

THE STATUS OF RUSSIAN PETROLEUM¹

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AFTER the negotiations undertaken at Genoa and The Hague in 1922 for Russia's recognition by Western Europe, the settlement of her foreign debts, and the restoration to their original owners of concessions granted by her former Government, had finally broken down, Moscow's petroleum policy entered a new phase. Prior to this the Standard Oil group, alarmed by the publication of a proposed agreement which gave its Royal Shell rival a practical monopoly of the Russian fields, had got into action, and a syndicate to defend the interests of French and Belgian investors in the Russian oil industry had been organized. At The Hague an agreement was reached by the Royal Shell group, the Noble interests controlled by the Standard Oil, and the Franco-Belgian Syndicate, which resulted in the formation of the International Association of Petroleum Companies in Russia, which was designed to deal as a unit with the Russian Government regarding its members' respective claims in that country.

Less than two years later, after its representatives had tried repeatedly to reach an agreement with the Soviet authorities, this Association went to pieces. That was not on account of the rivalry between the Standard Oil and the Royal Shell groups, for they were working hand in hand so far as Russia was concerned, but because a conflict of interests had arisen between the

Franco-Belgian shareholders and the British, Dutch, Russian, and American producers. The latter were chiefly interested in securing the right to operate again in Russia and in extending their concessions in that country, while the Franco-Belgian shareholders wanted to get some sort of settlement that would boom their stocks. Consequently the Franco-Belgian group was not particularly interested in new concessions of the sort its associates were seeking, which would benefit principally the latter.

The Soviet Government, notwithstanding the demoralized condition of its petroleum industry at the time, took shrewd advantage of this discord. The men at Moscow were chiefly interested in getting capital to develop and work the wells under their direct control. The only way to do so was to sell oil abroad, for the domestic market brought them little net return. Large foreign sales were impossible, both on account of the opposition of the great petroleum groups just mentioned and on account of inadequate production at home. So the Soviet Government began making small sales to foreign purchasers whenever an opportunity offered. Thus they gradually worked up a business large enough to worry the Royal Shell and Standard Oil interests, and to induce them to buy more freely directly from Soviet stocks. This policy accomplished its object. A big contract for deliveries to the Royal Shell people, which the latter defended with the argument that it was made in

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the interests of the British Empire, caused great dissatisfaction in the International Association; and it was this contract that really broke up that body.

All this time the Russians were busily restoring their wells and pipe lines and organizing distributing agencies in Western Europe. Under the competent supervision of Serebrovski, the former engineer of the Noble interests, the 'Asneft,' which handled production in the Baku field, and the 'Grosneft,' which was formed to develop the new and very promising Grosny field, were notably successful. The third Soviet oil syndicate, 'Embanefit,' operating in the Emba district, can be disregarded, for its production is not important. This is shown by the following figures:—

District	Gross Product in Million Poods	
	1913	1925
Baku.....	469.0	352.1
Grosny.....	73.7	144.0
Emba.....	6.0	16.2
	<hr/> 548.7	<hr/> 512.3

The Soviet managers expect to increase the output during the current year to 597.5 million poods, which is considerably more than the maximum production before the war. This larger product, if it is actually attained notwithstanding the present lack of well supplies, cannot perhaps be marketed abroad in the same proportions as the smaller output of previous years; but the domestic market is growing rapidly. One of the reasons why Moscow is endeavoring to secure foreign credits is to purchase tubing and other supplies for developing these fields. How successful Soviet Russia has been in recovering her old market abroad and acquiring new markets is indicated by the fact that her annual exports of petroleum products have increased from 921,000

tons for the best year before the war to 1,338,000 tons in 1924-1925, the most recent year for which we have complete statistics. Of the latter amount, 62,000 tons were crude oil, 276,000 tons gasoline, 391,000 tons illuminating oil, 168,000 tons Diesel engine oil, 426,000 tons fuel oil, and 15,000 tons other petroleum products. Heavy purchases by different foreign Governments, particularly France and Italy, contributed to this increase; but the great petroleum companies, including those of England, have also helped to enlarge the figures. In the latter country the Soviet corporation, Arcos, Limited, has handled wholesale deliveries; and in August 1924 Moscow incorporated in Great Britain 'Russian Oil Products, Limited,' to sell directly to consumers, with the result of appreciably lowering gasoline prices in that country.

This last move doubtless explains the recent agitation against Russian oil, which certain interests in Great Britain started last autumn. The Association of British Creditors of Russia distributed circulars attacking Russian Oil Products, Limited; and a member moved in the House of Commons that the commercial treaty with Russia be abrogated. Sir Henri Wilhelm August Detterding, Director-General of the Royal Shell Company, vigorously backed the Association of British Creditors of Russia in this campaign, and published a violent attack against the Russians.

Thereupon Mr. Lomov, the chairman of the All-Russian Petroleum Syndicate, took up the cudgels for his country. During the controversy that followed, the whole question of credits, prices, and petroleum policies was thoroughly aired. Replying to the charge that the Russians could underbid British gasoline producers in their own market because they paid starvation wages, Lomov pointed out that the

Royal Shell had pursued precisely the same policy in fighting the Soviet industry. Some of the facts that came out in the debate were very interesting. For example, Lomov published the following data regarding the taxes paid by the oil industry in Russia:—

‘Grosneft and Embaneft pay five kopecks a pood and Asneft pays three and one-half kopecks a pood in excise taxes. The petroleum industry as a whole paid during 1924–1925 the following amounts to the Government: income tax, 9,140,000 rubles; to the Fund for Improving the Physical Condition of the Workers, 3,210,000 rubles; to the General Industry Fund, 5,940,000 rubles; and in profits to the State, 10,000,000 rubles additional. Wages are eighty-four per cent the rate before the war. General benefits provided for the workers make up the deficit. The eight-hour day is universal.’

Of course, Mr. Lomov had no answer to make to the accusation that his Government had profited by confiscating without compensation the capital investments of the former private petroleum owners and operating companies; neither could he deny Mr. Detterding’s charge that the Soviets were employing in the production and distribution of petroleum railways, pipe lines, and other improvements paid for with the proceeds of the Tsarist loans floated in Western Europe. Mr. Lomov had rather the advantage of Mr. Detterding, however, in his assertion that the Royal Shell Company had also bought ‘stolen goods,’ and that it made no difference in morals whether part or all of the goods it bought were stolen.

This controversy should not be allowed to conceal the fact that, behind the screen of this juristic argument over the legality of confiscation when enforced as a general measure and not exclusively against the citizens of a

foreign country, the two parties to the dispute were really jockeying for a bargain. Mr. Lomov kept hinting at a ‘businesslike settlement’ of the issues in controversy, and one could detect beneath the surface of these mutual recriminations an obvious desire to reach a basis of understanding, not only between the Royal Shell Company and Moscow, but between all the big petroleum companies and the Soviets.

In a recent interview Mr. Detterding alluded to the latest scheme for developing Russia’s petroleum resources. A group of financiers headed by the Banque de Paris et des Pays Bas is said to consider advancing long-term credits to Russia in return for a concession in the Caucasus. That concession is to be large enough to supply the entire consumption of France. The same parties are reported to contemplate organizing a monopoly for the sale of Russian petroleum throughout Europe. Mr. Serebrovski, the Soviets’ chief oil engineer, is understood to have discussed this plan with leading representatives of the industry during his recent visit to Western Europe. In commenting upon these rumors Mr. Detterding was inclined to give them full credit. To be sure, he said, a man must be a Frenchman to venture upon such an enterprise with the French money market in its present condition. He hoped the scheme would succeed, nevertheless, because it would mean the investment of more foreign capital in Russia, which would have to be guaranteed protection. This would undermine the whole Communist system. He refused to believe, however, that the French would buy ‘stolen property,’—which, by the way, the Royal Shell people originally bought from the French Rothschilds group,—and assumed that the new concession would lie in fields not previously exploited.

Mr. Detterding’s opinions are not

shared in full by the gentlemen in control of the Franco-Belgian petroleum interests, who are inclined to regard fields hitherto undeveloped as merely reserves to be used to compensate the former possessors for the property taken from them in older fields, including the oil that has been extracted from those fields by the Soviet authorities.

Several oil grants have already been made by the Soviet Government to foreign enterprises, such as the Italian-Belgian Mining Company of Georgia, the Sinclair group, and the Norwegians, but none of them is in the Grosny or the Baku field. This leads us to conclude that other concessions will also be confined to newer and less developed districts. But such concessions are not so attractive for outside investors, because a large capital will be required to de-

velop them, and because English grantees already have a prior claim to them by virtue of certain pre-war titles. Yet the fact remains that the Soviet Government is quite willing to grant extensive concessions of this character in return for loans. That does not constitute a break with that Government's previous policy, for as early as 1922, at least, it was willing to consider similar offers.

The principal fact that emerges from all this discussion is that the struggle between Soviet Russia and the capitalists of Western Europe and the United States for possession of Russia's petroleum resources has entered a new phase. Western oil men can no longer dictate their terms to Moscow as they pretended to do four years ago. They will have to compromise, and eventually they will be very willing to do this.

'AMERICANIZED' INDUSTRY¹

YANKEE METHODS FOR ENGLISH EMPLOYERS

No two countries could well be more alike or more different than England and America. There is a similarity of problems as of speech and characteristics, but there is so vast a dissimilarity of conditions that only rarely can the experience of either be translated into terms of the other's life and habits. This is particularly the case in the sphere of industry. Between that sprawling continent, with its agricultural background, its assured domestic market, its wealth of raw materials,

its thin and scattered population, — for America with all her millions is still mainly margin, — and this crowded urbanized island that lives by selling its goods, lending its capital, and proffering its commercial services all over the world, the points of resemblance are few and the points of contrast many.

It is only, therefore, with large reservations that one approaches any attempt to apply the industrial lessons and practices of America to the more static and incomparably more complex circumstances of Great Britain.

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