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## ARTICLES

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### *Foreign Businessmen, the Tsarist Government and the Briansk Company*

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The role of massive foreign investment in both public debt and private industry, one of the striking peculiarities of the economic framework of finance and development in prerevolutionary Russia, has long been a subject of study and polemic. One of the most heatedly discussed aspects of this general problem has been the political ramifications of foreign investment. Specifically, did foreign investment, which even most Soviet scholars admit quickened the pace of Russian industrialization, particularly in the 1890s when the annual growth of industrial production exceeded eight percent, also result in the loss of effective political independence for the Russian state? Not surprisingly, most Soviet scholars have followed Lenin's lead and have argued that this was in essence the case.

In my study of foreign businessmen in Russian industry before 1914 I came to different conclusions. Simply stated, the evidence suggests that the Russian state effectively controlled foreign businessmen and used them to help implement the government's basic policy of more rapid economic development for greater political power. And if accelerated Russian economic progress was not purchased at the price of foreign domination, then there is some reason to believe that other governments, including those in today's third world, may also profitably harness foreign investment to their own

development strategies if they wish.<sup>1</sup> Although my conclusions have raised no storm of protest, it is reasonable to anticipate that such unorthodox findings on the political implications of foreign investment in Russia will eventually bring sharp rejoinders. With this in mind, I wish to add hitherto unpublished evidence which contributed to my original findings, but which with other material threatened to make an already long study excessively so. Thus I propose to make a close examination of the struggle over the fate of a major steel company as a sort of test case for my conclusions concerning state-business relations.

Since the firm in question was initially an all-Russian firm, led by aggressive Russian entrepreneurs who did not step aside willingly for their foreign counterparts, this study also involves the third point of the relevant triangle and thus allows us to say something about the nature of multilateral relations between Russian businessmen, foreign businessmen and the state during the Russian «take-off».

Exceptional dynamism was the distinguishing characteristic of the Briansk Ironworks Company from its inception. Founded in 1873 with its plant at Bezhitsa in Orel province of central Russia, the firm began as a producer of iron rails for railroad construction. Briansk was one of a small number of companies which aggressively seized the profit opportunities inherent in rapid railway construction and a more sophisticated policy of state protection in the 1870s.<sup>2</sup>

The founders, P. I. Gubonin and V. F. Gobulev, were directed by a wealthy noble businessman, Prince V. Tenishev, who was the firm's top administrator until his retirement in 1896. Representative of the aristocratic entrepreneur often found in eastern Europe, Prince Tenishev had the personal connections with court and bureaucracy necessary for the success of a firm based upon a new tariff policy and expanded, state-supported railroad construction. Under his

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<sup>1</sup> See JOHN P. MCKAY, *Pioneers for Profit: Foreign Entrepreneurship and Russian Industrialization, 1885-1913* (Chicago, 1970), particularly pp. 268-286 and 379-389.

<sup>2</sup> Two company publications have been particularly useful for the early history of the firm: *Aktsionernoe Obschestvo Brianskogo rel'soprokatnogo, zhelezodelatel'nogo i mekhanicheskogo zavoda, Obzor desiatiletnei deiatel'nosti Obschestva Brianskogo... Zavoda, 1873-1883 g.* (St. Petersburg, 1885), and *Kratkii istoricheskii ocherk prinalozhshchikh obschestvu zavodov, zheleznogo rudnika i ugol'nykh kopei* (Moscow, 1896).

leadership dividends averaged 15 percent from 1875 to 1880, while capital stock increased more than fourfold. The owners felt that a large portion of their success was due to their superior management. And if their self-congratulatory histories of the firm must be read with a critical eye, they also portray an entrepreneurial dynamism rarely found in Russia before the 1890s.<sup>3</sup>

This dynamism was certainly evident in the 1880s. As demand for metallurgical products in general and rails in particular contracted during this depressed decade, profits and dividends fell sharply, one major steel company (Putilov) went bankrupt, and in 1882 the first syndicate or cartel was formed in the Russian steel industry to prevent competition and divide the market.<sup>4</sup> This cartel prevented disaster, but it certainly did not bring prosperity. In the words of a leading Soviet authority, «The position of all members of the rail syndicate remained difficult until the beginning of the 1890s».<sup>5</sup> Briansk did better than most: it was one of only two firms in the cartel paying any dividend whatsoever at this time, although the rate fell continuously from 25 percent in 1882 to 12 percent in 1888.

Had the basic structure of the Russian steel industry been established, Briansk might have been able to ride out this cyclical contraction of a cyclical industry with a certain equanimity. Yet an informed observer knew this was impossible. The industry was on the verge of its most revolutionary period since the growth of iron production in the Urals under Peter the Great in the early eighteenth century. Not until the Stalin era would innovations of such magnitude recur. This revolution involved a massive shift in the geographical center of the Russian steel industry from the old northern regions to the completely new southern industrial area in the western Ukraine and Donetz Basin, the most exciting and significant development of Russia's prerevolutionary industrial spurt.<sup>6</sup>

<sup>3</sup> BRIANSK, *Obzor*, pp. 2-4.

<sup>4</sup> Fuller discussion of these problems may be found in MCKAY, *Pioneers for Profit*, pp. 112-119, 299-303, 340-349, and the sources cited there.

<sup>5</sup> I. F. GINDIN, *Gosudarstvennyi bank i ekonomicheskaiia politika tsarskogo pravitel'stva, 1861-1892 gody* (Moscow, 1962), p. 259.

<sup>6</sup> This development began with John Hughes in 1870, as is well-known. In English, see J. N. WESTWOOD, *John Hughes and Russian Metallurgy*, «Economic History Review», ser. 2, 17 (1965), pp. 564-569.

One of the most striking aspects of this development was the almost complete dominance of firms with foreign capital, technology, and management, and the very secondary role played by indigenous Russian firms. Yet there was the exception that proved the rule: the Briansk Company alone seized this opportunity by itself and contributed markedly to this movement. In so doing it continued to distinguish itself as a Russian firm of unusual resourcefulness and remained a source of Russian pride and profit in the face of foreign triumphs and leadership.

How are we to account for the firm's southern success? Two factors stand out. First, Briansk's relations with the Russian state were excellent and they resulted in a privileged position in the industry. One keen and impartial observer felt that Briansk had always been an object of marked favor on the part of the state, and with an «exclusively Russian management always receives state orders more easily than its competitors».<sup>7</sup> Certainly the publications of the company, particularly that of 1885, spoke of the great need for government support in the form of premiums and large orders if the company were to build a southern plant. It is also clear that large state orders eased the strains of the company's difficult transformation, which led to grave problems in 1890-1892, when all smelting and refining was concentrated at the southern plant, while the northern works were completely reorganized as the largest producer of locomotives and freight cars in Russia. This was of course another example of Briansk's excellent contacts with the government, since such equipment was sold principally to state-owned railroads.

Second, the company was able to use foreigners as subordinates in several capacities. The *Crédit Lyonnais* engineer in Russia noted with admiration that most of the vast southern plant at Ekaterinoslav was excellent and embodied the plans and suggestions of the high quality foreign technicians the Russian directors had used intelli-

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<sup>7</sup> «Crédit Lyonnais», Paris, France, *Études Financières* (hereafter «C. L.»), BRIANSK, *Étude*, January 1903, and Note, April 1900. This extremely important source for late nineteenth-century economic history has several excellent manuscript analyses of Briansk. This source, as well as the other archival sources used in this study, is discussed in *Pioneers for Profit*, pp. 396-400.

gently.<sup>8</sup> Thus Briansk's directors obtained indispensable Western techniques without relinquishing leadership. Similarly, Briansk was one of the first Russian firms to tap successfully Western financial markets in the early 1890s without simultaneously surrendering control. For although the Russian owners increased Briansk's joint-stock capital and their investment from 1,800,000 rubles in 1886 to 5,400,000 in 1889, the need for even more funds was a critical problem during the wholesale transformation of the firm. Thus Briansk sold 6,000,000 francs (2,200,000 rubles) of 5 percent first mortgage bonds in France in January 1890 through the *Crédit Mobilier*.<sup>9</sup>

The need for increased capital was probably the reason for merger discussions in 1890 and 1891 with the famous French-owned Huta-Bankova Steel Company, the largest producer in Tsarist Poland and the oldest, brightest jewel of the Bonnardel Group in Russia. The Bonnardel Group, an informal grouping of firms around the very wealthy Lyons capitalist Jean Bonnardel, was the most consistently successful and largest amalgam of foreign controlled firms in Russia.<sup>10</sup> This group was clearly Briansk's equal. Perhaps that was the problem. So nearly equal, though with somewhat different assets, there was no agreement concerning who would absorb whom and which group of managers would step aside.<sup>11</sup> So Briansk expanded its plants, while the Bonnardel Group's Huta-Bankova Company founded its own large integrated producer in the Donets Basin.

Yet collaboration if not merger continued, even if we cannot trace every step of the relationship with exactitude. While the possibilities of merger were being explored, the Russian and the French businessmen examined the problem of raw materials neces-

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<sup>8</sup> « C. L. », BRIANSK, Note, April 1900.

<sup>9</sup> For an interesting foreign analysis of BRIANSK's prospects, see « Le Pour et le Contre », August 24, 1891, in Archives Nationales, Paris, France (hereafter cited as A. N.), 65 AQ, K 30. This box contains literally hundreds of clippings on Briansk from French language financial journals over more than twenty-five years. It was of the greatest usefulness in clarifying certain points in Briansk's evolution.

<sup>10</sup> MCKAY, *Pioneers for Profit*, pp. 337-367.

<sup>11</sup> The financial press believed this the case: for example, « Le Journal Financier », July 31, 1892, in A. N., 65 AQ, K 30.

sary for southern production. This resulted in cooperation between the firms in the formation of the Dubovaia Balka Mining Company in late 1892 to purchase the extremely rich Krivoi Rog iron deposits from the heirs of Alexander Pol'. As the tempo of industry and speculation quickened in 1895 the ties between Briansk and the Dubovaia Balka Mining Company grew tighter in three joint ventures, the most important of which was the Kerch Metallurgical Company.

Briansk's interest in yet a third major plant was symptomatic of the boom conditions of the late 1890s. Briansk's profits rose threefold from 1892 to 1897, while capital was increased by only 50 percent in the same period. Demand for metallurgical products was firm and so were prices. Except for a few pessimists worried about the consequences of such rapid expansion, the biggest uncertainty for the steel industry seemed to be on the supply side, and specifically the availability of adequate iron ore.

True, the exceptionally rich and easily mined ore of Krivoi Rog had served well for ten years. But by 1895 fears of rapid exhaustion of and high prices for Krivoi Rog ores encouraged leading firms to seek alternative supplies on the Kerch Peninsula on the Sea of Azov. Plentiful, low-grade, and presenting numerous technical difficulties, Kerch ores were nonetheless cheap: not more than 30 or 40 percent of the price for Krivoi Rog ore per unit of pure iron.<sup>12</sup> That Briansk became interested in this alternative source of supply while most firms continued to focus on Krivoi Rog, and then sought to reap large gains from these low quality ores, shows the company's undiminished aggressiveness and imagination.

Initially Briansk used some of these ores in briquette form after shipping them by water and rail to the main plant at Ekaterinoslav. Judging by the experiences of the two Belgian companies on the Kerch Peninsula, and the Kerch Company itself later on, this involved technical difficulties that made such shipments of doubtful value. With market conditions excellent the Russian directors then decided in 1897 that Briansk should build another vast integrated steel mill at Kerch itself, to utilize the great quantities of cheap ore

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<sup>12</sup> MCKAY, *Pioneers for Profit*, pp. 129-131.

there.<sup>13</sup> It was soon apparent, however, that Briansk by itself would lack the financial resources for such an expensive undertaking.

In these conditions the top Russian directors of Briansk, who had previously used foreign technicians and investors in subordinate positions, moved much closer to foreign businessmen. They formed the kind of implicit Russian-foreign partnership often seen in firms founded in Russia during the surging 1890s. Although the contours of this specific pooling of interests are at points somewhat obscure, it is possible to think of it as an example of the tenuous though genuine fusion of foreign and domestic business in cooperative efforts at this time. In this specific instance there was an agreement between Briansk and the directors of the Dubovaia Balka and the South Russian Mechanical Engineering Company to incorporate and complete the Kerch undertaking as a joint venture.

There was apparently some hard negotiating, but the Kerch Metallurgical Company was indeed incorporated in late 1898 with the joint-stock capital of 10,000,000 rubles divided equally between the partners. Yet whereas the Banque Suisse et Française subscribed one-half of Kerch's capital for the French founders and insiders in cash, the Briansk Company received 5,000,000 rubles in shares and 1,350,000 rubles in debt for purchases and investments made prior to incorporation. Briansk was no doubt overpaid for its contribution, and could expect a large profit if Kerch shares could be sold in France at anything near par. Such was the case when, soon after incorporation, the French bank sold 3,000,000 rubles of Briansk's Kerch shares to French investors for 3,600,000 rubles.<sup>14</sup> This rapid liquidation of shares suggests that Briansk's directors regarded the whole affair more as a short-term speculation than a long-term investment. Yet Briansk certainly remained involved. And when the Kerch Company increased its capital by 5,000,000 rubles in 1899 Briansk subscribed almost one-third of the issue, with funds borrowed specifically for that purpose from the Banque Suisse et Française.

This increase was also insufficient. By 1900 Kerch's second mammoth blast furnace neared completion and more funds were

<sup>13</sup> A. N., 65 AQ, K 118, Kerch, Prospectus, 1898.

<sup>14</sup> I. F. GINDIN, *Neustavnye ssudy Gosudarstvennogo banka i ekonomicheskaiia politika tsarskogo pravitel'stva*, « Istoricheskie zapiski », 35, pp. 107-108.

required. Briansk, however, was beginning to have problems of its own. Profits fell off sharply in 1899 and even more so in the economic crisis of 1900. The company's expansion program at its two existing plants also required funds. Little wonder, then, that once the Russian central bank, the State Bank, decided to make exceptional loans to major Russian firms to help them through the crisis Briansk received such a loan. Under the close supervision of Finance Minister Sergei Witte the State Bank advanced Briansk 5,000,000 rubles in November 1899 on the security of 8,000,000 rubles of its authorized but unsold first mortgage bonds. The pride of the steel industry, from the Russian point of view, deserved government support at another critical moment.

At the same time Briansk was securing a state loan, however, its « Russian » character was fading fast. Rapidly rising profits in the steel industry had brought an even faster rise in stock prices. The price of Briansk common advanced from a high of 133 rubles as late as 1893 to a high of 557 rubles during 1896, with a yearly high of 523 rubles in 1899 after fluctuating between 450 and 500 rubles in the three preceding years.<sup>15</sup> These big moves, coupled with inside knowledge of an anything but sky-blue future, led Briansk's owner-managers to liquidate their holdings. Prince Tenishev led the way in 1896 when he retired from the company with a great fortune; Golubev and other insiders followed suit in 1899. With the aid of clever but unscrupulous intermediaries they passed their shares to small investors in France at very high prices for great profits. No doubt the French partners in the Kerch company helped in these secondary distributions. The result was that Briansk, the pride of Russian metallurgy, was approximately 90 percent French-owned by 1900.<sup>16</sup>

Yet the Russian directors had no intention of meekly turning over leadership to an army of small foreign investors. Therefore to provide Briansk with funds for current operations, perhaps to pay inflated dividends, and certainly to maintain a lever for control, the Russian insiders advanced from their own pockets short-term loans

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<sup>15</sup> *Ibid.*, p. 106.

<sup>16</sup> A. N., F 30, 343, Briansk, Delcassé to Caillaux, December 18, 1900.

of at least 5,000,000 rubles at high interest rates. The calling, or threat of calling, these loans would at least allow continued and profitable control of the company, and quite probably would provide a means of manipulation and improper, if substantial, gains at the expense of French shareholders in the worsening economic crisis.

This strategy might well have succeeded if the fate of Briansk had been the sole consideration. French banking and financial circles in general, and the men from the Dubovaia Balka in particular, were certainly not above shearing the French investing public. And that public seldom succeeded in defending its own interests unless they coincided with those of the rich and the powerful. Yet this was precisely the case. The Dubovaia Balka and Mechanical Engineering Companies, led by directors Motet and Gorjeu, with their connections with leading brokers and bankers in Lyons and Paris and frequent participation in the loosely constructed Bonnardel Group, were very much concerned with the Kerch Company, where their money and reputations were invested. Briansk's Russian directors felt otherwise, for they had recouped much of Briansk's original investment. They preferred to sever their ties with Kerch and its French directors now that possible losses there clearly exceeded probable gains.

In the face of these divergent aims and interests the original partnership of the two business elites exploded in bitter and violent estrangement. In the first months of 1900 the French financial press began to attack the secret dealings and alleged incompetence of Briansk's Russian management and called for a committee of foreign shareholders to place French representatives upon the board of directors.<sup>17</sup> The French group leading Kerch (Motet, Gorjeu, etc.) was preparing a powerplay extremely rare under nineteenth century capitalism, and probably unique in Franco-Russian business relations. Mobilizing disgruntled stockholders, they ousted Briansk's Russian management in a successful proxy fight.

The displaced Russians promptly called in all their loans to Briansk. These loans now totalled eight million rubles and had to be repaid at any cost if the firm were not to go into bankruptcy,

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<sup>17</sup> For example, « Paris-Bourse », June 11, 1900, in A. N., 65 AQ, K 30.

where the Russian creditors would again take control.<sup>18</sup> Motet, Gorjeu, and their associates then tapped their enormous financial resources and paid in full. They also negotiated with the Société Générale of France an 8,000,000 ruble increase of Briansk's capital to reimburse themselves and their bankers. This successful increase came at the very beginning of 1901, near the very depth of the panic, and its success is indicative of the power, resources and determination of the French group.

The former Russian directors fought back. «The projected capital increase raised a veritable tempest of protest» from them at what must have been an extraordinarily wild extraordinary meeting in January 1901.<sup>19</sup> Unalterably opposed to the increase of capital, the Russians said that, even if the French majority voted affirmatively, it made no difference, implying that they would secure an administrative veto after taking their case to the Minister of Finance. As one French financial sheet put it, «in reality they still consider themselves the sole proprietors of the company; the foreigners are permitted to put in their money and nothing more. They regard the intervention of foreigners on the board of directors as an intrusion, and for a little they would decree that profits are to be distributed only among Russian shareholders».<sup>20</sup>

The increase in capital and continued investment in the faltering Kerch Company was the immediate and ostensible source of conflict between the two business elites. Whereas the French sought to hold Briansk and Kerch together so that neither would be sacrificed, the previous Russian directors felt an otherwise sound Briansk was being compromised in stubborn folly. But there was more involved. As I have suggested, Briansk was the great all-Russian success in the southern steel industry, a firm intimately linked to state policies and administrators. Kerch was a hastily conceived unfinished Franco-Russian speculation, a product of a fleeting insatiable foreign demand for Russian securities. From the point of view of the former Russian directors, Briansk was the lasting concern and Kerch only a momentary excess.

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<sup>18</sup> A. N., F 30, 343, Delcassé to Caillaux, December 18, 1900.

<sup>19</sup> «Banque Privée», January 30, 1901.

<sup>20</sup> *Ibid.*

As the special meeting showed, the determined and resourceful former Russian directors encouraged their old collaborators in the Russian government to take up the gauntlet and to reverse the foreign decisions. In the light of subsequent developments we can see that they clearly found a sympathetic hearing in the bureaucracy, though we do not know to what extent they created such support or only tapped it. Most probably the Russian political leadership already shared the feelings of the old directors and willingly took their place vis-à-vis the French. The French businessmen had won the first round, but the contest was far from over.

The state and its energetic Minister of Finance, Sergei Witte, were already deeply involved. One legacy of the Russian directors was the large loan of November 1899 from the State Bank. The French interests quite naturally sought to maintain or extend such credit as the financial needs of Briansk and Kerch were met as a whole, while Witte and the State Bank looked towards recovering their advances. Thus a series of discussions between the French and the State Bank resulted in firm proposals in October 1901.

The French conceded that French firms in Russia could not expect long-term loans from the State Bank, and agreed to repay the State Bank as soon as possible. In the meantime they sought temporary advances for both firms through Briansk. Yet Kerch had at least three strikes against it as far as the state was considered. It was an over-capitalized and poorly-executed speculation; it was now largely French and should therefore depend on Frenchmen for financial resources; and its completion only promised to exacerbate the over-production crisis in the steel industry. Therefore Witte and the State Bank refused to finance Kerch in any way, directly or indirectly, and made any further loans to Briansk dependent upon Briansk's agreement to stop financing Kerch as long as any loans from the State Bank were outstanding.

This ran counter to the French group's fundamental goal and was therefore unacceptable. In a complicated set of moves the French group then provided new money for Kerch while making Briansk underwrite the considerable risks of such an operation—exactly what the Russians, both private and official, had sought to prevent. In essence the mechanism was the following: Briansk

bought 6,000,000 rubles of unsold Kerch first-mortgage bonds for 4,500,000. Since Briansk had no funds for such a purchase, it borrowed the money it paid Kerch from the French bankers. Kerch thus received funds from the French, but the money first passed by way of Briansk, by far the stronger credit risk.

This arrangement left Briansk holding the bag and was actually a qualified victory for the French point of view. Since the State Bank's initial loan of November 1899 to Briansk was for only nine months, the Bank had to agree, at the very least, to renew its credit. If not, Briansk might well come crashing down not only with Kerch, but with other firms sucked into a wave of bankruptcies. And indeed, the State Bank grudgingly renewed its credit three times before the final solution of the whole question in late 1902.

For a time it was touch and go, and the French Foreign Office felt it necessary to exert very strong pressure on the Russian government, at the request of the Kerch and Société Générale directors, to secure these renewals. In October 1901 Motet complained bitterly of the Russian government's hostility in a private audience with the French Minister of Finance, Caillaux. Motet claimed that Witte had maliciously refused Kerch the right to import coal duty-free from Turkey for that portion of pig iron that would be sold abroad and for which Kerch had a large order. «There is», he said, «an implacable desire to ruin the industries in which French capitalists are interested. Thus some Russians want the crisis in metallurgy to worsen».<sup>21</sup>

These incidents, combined with as yet unsuccessful attempts to gain approval of the metallurgical syndicates, led to formal requests to aid Briansk when Vishnegradskii, the director of credit operations at the Russian Ministry of Finance, spoke with Caillaux in Paris in October 1901. Vishnegradskii subsequently wrote that he had spoken to Witte, who said he would do what he could for the French at Briansk, in contrast to previous refusals to do anything.<sup>22</sup> The scarcely veiled threat was that the collapse of French industrial companies would lead the French to close or restrict their credit

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<sup>21</sup> A. N., F 30, 343, Caillaux, undated note [October 1901].

<sup>22</sup> A. N., F 30, 343, Vishnegradskii to the French Director of Funds, October 29, 1901.

markets to future demands from their Russian ally.<sup>23</sup> Thus the State Bank's reluctant extension of its loan to Briansk was a real achievement for the French directors, who refused to sever the Briansk-Kerch tie, and who were determined that the two firms would sink or swim together.

This credit arrangement in late 1901 permitted the Kerch Company to complete almost all of its plant by the middle of 1902. Open-hearth furnaces for Thomas steel-refining and most of the rolling mills of an enormous integrated producer were then finished. The company was no longer pursuing panic exportation of pig iron at sacrifice prices, but was beginning to produce finished products for the domestic market. If Russia had not been in the midst of a depression, and if the firm's resources had not been exhausted, there would have been reason for cautious optimism.

The situation was in fact desperate, and some type of financial reorganization of Kerch was now inescapable. Such a reorganization, a common enough occurrence under nineteenth-century capitalism and particularly endemic in early twentieth century Russia, would have forced shareholders to take losses to attract new capital on preferred terms.<sup>24</sup> Once again negotiations were inevitable since Kerch's major creditor, Briansk, was in turn dependent upon the Russian state and the French capitalists.

In July 1902 Dorizon of the Société Générale advanced new propositions. Although Kerch would be completed in September, he said, it would close its doors due to lack of working capital and Briansk's investments there would finally end. Yet Briansk's outstanding short-term debt to French bankers of almost 6,000,000 rubles was a «grave threat».<sup>25</sup> If there were no arrangement reached, then Briansk itself would also suspend payments and lengthy bankruptcy proceedings would begin. Kerch would pass to the foreign syndicate holding an option on Briansk's Kerch bonds for a very low price. Neither development was desirable according

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<sup>23</sup> A. N., F 30, 343, notes, November 10 and 22, 1901.

<sup>24</sup> On financial reorganization in Russia, see McKAY, *Pioneers for Profit*, pp. 225-232.

<sup>25</sup> A. N., F 30, 343, Louis Dorizon to Witte, July 1/14, 1902 (that is July 1 by the Russian calendar, July 14 by the western).

to Dorizon. Therefore he proposed that the Russian State Bank buy the Kerch bonds from Briansk at their face value of 6,000,000 rubles and receive 18,000 shares of Kerch from Briansk as a bonus. Witte refused, noting the unsatisfactory financial condition of Kerch and reiterating his earlier demand of a clean break between the two steel companies.

At this point the French again applied heavy political and financial pressure. A rumor that both the State Bank and the Société Générale would shortly call in their loans to Briansk sent Briansk's battered stock plunging again from 113 rubles to 90 rubles on the Paris Exchange. Caillaux, the French Minister of Finance, warned again of the seriousness of such a bankruptcy for Russia's general credit rating and for the French government as well, since it had permitted the official listing of Briansk in France.

In the face of these pressures Witte was seemingly forced to make new offers. He now agreed that the State Bank would advance Briansk an additional 3,000,000 rubles on the security of an additional 4,000,000 rubles of first mortgage bonds. There were conditions, however: the Société Générale was to guarantee the sale of the Kerch bonds for what Briansk had originally paid (4,500,000 rubles) and also guarantee to sell the State Bank's old Briansk obligations for what the State Bank had paid.<sup>26</sup> Witte had been forced to retreat, as Gindin cautiously puts it. Others would say this was a prime example of French diplomatic pressure and financial blackmail of a dependent Tsarist government.

The question requires careful scrutiny. Certainly there was pressure and a subsequent Russian offer. The difficulty lies in appraising the offer. Here the views of the other side in the negotiations, the French businessmen of the Société Générale, strongly suggest that Witte had shrewdly retreated — to a quite unacceptable offer. In doing so he could appear to yield to pressure, while in fact he maintained his basic position: the separation of Briansk and Kerch, which would permit him to support Briansk better and block Kerch more effectively.

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<sup>26</sup> A. N., F 30, 343, Rocherand to Dorizon, September 14, 1902.

Witte's « concessions » emphatically rejected any arrangement permitting Kerch to receive another million from Briansk as a penalty payment, a payment Witte alleged would come indirectly from the State Bank. Moreover, the Société Générale was asked to guarantee emissions of bonds amounting to 11,500,000 rubles in order that Briansk might receive an additional 3,000,000 rubles. Put another way, the Société Générale would through its guarantees increase its commitment from 3,000,000 rubles to 14,500,000 while the State Bank would reduce its commitment from seven to three. In reporting this offer Rocherand, the Société Générale representative in St. Petersburg, boiled over in anger and claimed that the Russian officials wanted « to push us out of Briansk and they would like to have us reimburse them before we go, which is outrageous ».<sup>27</sup>

Two weeks later an only slightly less discouraged French diplomatic representative in St. Petersburg reported that all the efforts of the financial groups interested in Kerch had failed after a year of constant work. Kerch had just filed for bankruptcy and its great plant stood silent. The causes, he felt, were multiple. There had certainly been a lack of scruple on the part of the founders, both French and Russian alike; a lack of adequate initial capital which was difficult to remedy subsequently; the bad quality of the first products; and the chimerical vision of large export sales. « But also, and above all perhaps, Kerch falls because of the implacable will of Witte who, they say, wanted to make an example [of it] ».

As for Briansk, « that other company tied even more tightly to the Société Générale », its credit was certainly threatened. If Briansk were to avoid following Kerch, « sacrifices » would be necessary at Paris and St. Petersburg. For the French owned the shares and Briansk's insolvency would bring down other companies. « And the Imperial Administration can not see 20,000 workers thrown out of work in the dead of winter, or the price of state bonds experience the effects of the fall of Briansk ».<sup>28</sup> And indeed the bankruptcy of Kerch had already caused the Ministry of Finance to change its

<sup>27</sup> A. N., F 30, 343, Société Générale, Rocherand to Dorizon, September 14, 1902.

<sup>28</sup> A. N., F 30, 343, Boutiron to Delcassé, September 29, 1902.

position and advance important credits to Briansk, as a number of Russian banks were calling all their loans.

With Kerch in bankruptcy negotiations over Briansk resumed. There was a sense of urgency since part of Briansk's 3,000,000 ruble loan to the syndicate headed by the Société Générale fell due in November 1902. Dorizon could anticipate that some of the lenders in the syndicate would refuse to extend or modify the terms of Briansk's indenture, given the greater risk now involved. Similarly, Briansk still owed 1,500,000 rubles to the Banque Suisse et Française. Thus Dorizon and the Société Générale were not free agents, and the French Foreign Ministry was correct in stating that a lack of any agreement would mean bankruptcy or receivership for Briansk.<sup>29</sup>

The terms of sale for the Kerch bonds were the key. In essence, was Briansk to be freed once and for all from Kerch with no additional loss as the State Bank demanded, or was it going to be forced to honor contracts requiring it to pay Kerch yet one more million as a penalty to disengage itself completely? At this point the Société Générale agreed to reimburse Briansk the one million ruble penalty if the Société Générale were to sell the 6,000,000 rubles of Kerch obligations for even 2,000,000 rubles. Such a sale was extremely likely, and Rocherand reported that this concession made a good impression on Pleske, Witte's aid.<sup>30</sup> Agreement seemed likely as both sides awaited Witte's return to St. Petersburg ten days later. A relatively strong Briansk would stand alone once again, as the state had wished, and Motet and his associates in the Banque Suisse et Française would have the Kerch bonds and shares necessary for painful and unaided reorganization of Kerch.

Then thunder broke. To the amazement of all, Witte repudiated Pleske and went back to his original offer of September, which included guaranteeing the sale of the Kerch bonds for 4,500,000. Rocherand telegraphed that « Paul [Pleske] considers this decision [of Witte's], taken after studying the matter and long discussion

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<sup>29</sup> A. N., F 30, 343, Delcassé to Rouvier, November 15, 1902.

<sup>30</sup> A. N., F 30, 343, Société Générale, Dorizon to Rocherand and Rocherand to Dorizon, November 11, 1902.

with him, as irrevocable. He seems quite shocked. At least this unbelievable decision ought to have the effect of disengaging our responsibility from the now inevitable consequences ».<sup>31</sup>

Witte's alleged reason for his about face was a series of violent attacks in the Russian press criticizing the meddling of bureaucrats in private business matters.<sup>32</sup> In the light of past and future action, both in Briansk and other firms, the historian would be forced to suppose that this reason was a smoke screen. In this case, however, he may be certain because there is another telegram to Dorizon which is instructive to the highest degree. «I have it from an intimate associate of Valentin's [Witte] that there is nothing to the refusal that it is the opposition to state control. Everything will work out if you succeed in having Rouvier [the Minister of Finance] wire Valentin demanding in the interest of French shareholders and the French stock exchange to support the Bertha and Catherine [Briansk and Kerch] affair. Act urgently. Obtain that request no matter what it costs. It is Valentin who asks it. Reply immediately. Alexis [Goriainov] ».<sup>33</sup> One might say that Briansk's President, the talented flunky of the French, had every reason to push for such intervention and may have been manipulating on his own, although this seems very unlikely. For when he presented the whole question, ten days after Briansk's bills were protested, before the Committee of Ministers Witte showed himself very much in control.<sup>34</sup>

Witte's first arguments before the Committee were familiar enough. Briansk's fall would hurt the credit of Russian firms in foreign markets and embarrass the French government. Briansk was also one of the best firms in Russia, and was not one of those which ought to disappear in the depression. Its collapse would bring big losses to other firms and would increase unemployment. So some intervention was necessary.

Shifting gears, Witte then turned to Kerch, as much the key to the matter for him as for the French. The French, he argued, must

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<sup>31</sup> *Ibid.*, Rocherand to Dorizon, November 26, 1902.

<sup>32</sup> *Ibid.*, Rocherand to Dorizon, November 24, 1902.

<sup>33</sup> A. N., F 30, 343, undated telegram [probably 27 or 28 November, 1902] to Dorizon.

<sup>34</sup> Witte's presentation is presented in GINDIN, *Neustavnye ssudy*, pp. 111-112.

not be allowed to buy the Kerch bonds for 2,000,000 rubles and thereby obtain a plant in which 20,000,000 rubles had been invested. In the interests of the inflow of foreign capital the Tsarist government never intended that Russia's national patrimony would go into foreign hands for almost nothing. And if the French bought the Kerch plant, it could be completely finished by adding a few rolling mills. « This would deal a most severe blow not only to Briansk but also to our other metallurgical firms, since it is well-known to all that in view of favorable natural conditions the Kerch Company is able to manufacture products cheaper than all the other plants, which would have very weighty consequences for the present overproduction in the iron industry ». Thus Witte concluded that « support for the Briansk Company ought to be taken in such a way that it would remove at the same time the danger of a rapid reopening of the Kerch affair ».

This indefinite moth-balling of the Kerch Company could best be done by having the State Bank buy the Kerch first mortgage bonds for 4,500,000 rubles. « But it will be extremely inconvenient for the State Bank to take on itself the role of creditor seeking the declaration of insolvency for the Kerch Company, all the more so since in the present case insolvency will result in the loss of the shareholders' capital, which was realized for the most part in France ». Thus « it follows to acknowledge as preferable that the declaration of Kerch's insolvency result from the demand of the present owner or the creditors » — that is, the demand of Briansk or the French banks.

The final agreement, which was reached in St. Petersburg after Witte called Dorizon there, apparently follows Witte's recommendation to the Committee of Ministers to the letter. The State Bank agreed to buy the Kerch obligations from Briansk for 4,500,000 — but only after Kerch was formally declared bankrupt. Briansk agreed to break all ties of any kind with its ill-fated foundling immediately and received an additional loan of 5,000,000 rubles from the State Bank, 1,500,000 of which was used to pay off at once the Banque Suisse et Française. The Société Générale extended its credit of 3,000,000 rubles to Briansk. It also promised to float Briansk's bonds « as soon as the market permitted » and

thereby permit Briansk to pay off the Société Générale loan and most of its indebtedness to the State Bank. Thus Briansk bonds were to be sold abroad to pay off the State Bank and the Société Générale, while Briansk was to sell the Kerch mortgage bonds to the State Bank without loss. Briansk's financial position and prospects were thereby considerably improved while Kerch, the « great dead body waiting only for a breath to resurrect it », was to decompose gradually in the hands of the state for the foreseeable future. The conclusion was certainly much different than anyone had expected, as Boutiron noted, but it fitted Witte's final plan very closely.

What did this extraordinary denouement signify? A victory for the forces of foreign financial capital in embryonic form, a fair compromise, or, as I suggest, an extremely forceful defense of Russian interests by Russian authority in the face of combined foreign economic and political pressure? Witte's policy changed drastically after achieving his initial goals precisely because it was possible and desirable to secure others as well.

This is clearly the implication of Witte's action, which was explained to the Committee of Ministers in the extraordinary document excerpted above. To the moment of Kerch's suspension of payments, Witte followed the line indicated by the ousted Russian directors and sought to liquidate Briansk's investments, in order to insure the survival of one of « our oldest and most important firms », and the only major southern producer of totally Russian inspiration. To do so, the State Bank used its advance to Briansk to prevent Briansk and Kerch being grafted together. This goal was realized with Kerch's suspension of payment. But that was not enough. Not only was Kerch to go bankrupt, but the French must be denied the possibility of reorganizing their company and forced to accept a total loss on their investment. The State Bank's original loan to help the Russian firm was thus ultimately used to appropriate the Kerch shareholders and managers.

There were at least three reasons for Witte's action. He had been seeking all along to make an example of Kerch as the type of unbridled speculation and undirected entrepreneurship the Tsarist government would not accept, and certainly the lesson would be

all the stronger if a leading foreign group learned that the cleverest contracts were no match for the resolute hostility of the government. Secondly, Kerch *was* an ultramodern plant and its output would indeed weigh heavily on Russian metallurgical prices and complicate efforts to shore up the industry.<sup>35</sup> Third, there was the desire to give the appearance of compromise in order that relations with French capitalists might not deteriorate unnecessarily. All three might be considered aspects of the general policy on foreign capital and entrepreneurship, which sought to employ but direct the outsider.

Witte was relieved of his duties in August 1903, and his successors lacked both his power and vision. Yet, assertion to the contrary notwithstanding, unpredictable but effective government control of foreign business remained. Again Briansk is exemplary. Foreign investors, mainly French, increased their holdings to at least 95 percent of all the firm's capital by 1909. They subscribed almost all of the 120,000 shares of 5 percent preferred stock in 1906, which doubled Briansk's outstanding capital and which paid back the loans to the State Bank and the Société Générale. (The Société Générale had concluded that preferred shares could be sold more easily than the bonds).

Yet there was no foreign control. A Crédit Lyonnais observer noted in February 1904 that «for several years the predominant influence in Briansk lay with the French represented by M. Motet and Gorjeu and with the Société Générale, which had its own men [on the Board] — Rocherand, Ferand, Kolb-Bernard. But since the State Bank intervened and took the Kerch obligations for its own account, the Russian element has taken the leadership, with Ivanov as the representative of the State Bank ». Speaking of two French directors in 1913, the same source stated that «it seems, that these two personalities [from the Société Générale] ought to be without any influence on the management of the Briansk... where the Société Générale no longer has any loans and probably few shares or bonds ».<sup>36</sup>

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<sup>35</sup> The technical reports from the «Crédit Lyonnais» make this clear. Gindin is mistaken to suppose the contrary. (*Neustavnye ssudy*, p. 112).

<sup>36</sup> «C. L. », February 1904; Note, January 1913.

Apparently the fears of the French Ambassador Bompard had been realized: « It should not be the case that now [1906] that the Société Générale's advances have been repaid that it relinquishes interest in the management of the Company ».<sup>37</sup> Another analysis in 1906 from Pierre Darcy of the Banque de l'Union Parisienne concluded that there was little risk in underwriting a public subscription of shares, since the commitment would be liquidated before Briansk's Russian managers might very well compromise the company again. Even so, it did not seem wise to seek any permanent control over Briansk, as that would bring responsibility for management's actions.<sup>38</sup> The lesson of Kerch had been learned well. Whoever might decide the destinies of Briansk — the representatives of the government, the increasingly autonomous and completely Russian managerial elite, or even the violent and discontented workers and their spokesmen — it would not be foreigners.

The conflict over Briansk also tells us a good deal about the nature of foreign-domestic business relations in Russia in this period. As was usually the case, a primary advantage of foreigners was their superior position in international capital markets, which enabled the French to wrest control of Briansk from the Russian founders after a short honeymoon of cooperation. Yet, after the Russian entrepreneurs were replaced by their major asset, the sympathetic Russian state, the foreign group found it had achieved only a fleeting Pyrrhic victory. For the domestic business elite, seldom the equal of their foreign counterparts with their superior capital resources, technology and management in purely business terms, overlapped with and was supported by the state bureaucracy. This negated the otherwise clear advantage of foreigners in atypical conflict situations, like Briansk, and normally forced them into close cooperation with local businessmen, as I have shown elsewhere. One suspects that this pattern of state support for local businessmen counterbalancing the advantages of foreign businessmen has, is, and will be fairly common in relatively backward yet independent nations.

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<sup>37</sup> A. N., F 30, 340, Boutiron to the Minister of Foreign Affairs, November 30, 1906.

<sup>38</sup> «Banque de l'Union Parisienne», Russie, no. 47, Report on Briansk, July 12, 1906.