and Mining Co.	Amur	Oil	20 4 4316	
1899	Kodak	St Petersburg	Photography equipment	20 4 4339	
1899	Ural Gold Mines of Western Siberia	Urals	Mines	22 4 289	1902
1899	Terek Cyndicate	Terek	Oil	20 4 4343	
1899	South Russian Petroleum Company	Caucasus	Oil	22 4 267	1902
1899	Romani Syndicate	Caucasus	Oil	22 4 258	1902
1900	The Kovda Company	Archangel	Saw mill	FO 65/1672	
1900	Voronin, Lutsch and Cheshire Ltd	St Petersburg	Textiles	FO 65/1672	
1900	The Caucasus Copper Company Ltd	Caucasus	Mining	T	
1900	Bibi-Eybat Petroleum Company, Ltd.	Caucasus	Oil	T	
1900	Research in North-East Siberia	Siberia	Mining	22 5 371	1901

1900	Klema, Gladiator and Gumber	St Petersburg	Car parts manufacture	20 4 4362	
1900	Anglo- Russian Flour Mills Co.	St Petersburg	Flour mills	20 4 4363	
1900	Balakhani Syndicate	Caucasus	Oil	22 4 372	1904
1900	Grozny Kerosene	Caucasus	Oil	22 4 373	1901
1900	Baku Kerosene	Caucasus	Oil	22 4 376	1904
1900	V. G. Kovno Water Supply		Waterworks	22 4 379	
1900	Neva Rope Manufacturing Co.	St Petersburg	Rope	FO 65/1672	
1900	F. Cheshire	St Petersburg	Textiles	FO 65/1672	
1900	Baltic Cotton Spinning & Weaving Mill	Reval	Textiles	FO 65/1672	
1900	Wigglesworth & Co.	Karachev, Bryansk	Rope spinning	22 2 1443	
1901	Charles W. Gerhardi & Co.	St Petersburg	Textiles	FO 65/1672	
1901	The Baku Wire Rope Cable Ltd	Caucasus	Wire ropes and Cable	FO	
1902	Vesty & Co.	Riga	Butter export	FO	
1902	Russian Camel Hair Cloth Ltd	Odessa	Textiles	FO 65/1670	
1902	Birkin & Co.	Warsaw	Cotton Lace	FO 65/1671	
1903	Mattievich & Co.	Caucasus	Waterworks	FO	
1903	Thomas Firth & Sons	Riga	Steel Works	FO 65/1672	
1904	Nerchinsk Gold Company	Siberia	Mining	T	
1905	Anglo-Terek Petroleum Company	Caucasus	Oil	T	

1905	The Siberian Proprietary Mines, Ltd	Siberia	Mining	T	
1905	United Transport Ltd		Railways	23 12 19	
1905	V. M. Bush & Co. (Ltd)			23 12 20	
1906	The Caucasus Silver Lead Mines	Caucasus	Mining	MYB 1911, 655.	
1906	Kaneika United Goldfields Ltd	Siberia	Mining	T	
1906	Spassky Copper Mines	Omsk (Siberia)	Copper mining	23 12 114	
1906	Orsk Gold Mins	Siberia	Gold mining	23 12 117	
1906	Kutan Mining	Siberia	Mining	23 12 119	
1906	Copper Company of the Mughal River	Siberia	Copper mining	23 12 125	
1906	Caucasian Ltd Co. for the processing of Liquorice	Caucasus	Liquorice	23 12 129	
1907	The Alabaster Copperfields, Ltd	Siberia	Mining	T	
1907	The Kutais Mining and Timber Concessions, Ltd	Siberia	Mining/timber	CP	
1907	Siberian Wasteland	Siberia	Mining	23 12 225	
1907	Siberian Syndicate	Siberia	Mining	23 12 229	
1907	Central Siberia	Siberia	Mining	23 12 231	
1907	Kluch Gold Mines	Siberia	Mining	23 12 232	

1907	Russian mining corporation		Mining	23 12 236	>1914
1907	Perm Corporation	Siberia	Mining	23 12 242	1910
1907	Siberian Vladamir Mines	Siberia	Mining	23 12 247	
1907	Chita-Nerchinsk Company	Siberia	Mining	23 12 329	
1907	Anglo-Siberian Co.	Siberia, Urals	Mining	T	>1914
1908	Palace Hotel	St Petersburg	Hotel	23 12 336	
1908	Sugar Products Syndicate		Sugar	23 12 347	
1908	Caucasus Manganese syndicate	Caucasus	Mining	MYB 1911, 655	
1908	Koalit			23 12 351	
1908	Altai Gold Concessions	Siberia	Mining	23 12 353	April 1910 MYB 1911, 585
1908	London-Petersburg Syndicate			23 12 361	
1908	Nevaya Central Siberia	Siberia	Mining	23 12 362	
1908	Sabunchinsk Oil	Baku	Oil	23 12 364	
1908	The Vagliano Athracite Coileries Ltd	Rostov-on-Don	Mining and Coileries	T	January 1913 (London Gazette, 7 January 1913, 180)
1908	EMBA Caspian Oil Company, Ltd	South Urals	Oil	T	
1908	The Kyshtim Corporation	Siberia	Mining	MYB 1911, 799	
1908	Lena Goldfields	Siberia	Mining	MYB 1911, 807	

1908	Mount Elborus Mines, Ltd	Caucasus	Mining	MYB 1911, 846	
1909	Lanston Association			23 12 458	
1909	Scotland Company for the Import and Export of Herrings	St Petersburg	Fisheries	23 12 464	
1909	English New Russian Company of Coal, Iron and Rail Production	Yekaterin Gyb.	Heavy industry	23 12 469	
1909	Mining Company of the Mount Elbrus	Caucasus	Mining	23 12 471	
1909	Shilkinsk Gold Concessions	Siberia	Mining	23 12 478	
1909	Worthington Steam Pumps		Steam pumps	23 12 480	
1909	Anglo-Russian Incineration Furnaces Co.		Furnaces	23 12 481	
1909	Black Sea Oil Industries	Caucasus	Oil	23 12 482	
1909	Eastern Forestry Company	Siberia?	Forestry	23 12 494	
1910	Caucasus Gold Mining Syndicate	Caucasus	Mining	MYB 1911, 656	
1910	The Keya Syndicate, Ltd	Altai, Siberia	Mining	MYB, 1911. 792	

1910	The Consolidated Oil Trust, Ltd	Caucasus	Oil	T	
1910	Maikop Areas Ltd	Caucasus	Oil	T	
1910	The Ural Caspian Oil Corporation, Ltd	North East Caspian seashore	Oil	T	
1910	The Maikop Valley Oil Company	Caucasus	Oil	T	
1910	New Oil Properties	Caucasus	Oil	T	
1910	The Celeken Oil Fields, Ltd	Caucasus	Oil	T	
1910	West Ural Petroelum Company	Urals	Oil	T	
1910	Maikop-Shirvansk Oil Company	Caucasus	Oil	23 12 648	
1910	Maikop Spies Company	Caucasus	Oil	23 12 650	
1910	Russian Chain and Anchor Factory		Heavy industry	23 12 657	
1910	Russo-British Company Ltd	St Petersburg	Mining agency	23 12 664	
1910	Russian Oil Bearing Lands Ltd	Caucasus	Oil	23 12 670	
1910	International Maikop Ltd	Caucasus	Oil	23 12 672	
1910	Maikop Premier Oil Company, Ltd	Caucasus	Oil	23 12 673	
1910	Maikop Oil Industries	Caucasus	Oil	23 12 676	

1910	Bakinsk Russian Oil	Caucasus	Oil	23 12 679	1917
1910	Australian- Maikop Oil Company	Caucasus	Oil	23 12 682	1917
1910	Oil Industries Company Ld	Caucasus	Oil	23 12 683	1917
1910	Maikop Standard Oil Industries Ltd	Caucasus	Oil	23 12 686	1911
1910	Maikop Oil Company Ltd	Caucasus	Oil	23 12 691	1912
1910	Second Sakhalin Syndicate	Sakhalin	Mining	23 12 693	1911
1910	Oil Industry Company Ltd	Caucasus	Oil	23 12 695	1913
1910	Maikop- Apsheron Oil industriesLtd	Caucasus	Oil	23 12 699	1913
1910	London And Maikop Oil Corporation Ltd	Caucasus	Oil	23 12 703	1911
1910	Maikop Russian Oil Company Ltd	Caucasus	Oil	23 12 704	1911
1910	English Company for Obtaining Mines and Development of Industry in Russia	Siberia	Mining	23 12 707	1911
1910	Maikop Pipeline and Transport Company, Ltd	Caucasus	Oil	23 12 710	1916

1910	Bagran Goldmining Company	Siberia	Mining	23 12 715	1915
1910	Company for Obtaining Russian Oil	Caucasus	Oil	23 12 718	1914
1910	Maikop-Tamansk Oil Company Ltd	Caucasus	Oil	23 12 722	1913
1910	Maikop Midland Oil Industries	Caucasus	Oil	23 12 725	1917
1910	Scottish-Maikop Oil Company, Ltd	Caucasus	Oil	23 12 727	1914
1910	Fergansk Oil Company	Caucasus	Oil	23 12 728	1914
1910	Mynell Syndicate, Ltd	Caucasus	Oil	<i>MYB</i> 1911, 849.	
1911	Russian Anthracite Mines	Siberia	Mining	23 12 934	1915
1911	Maikop Oil Company Ltd	Caucasus	Oil	23 12 935	1914
1911	Russo-Kuban Industrial and Oil Company	Caucasus	Oil	23 12 939	1917
1911	Maikop Mutual Company for the Transportation of Oil	Caucasus	Oil	23 12 942	1911
1911	Russian Mining Corporation Ltd	Siberia	Mining	23 12 943	1916

1911	Maikop Cooperative Oil Industry	Caucasus	Oil	23 12 945	1911
1911	Maikop Company, Ltd	Caucasus	Oil	23 12 947	1911
1911	Northern Maikop Oil Company, Ltd	Caucasus	Oil	23 12 948	1911
1911	Chelekensk Oil Company, Ltd	Caucasus	Oil	23 12 949	1915
1911	Inca		Cotton	23 12 951	1913
1911	British Maikop Oil Company	Caucasus	Oil	23 12 955	1914
1911	United Maikop Oil Company	Caucasus	Oil	23 12 959	1916
1911	Pobeda	Caucasus	Oil	23 12 961	1916
1911	B. Briskini			23 12 972	1913
1911	Chitinsk Natural Soda	Siberia	Soda	23 12 976	1912
1911	Northern Ural Mining Company Ltd	Urals	Mining	23 12 977	1912
1911	National Products Company		Retailing?	23 12 982	1914
1911	Kuban-Black Sea Oil Company, Ltd	Caucasus	Oil	23 12 986	1914
1911	Black Sea Oil Industries	Caucasus	Oil	23 12 997	1912

1911	Maikop-Moscow Oil Company, Ltd	Caucasus	Oil	23 12 1135	1912
1911	Maikop-Shirvansk Oil Company	Caucasus	Oil	23 12 1304	1913
1911	The Oil Trust of Russia, Ltd	Undefined	Oil	T	
1911	The North Caucasian Oil Company	Caucasus	Oil	T	
1911	Russian Ventures Ltd	Siberia	Mining	T	
1911	Pioneer Company of Siberia	Siberia, Amur	Mining	T	
1911	Maikop Victory Oil Company, Ltd	Caucasus	Oil	T	
1912	The Russian General Oil Corporation	Caucasus	Oil	T	
1912	Eggo			23 12 1328	1913
1912	Chengeleksk Possessory Company	Kertch		23 12 1325	1913
1912	Chermoev Syndicate	Caucasus		23 12 1331	1913
1912	Sakhalin Oil Fields Ltd	Sakhalin	Oil	T	
1912	The Sissert Co.	Siberia	Mining	T	
1912	The Russian Petroleum Co.	Caucasus	Oil	T	
1912	The Tanalyk Corporation, Ltd	Siberia	Mining	T	
1912	The Russian Eastern Agency Ltd	Undefined	Financing	T	

1912	Maikop-Eastern Oil Company	Caucasus	Oil	23 12 1332	1912
1912	United Siberian Exploration Co.	Siberia	Mining	23 12 1348	1913
1912	Russian Anglo-American Corporation			23 12 1349	1914
1912	Lewandowski Petroleum Company	Caucasus		23 12 1351	1916
1912	Petersburg Company of Landed Property and Mortgages	St Petersburg	Banking/Real Estate	23 12 1355	1913
1912	Orenburg Gold Mines	Siberia	Mining	23 12 1346	1912
1913	The West Caucasian Oilfields, Ltd	Caucasus	Oil	T	
1913	Russian Gold Mines Ltd	Siberia	Mining	23 12 1810	1916
1913	Gadhinsk-Chelekensk Oil Company	Caucasus	Oil	23 12 1825	1916
1913	International Russian Oil Industries Company, Ltd	Caucasus	Oil	23 12 1828	1914
1913	Maikop New Production	Caucasus	Oil	23 12 1832	1915
1913	New Caucasian Petroleum Company, Ltd	Caucasus	Oil	23 12 1847	1917
1913	Maikop-Ashheron	Caucasus	Oil	23 12 1853	1914

	Petroleum Company, Ltd				
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Table 3. Requests to the Foreign Office for Assistance in Customs Disputes, 1892-1902.

Year	Requests	Cases in which diplomatic action taken
1892	3	0
1892	3	1
1893	9	1
1894	5	0
1895	5	0
1896	6	0
1897	3	1
1898	3	1
1899	6	4
1900	6	2
1901	1	0
1902	0	0