

International and Multinational and multilateral Companies in the Russian Empire before 1914:

The integration of Russia into the World Economy

In 1880 the Moscow banker Andreas Zenker described a meeting with the main Petersburg bankers, whom he termed the Petersburg international *haute finance*: it included the Director of the St Petersburg International Bank, a Polish Jew, named Lasky; the Director of the Russian Imperial Bank, Horace Günzburg; E.M. Meyer of German extraction and head of the well known bank E.M. Meyer & Co.; Clarke, a Scot, of Clarke & Co.; George Brandt, a German director of the Petersburg Private joint stock Bank; Sack, Director of the Petersburg Discount bank; the businessman, Ernst Grube; and several others<sup>1</sup>).

These represented a significant section of the business elite, which was quite international in character.

Before the First World War several large multinational companies operated in Russia, including such foreign companies as the electricals company, Siemens, which operated in Germany, of course and in Britain as well as in Russia. There was in the Royal Dutch, which bought the oil companies in Russia 1912, previously owned by the Paris Rothschilds, a well known multinational. Another multinational was the british textile enterprise, Coats & Co. with textile companies in Britain and around the world as well as in Russia. There was also bilateral enterprises like Hubbard & Co. which had textile factories in Petersburg as well as commercial and banking operations in England. Another such bilateral concern was the Russian Tobacco Company Ltd. which was registered in London and which comprised of a number of Russian tobacco companies and had amongst its backers a number of Russian and foreign banks. Of a similar character was the Russian General Oil company Ltd. Which linked Russian oil companies with banks in London.

The objective of this article is to explore the involvement of multinational companies which arose or operated in Russia.

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<sup>1</sup>) Archiv Ernst and Georg Spies (AEGS): Zenker, A.: Berichte April-Mai 1926 to G. Spies, here B-Bericht of 27.4.1926, P. 15.

Furthermore it seeks to explore the extent to which Russia was part of the international business world. The evolution of this began first in foreign trade, graduating into production and subsequently into finance. The thesis of the growing integration of the Russian economy and business into the world of international business was developed primarily by V.I. Bovykin<sup>2</sup>). The process was promoted very much by foreign investment in the building and financing of Russian railways. The presence of foreign merchants in Russia, some over a very long period and some of them well integrated into Russian society assisted this process. They had great experience and they brought with them extensive contacts throughout the world.

The present study examines examples of several multinational companies which were engaged in international business in the 19<sup>th</sup> century.

A international company is characterized by the fact that it traded in more than one country, though it usually restricted its operations to two or three countries. The multilateral company is characterised by having more than two foreign partners and working in more than two countries. Generally its national origin becomes less relevant. These companies developed in the stronger countries economically as Britain, France, Germany and the USA, countries which were actively involved in international commerce throughout the world. Generally they were active in economic spheres where a large capital was

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<sup>2</sup>) Bovykin, V.I.: Zakljuchenie, Inostrannoe predprimatel'stvo i zagranichnye investicii v Rossii. Ocherki, Red.: V.I. Bovykin, M. 1997, P. 313-315; Rossija i mirovoj biznes: dela i sud'by. Red.: V.I. Bovykin, M. 1996, P. 3-23; Bovykin, V.I.: Formirovanie finansogo kapitala v Rossii konec XIX v.-1908 g., M. 1984; Ananich, B.V.: Rossija i mezhdunarodnyj kapital 1897-1914, L. 1970; Bovykin, V.I./Anan'ich, B.V.: The Role of international factors in the Formation of the Banking System in Russia and Idem: Foreign Banks and Foreign Investment in Russia, International -Banking 1870-1914, Oxford 1991; Kirchner, W.: Die deutsche Industrie and die Industrialisierung Russlands 1815-1914, St. Katherinen 1986. Good insight in the international discussions in the oil economy offered Spiess, Georg : Erinnerung eines Ausland=Deutschen, Spiess'sche Familien-Zeitung, Beilagebd. II., Marburg 1926.

necessary as in the raw materials sectors such as oil and coal, and in heavy industries and also in the foodstuffs sector<sup>3</sup>).

In Russia such international companies became established in the nineteenth century. A lot of foreign merchants began investing in Russia at that time. Some of them developed into companies which operated not only in Russia or in their country of origin but also in other countries. This was particularly the case with companies engaged in foreign trade to and from Russia<sup>4</sup>). Thus the import of sugar and dye stuffs for the developing textile industry were noteworthy examples of this. Additionally as London was the centre for trade finance these companies tended to make contacts with England. There were several Russian orientated foreign companies which in this manner became international companies through the connection, Russia – England. They were mostly based in St. Petersburg or Moscow and in London. For example the banking house of John Henry Schroder started first in Hamburg and then founded branches in St. Petersburg, London and Holland, and subsequently in the USA and the Caribbean area too. It imported into Russia sugar and dyestuffs for the developing textile industry. It became more involved with London and established a branch there, which became the main centre of its activities. By 1914 it was one of London's biggest merchant banks with business on a worldwide scale. But the Russian business was one of the staples of Schröders business

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<sup>3</sup>) The main contributaries to the discussion about multinationals: Casson, M.: General Theories of the Multinational Enterprise: Their Relevance to Business History, Multinationals: Theory and History, ed. by P. Hertner, G. Jones, Aldershot 1986; Chandler, A.: Technological and organizational underpinnings of modern industrial multinational enterprise: the dynamics of competitive advantage, Multinational enterprise in historical perspective, ed. by A. Teichova, M. Lévy-Leboyer u. H. Nussbaum, Cambridge-Paris, 1986; Corley, T.A.: The nature of multinationals, 1870-1939, Historical Studies in international corporate business, ed. by A. Teichova, M. Lévy-Leboyer, H. Nussbaum, Cambridge-Paris 1989; Hertner, P.: Multinationals: Theory and History, Multinationals: Theory and History, ed. by P. Hertner, G. Jones, Aldershot 1986; Jones, G.: European Multinational Banking before 1914, Wirtschaft - Gesellschaft – Unternehmen, Festschrift für H. Pohl zum 60. Geburtstag, Stuttgart 1995; Jones, G./Schröter, H.G.: Continental European multinationals, 1850-1992, The Rise of Multinationals in Continental Europe, ed. by Jones, G./Schröter, H.G., (The New Business History Series) Aldershot 1993.

<sup>4</sup>) Thompstone, P.: The Organization and Financing of Russian Foreign Trade before 1914, PhD, London 1992; Chapman, P.: Merchant Enterprise in Britain. From the Industrial Revolution to World War I, Cambridge 1992; Chapman, P.: The Rise of Merchant Banking, London 1984, P. 107 and 121-122.

and it continued to account for around 10% of Schröders business<sup>5</sup>). Other examples are E.H. Brandt, which operated in Archangel and Petersburg, and subsequently established their London bank, Wilhelm Brandt & Sons too. It existed up to 1965 and was one of the City of London's leading merchant banks<sup>6</sup>). There were also ethnic Greek companies like Ralli and Scaramanga, who traded in Russian grain who also established London banks<sup>7</sup>). And there was the big Moscow conglomerate, Wogau, which established an important bank branch in London, Wogau & Co<sup>8</sup>).

What fields attracted the bigger foreign investors and multinational companies to Russia? The bigger multinational enterprises developed more in the middle of the 19<sup>th</sup> century, a period of major investment in the electrical sector as well as in raw materials processing. In the electrical sector Siemens & Halske, the AEG and other foreign investors like the American Westinghouse company became active. Siemens & Halske founded their own branch in Russia in 1853 which became one of the main international bases of the Siemens business. In 1886 in the sphere of electric illumination Siemens & Halske had a virtual monopoly in Moscow with its Society of Electric Lighting, while in St. Petersburg, where there were more competitors it also had a strong market presence. The company had good coverage in other Russian regions. Another multinational enterprise active in Russia

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<sup>5</sup>) Roberts, R.: Schrodgers, Merchant & Bankers, London 1992, P. 11-38, 51; plc Schroder, Archive, London: SH 1110, Document 16 and 17.

<sup>6</sup>) Amburger, E.: Die Familie Brandt, 1937; Brandt Archive, University Library of Nottingham, Manuscript department, Circulars, Bt 1.1.1-1.1.23.

<sup>7</sup>)Thompstone, P. 254-257.

<sup>8</sup>) Amburger, E.: Das Haus Wogau & Co. in Moskau and der Wogau-Konzern. 1840-1917, Russland and Deutschland, Sonderdruck. Festschrift f. G. Rauch, Stuttgart 1974; Petrov, J.A.: Das Handelshaus „Wogau & Co.“ in Moskau, „Eine Grosse Zukunft“ Deutsche in Russlands Wirtschaft, hg. v. D. Dahlmann, T. Igumnova, K. Heller, Ju. Petrov, K. Reschke, Moskau-Berlin 2000, P. 172.

was the Paris Rothschilds. It founded the second biggest oil company in Russia after the Nobels and it also invested in the electrical sector. The petroleum industry was one of the most interesting in Russia. The oil business was one of the most dynamic fields of international business. Oil production and demand were rising rapidly. In 1859 the world production was a mere 895 tons, but in 1880 it had already reached 2,7 million tons rising in 1910 to 39 million tons. Three big companies dominated the sector: The Standard Oil Company (SOC) of Rockefeller in the USA, which was the largest by far; following it was the Nobel Oil Company in Baku<sup>9</sup>); and far behind them were Royal Dutch Shell in the East Indies; and then Galician and Romanian producers. The SOC controlled about 60% of the world's petroleum exports. The demand for this product varied according to the market. Britain demanded mainly heavy kerosine, which was an attractive market for Russian oil suppliers but Germany demanded a lighter product, which was attractive for the SOC. In Russia the Nobel company was the biggest producer, though it did not have the character of a multinational, being mainly Russia-based. More international was the second biggest oil producer and supplier in Russia, the BNITO, the "Société commerciale et Industrielle de Naphte Caspienne et de la Mer Noire, Société Anonyme" which belonged to the Paris Rothschilds<sup>10</sup>). The Rothschilds operated throughout the world including in Russia. The copper business was also very important for them. The world petroleum market was dominated by the pre-eminent position of John D. Rockefeller's American Standard Oil of New Jersey, which had a near monopoly. It was the biggest producer of petroleum and had a well organized retail network. This was a matter of great concern for most petroleum importing countries, especially Germany, France and Britain. It spurred them to look for alternative suppliers. And the biggest producer after the USA was Russia.

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<sup>9</sup>) Fursenko, A.A.: The Battle for Oil, London 1990; Gerretson, F.C. History of the Royal Dutch, T. 1-4, Leiden 1953; Gibb, G.P./Knowlton, E.H.: The History of the Standard Oil Company (New Jersey), 1911-1927, New York 1956.

<sup>10</sup>) Kirchner, W.: The House of Rothschild (Paris) as a multinational enterprise: 1875-1914, Multinational enterprise in historical perspective, ed. by A. Teichova, M. Lévy-Leboyer u. H. Nussbaum, Cambridge-Paris, 1986.

At the beginning of the 20<sup>th</sup> century the big Russian oil producers were keen to export their growing oil production. Nobel and Rothschild set up their export organizations. Nobel founded the Naphtaport company in Germany as well as around 1902 the Consolidated Petroleum Company Ltd. and the General Oil Company in England in conjunction with the Shell Company. Around the same time the Deutsche Bank started to invest in the oil business. In 1899 the bank offered to buy the Steaua Romana Company in Romania, then the country's biggest petroleum company. The Disconto Gesellschaft, the other big German bank had already invested in the Romanian oil industry and was given the offer to acquire the Steaua Romana, which it declined. The reasons for German capital being invested in Romanian industry were varied. On the one hand it might have been simply the desire to invest money in a foreign country but on the other hand it could have been part of the German penetration of the Balkans and the Ottoman Empire. There was the building of the Anatolische Eisenbahn and the search for greater independence from the Standard Oil Company in the supply of petroleum, which had implications for the political security of Germany. Through more German controlled oil production the country's political and economic dependence would be reduced. Even Wilhelm II had made some remarks in that respect, a point acknowledged by Georg Spies, the petroleum councillor of the Deutsche Bank<sup>11</sup>). Also the Romanian king Carol, a relative of Wilhelm II, emphasised that point, declaring "that the Deutsche Bank planned to consolidate groups around the Europäische Petroleum concern to counter Standard Oil"<sup>12</sup>). At the beginning of the twentieth century there was also a project for an Imperial German petroleum monopoly, which was discussed in the Reichstag but it did not come to fruition. But investing banks had to be concerned primarily for profit with the result that political ideas played for them only a secondary role. The aim of EPU was expressed by Georg Spies thus: "Our final aim could only be to maximise profits in the petroleum-business and to establish a base which made us independent of the big petroleum-groups and therefore enabling us to deal with them..."<sup>13</sup>). Arthur von Gwinner expressed the primacy of

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<sup>11</sup>) Spies, P. 189.

<sup>12</sup>) Historisches Archiv der Deutschen Bank (HADB), S 1633.

<sup>13</sup>) Cited F. Seidenzahl, Deutsche Bank, P. 217; Brack, P. 171.

business over policy: in 1907 he explained to the German Consul in Riga, Ohnesseit, who had wanted for political reasons greater investment by the Deutsche Bank in Russia: that the bank is “incapable to support major economic projects because it does not have the necessary finance of its own for such purposes”.<sup>14</sup> Gerretson estimated: “The E.P.U. was an international association of industrialists whose objects was to make the greatest possible profit on their products. In that association it was a special majority of the Committee of Participants who decided what were the most suitable methods of attaining their objective. Since the affiliation of the Grosny group the non-German suppliers had been in the majority, and they were swayed of course by their own commercial interests and not by those of German politics.”<sup>15</sup>). This was also observed by H. Lemke<sup>16</sup>).

The Deutsche Bank had already invested in the Russian petroleum industry. It bought part of the Kazbek-Syndicat in Grosny, which was liked to the new General director of the Steaua Romana, Spies<sup>17</sup>) and in Baku it purchased a smaller company, the Petroleum-product-Society<sup>18</sup>). Finally the bank owned the petroleum concession of the Anatolian Railway Society, something which assumed greater significance later.

The Deutsche Bank also reached agreement with the Shell Company of Marcus Samuel. Shell would organize the transport of the Romanian oil. Both companies began importing Steaua oil into Germany but the mighty Standard Oil dropped its prices to dumping levels, which brought the acknowledgement: “It would have been

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<sup>14</sup>) Deutsch-russische Wirtschaftsbeziehungen 1906-1914. Dokumente, hg. v. H. Lemke, Berlin 1991; Lemke, P. 176-177.

<sup>15</sup>) Gerretson, 3, P. 104.

<sup>16</sup>) Lemke, Finanztransaktionen, P. 33, 43, 68, 177 and 202.

<sup>17</sup>) Lemke, Finanztransaktionen, P. 207

<sup>18</sup>) HADB, S 1633, A. v. Gwinner–G. of 13.4.1905; Neftjanoe delo, No. 18, P. 31 of 30.9.1908; G. Spies-A. v. Gwinner of 4.6.1910; HADB, S 1635, E. Heinemann - G. Spies of 29.9.1911 - HADB, S 1612; Grozenskii torgovo-promyshlennyj bjulletin of 23.5.1904, 24.10.1904 and of 6.3.1905.

cheaper to throw the oil in the Danube than to transport it by ships“ to Regensburg<sup>19</sup>).

The Nobel project with Shell seemed to offer no immediate prospects either. After this unhappy experience the Deutsche Bank and Shell started new talks with the other major competitors of Standard Oil, namely the aforementioned Nobel Company, the Paris Rothschilds with their Russian interests, the Royal Dutch with its energetic chief Hans Deterding as well as some smaller Russian companies.

It is unclear who first formulated this idea but there was the general feeling about the need to unite<sup>20</sup>).

The Deutsche Bank came under pressure after the failure of its joint project with Shell. This was made clear by Jules Aron, a manager of Rothschilds in a letter to Hans Olsen, the export manager of Nobels: “Somme toute, il n’y a pas là de difficultés insurmontables, et je suis convaincu que de la part de la Deutsche Bank, qui a encore plus besoin que nous de l’entente projetée, il n’y aura pas de résistance sérieuse aux vœux de mes chefs. Il résulte en effet, de la correspondance de M. Lane, que la situation des affaires de la Petroleum Producte et de ses filiales est encore plus compromise que la nôtre et du reste, sur ce point, vous êtes fixé longtemps.”<sup>21</sup>). The Rothschilds played a key role during the talks. It is said that the relationship between Deutsche Bank and Rothschild was not of the best<sup>22</sup>) yet both banks organized many joint projects in the electrical sector in Russia<sup>23</sup>). Rothschild, which later sold its petroleum interests in Russia, tried to sell them at this juncture<sup>24</sup>. They were offered not

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<sup>19</sup>) Seidenzahl, P. 213-214.; HADB: Jahresband Deutsche Bank 1904: Deutsche Bank-Hamburger Filiale der Deutsche Bank of 22.2.1904; A. v. Gwinner-R. v. Koch of 15.02.1904.

<sup>20</sup>) Petroleum 2(1905/06), No. 3.

<sup>21</sup>) ABR, 132 AQ 875. J. Aron-H. Olsen of 30.01.1906.

<sup>22</sup>) RGIA, F. 1458, op. 1, d. 1747, Bl. 418-419, E. Grube-H. Olsen of 2.8/10.8.1910.

<sup>23</sup>) Djakin, V.: Iz istorii proniknovenija kapitalov v elektropromyshlennost Rossii (Bolshoj Russkij sindikat 1899) Monopolii i inostrannyj kapital v Rossii, M.L. 1962; RGIA, F. 626, op. 1, d. 557 and 559.

<sup>24</sup>) HADB/BA P 7181, Bl. 56. Notice Deutsche Bank of 21.12.1906.

only to Branobel<sup>25</sup>) but also to the Deutsche Bank, a point not widely known: “...mais je ne pense pas qu’il soit opportun que j’intervienne auprès de M. Gwinner, comme vous le suggérez. Vous vous rappelez en effet que M. Lane a fait la démarche proprement dite et que, même, il a ajouté à M. Gwinner, qu’il ne savait pas du tout quelles étaient nos intentions à l’égard d’une vente..“ . At the 2.2.1906 Aron told Baron Rothschild that Lane sent Gwinner a letter, „...relative à l’acquisition par le Deutsche Bank, de Bnito“. Gwinner declined to make a significant investment in the Russian petrol industry<sup>26</sup>). Gwinner hoped on the contrary that Nobel, whose shares were partly under control of the Deutsche Bank, would buy the Rothschild interests: “If we can organize a strong market for Nobel shares, it would be possible that Nobel would buy the Rothschild petroleum interests. We would lose the Rothschilds and their comrades and would have to deal with the more fine Nobel. But this is very much in the future<sup>27</sup>). In fact the Rothschild offer to Nobel was also refused by them. The project to include Diskonto-Gesellschaft failed<sup>28</sup>). It would have had the effect of increasing the significance of the EPU and might have minimized internal problems in Germany<sup>29</sup>). Furthermore the Diskonto worked jointly with the SOC.

In 1906, after several meetings and much discussion the Europäische Petroleum-Union (EPU) was set up with a capital of over 30 million Marks, later increasing to 37 million Marks. Three big foreign companies, involved in the petroleum business participated: the Deutsche Bank, Berlin, the Paris Rothschilds with their big oil interest in Baku and the Nobel company. Their primary objective was to deliver their own oil and additionally the petroleum of other producers elsewhere in the world.

In the Russian oil industry a company then emerged which was not only a major multinational company, in which Russia active

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<sup>25</sup>) Tolf, R.W.: The Russian Rockefellers. The Saga of the NobeFamily and the Russian Oil industry, Stanford. 1976, P. 185.

<sup>26</sup>) ABR 132 AQ 875: P. 65; J. Aron-H. Olsen of 20.1.06, P. 103 of 2.2.1906 and P. 142.

<sup>27</sup>) BA, 9896. A. v. Gwinner-P. Mankiewitz of 28.2.1907.

<sup>28</sup>) ABR 132 AQ 8271-8273. J. Aron-J. L. Schwabach.

<sup>29</sup>) Brack, P. 318-321.

participated but it also brought this Russian business onto the global stage.

The EPU was very significant for Russia's economy because of the integration of an important part of its economy into the world of international business. For the Russian partners it was necessary to sell their petroleum abroad but the rising prices for petroleum sold inside Russia as a result of high railway tariffs increased the cost of exports and so reduced profits on exported petroleum. Nevertheless at first sight it seemed useful to unite the Russian petroleum industry and the new Romanian one with the strong backing of the Deutsche Bank<sup>30</sup>).

For A. Chandler the EPU was a big danger for the Standard Oil: "...only two concerns seriously challenged Standard's dominance - the European Petroleum Union ... and Royal Dutch Shell."<sup>31</sup>).

#### Literature and sources

Several works touch on the history of the EPU, the most important being those of Fursenko, Seidenzahl and Brack<sup>32</sup>).

Archival material is quite abundant. Mention might be made of the Archive of the Paris Banque Rothschild, the Archive of the Deutsche Bank (HADB) and the Russian Historical State Archive, which houses the Nobel Archive. The Rothschild Archive provides the best documentary material on the EPU and additionally it has the very useful correspondence of Jules Aron, the main manager of the Rothschild<sup>33</sup>). In the Deutsche Bank Archive we have the correspondence of the main leaders of the Bank and the protocols of

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<sup>30</sup>) HADB, S 1633, G. Spies-A. v. Gwinner of 22.7.1904.

<sup>31</sup>) Chandler, P. 45.

<sup>32</sup>) Seidenzahl, F.: 100 Jahre Deutsche Bank 1870-1970, Frankfurt / Main 1970, Kap. 11; Brack, W.: Deutsche Erdölpolitik vor 1914: eine Fallstudie zu den Problemen der Marktbeherrschung und Staatsintervention im wilhelminischen Deutschland, Diss. Hamburg 1976; Lemke, H.: Finanztransaktionen und Aussenpolitik. Deutsche Banken und Russland im Jahrzehnt vor dem Ersten Weltkrieg, Berlin 1985, P. 81 and 111-114; I. Baumgart/H. Benneckenstein: Die Deutsche Bank in der europäischen Erdölwirtschaft, in: Jahrbuch für Wirtschaftsgeschichte (JBWg) 1989/4; Idem: Die Erdölpolitik des deutschen Imperialismus vom Ausgang des 19. Jahrhunderts bis zum ersten Weltkrieg, Diss B, Jena 1986; Idem: Der Kampf des deutschen Finanzkapitals in den Jahren 1897 bis 1914 für ein Reichspetroleummonopol, in: JBWg 1980/II; Gerretson, Vol. 3, P. 78-109; Monopoliticheskij kapital v neftjanoj promyshlennosti Rossii, 1883-1914, Red.: M. Ja. Gefter, Dokumenty i materialy, M. L. 1961 (MKNPR).

<sup>33</sup>) V.I. Bovykin: Rossijskaja neft' i rotsildy, Voprosy Istorii (VI) 1978, 1-4.

Central organization. Beside that there are the unpublished memoirs of Hans Olsen, of K.W. Hagelin and of Georg Spies<sup>34</sup>), directors of Branobel and the E.P.U.

The Bundesarchiv in Berlin houses interesting German government material concerning the EPU.

### The Development of the EPU 1906-1914

The EPU started in 1906:

“The recognition that the problematic situation of the petroleum market could only be solved by a concentration of competitive European supply organisations led to the decision of the main Russian producers and the Petroleum-Producte Actien-Gesellschaft to form a united delivery company. Therefore there was formed the Europäische Petroleum Union G.m.b.H<sup>35</sup>.

The structure:

The main shareholder:

Shareholder		Marks
Deutsche Bank	1	2.000.000
„	1	8.000.000
„	2	10.000.000=27.03%
Since 1913		0
D.P:A.G	1	3.000.000
D.P.A.G	1	669.000
Since 1913		
DPAG	2	3.669.000 = 9.92%
Steaua		5.000.000 = 13.51%
Since 1913	1	15.000.000 =40.5%

<sup>34</sup>) Khagelin, K.: *Moi trudovoj put'*, New York 1945.

<sup>35</sup>) HADB, S 1674, Bericht G. Spies to the Board of directors of the Steaua Romana of 31.10/13.11.1906; BA, AA 3084.

Group Deutsche Bank	5	18.669.000 =50.46%
S.P.I.	1	5.000.000
„	1	3.974.000
Rothschild frères	2	8.974.000 = 24.25%
Branobel	1	5.000.000 = 13.51%
„	1	2.557.000
Nobel	2	7.557.000 =20.42%
Petrol. Grozny	1	1.200.000
Petrol Boryslaw	1	400.000
Petrol Roumanie	1	200.000
		1.800.000 = 4.86%
Group Waterkeyn	3	
E.P.U.	12	37.000.000 =100.00%

Quelle: ABR 132 AQ 204

50,4 % of the Shares went to the Deutsche Bank, 24% to Rothschild's S.P.I., 20% to Branobel and 3% to the Waterkeyn group<sup>36</sup>).

Subordinate to main E.P.U. there existed branches in the several consumer nations in Europe and North America.

The branches of the E.P.U.<sup>37</sup>) :

Belgium-Luxemburg

Société Armanent Industrielle  
Corporation (SAIC-Belgo-

<sup>36</sup>) Centre des Archives du Monde du Travail, Roubaix - Archive Banque Rothschild (ABR): 132 AQ 201: Europäische Petroleum GmbH; RGIA, F. 1458, op. 1, d. 1253, Bl. 36-39.

<sup>37</sup>) ABR 132 AQ 204.

Denmark	Hollandaise), Antwerpen Danske-Tyske Petroleum Ko., Kopenhagen
Germany	Deutsche Petroleum- Verkaufsgesellschaft m.b.H. (DPVG), Bremen, later Hamburg
Italy	Italo
The Netherlands	Petroleum Handel-Maatschappij, Amsterdam
Austria	Österreiche Naphta-Import- Gesellschaft, Wien Schodnica Aktiengesellschaft A.G., Wien
Switzerland	Schweizerische Petroleumprodukte Lagerungs- Gesellschaft, Zürich
USA	Union Petroleum Company Ltd., Philadelphia
United Kingdom	Western Petroleum Company Ltd. General Petroleum Company Ltd. Consolidated Petroleum Company Ltd. „British Creosote Company Ltd. dann aufgehend in der British Petroleum Company Ltd., all London
Gas oil	Gasölverkaufsgesellschaft GmbH, Hamburg
Transport	Petroleum-Steamship Company Ltd., London

Quelle: ABR 132 AQ 204

The basic capital at the outset was 20 millions, rising to 37 million Marks after the incorporation of the Belgian group, Waterkeyn. Initially Shell took part in the talks about the founding of the EPU but then it withdrew. By a special agreement for the delivery of gasoline it

took part in a different way. Demand for gasoline was growing while that for kerosine after the invention of the electric light stagnated. Nevertheless the EPU wanted to compete with the SOC. On the other hand, it was feared that an agreement with the EPU was necessary due to the fact that the necessary oil demand could not be fulfilled. But at the beginning 1906-1907 there was once again a price struggle with Standard, which ended with victory for Rockefeller and brought losses to the partners.

Therefore the EPU branch in Germany, the DPVG, agreed a common strategy with the Deutsch-Amerikanische Petroleum-Gesellschaft(DAPG), the branch of the Standard in Germany according to which the DPVG could sell only 20% of the kerosine in Germany while the DPAG's market share was to be 80%. Similar treaties were agreed with other countries with the exception of the United Kingdom where the EPU was strong because she satisfactorily met the demand of the British market. Russian oil was particularly useful here<sup>38</sup>). In the event the U.K. was finally included too, but with a more favourable quota of 40% for the EPU.<sup>39</sup>). Fursenko assessed the compromise or the defeat of the EPU thus : „Under the conditions of closer links between Rockefeller and the Russian oil industrialists, and the growing ties of the Diskonto Gesellschaft with Americans, Gwinner simply had no alternative“<sup>40</sup>). On the other hand it was not a real capitulation because the plan to agree market share existed from the very beginning. Spies wrote in 1905: I would even recommend it (the agreement with the SOC-W.S), when Mantashev and Gukassov would keep stubborn and would hinder a soon agreement with the americans.“<sup>41</sup>). The EPU quit the agreement with the SOC in 1912, which showed that it was not a artificial company of the EPU.

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<sup>38</sup>) HADB, S 1621; G. Spies, Denkschrift, P. 10.

<sup>39</sup>) HADB, S 1633, A. v. Gwinner-H. Morawitz (Director of the austrian oil company Schodnica) of 25.3.1906; HADB, S 1621: Spies, G.: Denkschrift über die Durchführungsbarkeit eines Petroleum-Monopols in Deutschland, Berlin 1910, P. 10.

<sup>40</sup>) Fursenko, Battle, P. 115.

<sup>41</sup>) HADB, S 1633, G. Spies-A. v. Gwinner of 9.7/22.7.1905; ABR 132 AQ 203.

But the SOC started a price war at once to show its strength and the weak point of the EPU.

The first years of the EPU had been not so successful but the later years were better. The main problem had been the shortage of oil, and the competition of the Galician petroleum producers. Some of them agreed later to integrate into the structure<sup>42</sup>).

The main deliveries should be from Russia and Romania. The Russian producers, Nobel and Rothschild were concerned about the destruction of part of the Baku oil industry during the 1905 Revolution and of the low export profits on Russian petroleum<sup>43</sup>). The Romanian petroleum industry produced more gasoline than kerosine. This was counter to the gasoline treaty with the Asiatic Petroleum Company of the Royal Dutch Shell and led to delivery problems for the Steaua Romana.

The unfavourable developments for the EPU led to the idea of the DB selling its interests in 1912 to the SOC, the Royal Dutch Shell or even to the Romanian government. The partners could not agree<sup>44</sup>). Even so in 1911 Rothschild sold their Russian petroleum interests to Royal Dutch Shell. In exchange Rothschild bought a large block of Royal Dutch shares. This had no direct consequences for the EPU but the other partners feared the increased influence of Deterding on the EPU<sup>45</sup>).

From 1911 the development of the EPU became more favourable after the Russian partner started to sell more petroleum and after some of the Galician competitors were included. Finally Standard Oil avoided a new price war although the EPU left the 1907 treaty. The SOC feared the introduction of the „Reichspetroleummonopol“ in Germany which was debated seriously in the Reichstag.

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<sup>42</sup>) ABR 132 AQ 210: Rappports Spies; Neftjanoe delo, 1913, No. 13.

<sup>43</sup>) HADB, S 1621, Spies, Denkschrift, P. 10-11.

<sup>44</sup>) Seidenzahl, P. 221-222; RGIA, F. 1458, op. 1, d. 1269, Bl. 225-226 and d. 1747, Bl. 274-272. Bf. H. Olsen-E. Grube; Gibb/Knowlton, P. 563-565; Jones, G.: Lane, Fredrick (1851-1926) Dictionary of Business Biography. A Biographical Dictionary of Business Leaders Active in Britain in the Period 1860-1980, ed. by D.J. Jeremy, Bl. 3: H-L, London 1985, P. 652-654.

<sup>45</sup>) MKNPR 239 of 1.2/14.2.12.; ABR 132 AQ 205: F. Lane-T. R. Kean of 10.2.1913.

## The development of the EPU 1907-1913

Year	Petroleum delivery in tons	Profit in Mio. Mark	Dividends
1907	518.840	2.206.400	
1908	591.292	3.209.000	6%
1909	605.030	846.600	5%
1910	656.335	306.325	10%
1911	619.400	2.861.900	10%
1912	725.210	5.150.223	10%
1913	784.772	7.699.000	10,75%

Source: ABR 132 AQ 202<sup>46</sup>).

### The Structure of the EPU

The EPU consisted of the Central organisation with a Managing committee which was made up of the partners from the Deutsche Bank (Arthur v. Gwinner, E. Heinemann, A. Herz, G. Spies, E. Stauss) , Rothschild (F. Lane, J. Aron, I. Braun) and Nobel (E. Nobel, H. Olsen, E. Grube, K.W. Hagelin). The General manager had to take care of the general interest of the EPU and of the different interest of the partners. „Eventually there is bound to be a great conflict between Roumania and Russia, which will require a fair minded man to handle the interests of both parties.“<sup>47</sup> wrote F. Lane, the General manager. Additionally the EPU had its branches in the different countries to

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<sup>46</sup>) Gwinner, P. 179-183. A. v. Hansemann-A. v. Gwinner of 19.7.1903 and A. v. Gwinner-A. v. Hansemann of 13.8.1903; Seidenzahl, P. 206-212; Günther, R.: Die Voraussetzungen und der Beginn der Kapitaloffensive deutscher Bankmonopole in der rumänischen Erdölindustrie (1900 bis 1905), JBWg 1972, IV., P. 122-132; Günther, P. 122-123.

<sup>47</sup>) RGIA, F. 1458, op. 1, d. 1800, Blatt 8-9.

which deliveries were made and which had a common interest. For example the British Petroleum Ltd. had been founded by the EPU and was the branch in the United Kingdom. The producers offered the EPU its oil. But there was one problem. The EPU market organization was not obliged to buy the oil from its owners; it could buy it from cheaper sources, when this was possible. So the producers, although they were part of the EPU, could not be forced to sell their own petroleum. On the other hand the owners ought to have been interested in the success of the EPU and should have offered petroleum at a reasonable price<sup>48</sup>). There existed quotas for the partners : Branobel had 36,19%, Rothschild 29,61%, the Steaua Romana 28,2%. The EPU could buy 50.000 tons of petroleum from American outsider companies like the Pure Oil, the Union Petroleum, and the Columbian Oil<sup>49</sup>). In any event after the agreement of 1907 the EPU bought oil from the SOC too. Furthermore the Russian deliverers could not achieve their quotas.

They even denied a general obligation to deliver. But generally they wanted to export which was only limited by the high internal prices and the technical problems in Baku. Prices in the interior were sometimes as much as 1 Rubel a pood pud yet even a price of 50 copeks per pud was uncompetitive in export markets. “ The demand was very high there but because of the Baku problems the production was low<sup>50</sup>). They (Russian oil producers-W.S.) could hope only to come out of the final negotiations with a viable marketing organization still intact, looking forward to the time when political and economic conditions at home once again allowed them to take the offensive abroad.<sup>51</sup>). This showed that the Russian partners were nevertheless optimistic about the EPU. But they tried to form a kind of coalition with the EPU: “Mr. Gukassov proposed that all Russian

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<sup>48</sup>) MKNPR, No. 49 of 27.5.1895. Organization of the Deutsch-Russische Naphta-Import Gesellschaft; No. 98 9/22.3 1902 Vertrag Nobel, SAIC, Rieth & Co. in Antwerpen. Nobel and Bnito sold petroleum only by Rieth Oil in Benelux and Germany.

<sup>49</sup>) ABR, 132 AQ 202: Contrats I-IV.

<sup>50</sup>) MKNPR, Nr. 196 of 16.5/9.6 1909.

<sup>51</sup>Tolf, , P. 183.

suppliers should offer to Nobel one price. Of course we regretted this, because there should be competition for deliveries<sup>52</sup>).

All non-Russian partners tried to convince Nobel and Rothschild to send more oil. They put pressure on them because of the bigger demand for kerosine and the declining demand for Mazut. They could lose market shares if they did not make deliveries because the Americans were prepared to do so<sup>53</sup>). Nobel was less concerned that the export of kerosine to Germany was reduced from 813.000 tons in 1908 to 762.000 tons in 1909. The world production of kerosine rose as did that of gasoline. In this gasoline market Russia accounted for only 10%<sup>54</sup>).

The Russians could not deliver at the low prices then prevailing but they looked to a better future. At that time they were not prepared to take part in confrontations with the SOC because they could only lose by so doing. They had invested a lot of money in the EPU and hoped for its revival. A lost battle with the EPU would endanger that<sup>55</sup>). E. Grube, export manager of Nobel described the situation more gloomily: "I have to admit that you are right: I am not very interested in export, because I cannot be aroused by a subject, where I cannot see perspectives for success. The EPU is not a organization which can sell our and the oil of the Romanians which we left; it buys the goods there where it is cheaper. The outsiders press the prices down and even between the partners of the EPU there exists competition. That showed only that we are not competitive towards the Romanians. Our prices are always too high and I cannot see how we can sell our oil abroad; anyway it is impossible over the EPU in that form, in which it exists today." Then he acknowledged: "I am too far away to criticize the form of the EPU; I took no part in the founding of the EPU and I presume that that was the best what we had abroad" and further „On the other hand we observe that the stocks growing here in the interior.

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<sup>52</sup>) RGIA, F. 1458, op. 1, d. 1747, Bl. 274-277.

<sup>53</sup>) MKNPR, Nr. 218 F. Lane, E. Stauss-E. Nobel of Dokument of 16.9/29.9.1910; Gosudarstvennii Istoricheskij Archiv Sankt-Peterburga, F. 1258, op. 2, d. 256, Bl. 257-267; Bl. 219, E. Stauss, T. R. Kean-E. Nobel of 7.10.1910.

<sup>54</sup>) Spies, Denkschrift, P. 54, Anl. 1, P. 55, Anl. 4, P. 77, Anl. 21, P. 80-86, Anl. 22.

<sup>55</sup>) HADB, S 1613, G. Spies-A. v. Gwinner 21.7.1909.

There is a overproduction, which we have to replace... that should be possible to recapture lost positions abroad, which we lost because of the senseless tariff policy of our government...<sup>56</sup>). Grube was very critical to the EPU but he also saw the middle-distance perspective. The Deutsche Bank was also very critical of its position in the EPU. It could not sell enough petroleum produced by Steaua Romana and felt that despite its absolute majority their strength was that of a minority shareholder<sup>57</sup>). Therefore they tried to sell it about 1910-1912. In 1911 the bank restructure its capital inside the group. First, The bank sold most of its shares to the Steaua Romana, which became as a result the main shareholder of the EPU. Secondly it sold the shares in the British Petroleum Co. to a British Syndicate<sup>58</sup>).

Nevertheless the critics the EPU still remained but new possibilities opened up. Gwinner spoke of growing profits since 1912. New perspectives would have gave it new opportunities – in view of the First World War. The oil in Mesopotamia around the Anatolia railway was taken into consideration. In 1914 it was divided among the Turkish Petroleum Company, Royal Dutch Shell and the Deutsche Bank. The Steaua Romana was the main supplier of petroleum to the Ottoman Empire and therefore developed new chances in the medium term<sup>59</sup>). The Russians, Nobel and since 1912 the Royal Dutch, stayed in the EPU too, in anticipation of its future prospects.

## Conclusion

The EPU is one example of a multinational company in general with significant individual characteristics. The founders came from different countries and with different interests.

Nevertheless the active participation of several international companies with Russian capital, these Russian oil producers were one of the first Russian partners of a large dynamic multinational company. The foreign investment at nearly 20 million. Marks (10 Mio. Rbl.) was significant. They worked together with leading

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<sup>56</sup>) RGIA, F. 1458, op. 1, d. 1272, Bl. 425-429.

<sup>57</sup>) RGIA, S 1622, A. v. Gwinner-A. Herz of 20.7.1908;

<sup>58</sup>) HADB: S 1604 and S 1677: British Syndicate; S 1644.

<sup>59</sup>) BA, AA 13311.

German, French and British companies. In comparison with other big international companies like the Russian General Oil company or the Russian Tobacco company, which were registered abroad but which were composed mostly of Russian companies, the EPU was a real multinational company. Of course, it is not surprisingly that it was the oil business that led Russian business to that success. Oil was the branch of the Russian economy with the most promising prospects at the beginning of the 20<sup>th</sup> century and it is today.

The EPU's misfortune was the outbreak of the First World War. It was liquidated in 1931.

But for the First World War it would have had reasonable prospects. It might not have superseded Standard but it might have offered it serious competition. Since 1912 there can be seen an improving balance sheet and growing profits. But an agreement with the SOC was denied.

Interesting here is also the contradiction between business and policy especially before the First World War. It is clear that governments, especially the German, liked to use the expanding oil business for their own political purposes. The British government too took care to ensure too that the influence of the Deutsche Bank in such British companies as British Petroleum did not become too great.