
PROBLEMS

*“That’s the spirit!”:
Russian Oil Products Ltd. (ROP)
and the British Oil Market, 1924-39*

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1. Introduction

Russian Oil Products Ltd. (ROP) was formed in Britain in August 1924 to distribute and market oil products throughout the British Isles. Its capital of £ 100,000 was held entirely in Soviet hands: ARCOS and Neftesyndikat each held 49,999 £1 shares, with ROP directors holding the remaining two.¹ ROP was a rare example of direct Soviet overseas investment and marketing and although a marginal supplier, the company had at times considerable impact on the British oil market despite the unpredictable climate of Anglo-Soviet relations. The focus here is not ROP’s place within overall Soviet foreign trade policy in this period;² rather, it concentrates on the company as a

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¹ Arcos - All Russian Co-operative Society; Neftesyndikat - The Soviet body responsible for internal and external sales of oil. Due to industrial reorganisation, Neftesyndikat was abolished in 1930. Its ROP shares were transferred to Soyuzneft in 1930, and then to Soyuznefteexport in 1932.

² See V.A. SHISHKIN, “*Polosa priznaniia*” i vnesheekonomicheskaya politika SSSR (1924-28), Leningrad, Nauka, 1983, Ch. 4, and pp. 166, 167, 176; E.H. CARR & R.W. DAVIES, *Foundations of a Planned Economy*, Vol. 1. (pt. 2), Macmillan, London, 1969, Ch. 28.

business concern operating in the commercial and political environment of the British oil market. A major problem has been that much information about ROP is piecemeal and anecdotal. However, a set of accounts for 1928 and 1929, at which time ROP was expanding rapidly and approaching the peak of its commercial activity, has permitted a profile of ROP for those years.

Russia had been, briefly, the world's foremost oil producer. Russian oil production peaked in 1901 at 11.4 million tons, or 51% of world production.³ It provided the basis for a considerable export trade, particularly to Europe and to a lesser extent Asia, and attracted large amounts of foreign capital.⁴ The oil industry was nationalised by decree in June 1918, but it was not until 1920 that the Baku oilfields came under Soviet control. Economic reconstruction and development presented enormous challenges to the Soviet leadership. Under the New Economic Policy, increasing quantities of oil became available for export, and to accelerate production rates concessions were offered to foreign oil companies.⁵

Soviet oil production increased from 3.8 million tons in 1920 (4% of world production) to around 30 million tons in 1939 (10% of world production). Exports gradually rose to a peak of 6.1 million tons in 1932, thereafter remarkably declining rapidly to 1.9 million tons by 1937.⁶ Europe was the focus of Soviet oil export efforts, although their geographical range included the USA, Japan, India, China and Argentina. Sales were made to international oil companies, contracts negotiated with local traders in some markets (e.g. Alfred Olsen in Denmark), and in a few countries, notably Germany and Britain, wholly owned marketing companies were set up to handle some sales.⁷ ROP was the most important of these, and still exists to this day.⁸

³ R.W. FERRIER, *History of the British Petroleum Company*, Vol. 1, Cambridge, 1982, p. 639.

⁴ H. HASSMANN, *Oil in the Soviet Union*, Princeton, 1953, p. 28. See also G. JONES, *The State and the Emergence of the British Oil Industry*, Macmillan, London, 1981, pp. 50-63. It was estimated that in 1914 some 40% of the capital invested in Russian oil was British.

⁵ G. JONES and C. TREBILCOCK, "Russian Industry and British Business 1910-1930: Oil and Armaments", in *Journal of European Economic History*, Spring 1982; P.S. GILLETTE, "American Capital in the Contest for Soviet Oil, 1920-1923", in *Soviet Studies*, 1972.

⁶ *Vneshnyaya torgovlya SSSR za 1918-1940*, Moscow, 1960.

⁷ In Germany, Derunapht (Deutsche-Russische Naphtagesellschaft) was formed in 1926. This company formed, in a joint venture, Derop in 1928 (Deutsche Vertreibsgesellschaft für Russische Oelprodukte A.G.). See also *Petroleum Times*, 25-vi-1932, Review of Russian Oil and World Markets, pp. 707-712. Customers included the French navy: the USSR supplied some 75% of the French fleet's bunkers in 1927; see

2. The British Oil Market

The British oil market in the inter-war period was the largest in Europe. Consumption was as follows:⁹

	UK Total Consumption	Of which motor spirit	Gas, diesel & fuel oils	Kerosene
1921	2.6 mt	33%	28%	21%
1938	9.0 mt	55%	18%	8%

Britain imported virtually all its oil requirements: indigenous production only commenced in 1938, while the Scottish shale oil industry contributed less than 2% of supplies in this period. The USSR was a major supplier, with imports from that source peaking in 1931 at over 12% of total British oil imports.¹⁰ The British oil market was an expanding one, in which motor spirit (benzine) was the main product. The number of motor vehicles increased from under one million in 1921 to over three million in 1938. The business of distribution and marketing became more sophisticated with the development of petrol pumps, filling stations, bulk deliveries and advertising. Three companies dominated the market: British Petroleum (the marketing subsidiary in Britain of the Anglo-Persian Oil Company (APOC, later Anglo-Iranian and today BP)), Shell, and Anglo-American (before 1930 the virtual, and after 1930 the actual, British subsidiary of Standard Oil of New Jersey (SONJ)), and were usually known collectively as the "combine". Several "independent" companies shared the remainder of the market, obtaining their supplies in particular from Romania, the USA and the USSR, and of these, ROP was at times the largest.

Generally speaking, this was a period of oil oversupply, a situation aggravated by the Depression. Enormous reserves were discovered in the USA in

S.M. LISICHKIN, *Ocherki razvitiya nefteobivayushchei promyshlennosti SSSR*, Moscow, 1958, p. 214.

⁸ As a property holding Company. ROP also has shares in its marketing successor, Nafta GB.

⁹ A.L. KING, "Statistics relating to the petroleum industry with particular reference to the UK", in *Journal of the Royal Statistical Society, Series A (General)*, Vol. CXV, Pt. 4, 1952, p. 551. By contrast the UK produced 126 million tonnes of oil in 1987.

¹⁰ In 1931, the USSR was the fourth largest supplier of oil to Britain, behind the USA — 26%, Persia — 20% and Dutch West Indies — 16%. Imports from the USSR after 1931 plummeted to 3.1% of total oil imports in 1933 and thereafter remained at around 2.8% until 1938. See *Ministry of Fuel and Power Statistical Digest 1950*, and UK Annual Trade Statistics. Soviet oil exports to the UK had commenced in 1920. The extent to which other companies imported Soviet oil is indicated in Table 2.

the 1920's, production increased dramatically in Venezuela, Persia and later in Iraq. The result was vigorous competition in world markets, the expansion of marketing facilities in excess of demand, price cutting and price wars. The solution sought by the major oil companies was cooperation, market regulation, and production restraint. The As-Is agreement resulted from a meeting of the industry's three principal leaders, Sir John Cadman (APOC), Sir Henri Deterding (Shell) and Walter Teagle (SONJ) at Achnacarry castle in Scotland in 1928. As-Is, in which other companies were associated at different times, did not establish a rigid cartel and limit the processes of marketing; rather it sought to regulate competition. Participating companies set themselves distribution quotas in which market share was basically apportioned according to their 1928 sales. Any increase in market size would be shared pro-rata between participants. The strength of As-Is was diluted by the failure to restrain production in the USA, conflict between the objectives of companies' strategic policy and local marketing management, fear of anti-trust infringement, and the failure to induce the Russians and Romanians to cooperate from the beginning.¹¹

3. A Profile of ROP in 1929¹²

Attracted by the size and potential of the British oil market, the Russians sales were difficult to effect reliably due to the hostility towards Soviet oil displayed by most of the international oil companies, which derived in part from the expropriation of their properties. In February 1924 the Labour Government granted *de jure* recognition to the USSR. Moscow may have assumed the climate was now favourable for establishing an oil distribution company, and may have hoped to derive additional earnings through managing its own distribution network. By undercutting the prices charged by the major companies (ROP's motor spirit prices were generally at least one penny per gallon cheaper) and quickly establishing a good quality reputation for its products, ROP was able to build up its trade rapidly in a heavily competitive market.¹³ By 1929 its operations were approaching their zenith (see Table 3).

ROP's declared objective was to penetrate the British oil market, and to consolidate its position by creating an increasing demand for its goods. While it did not quantify this, the tone of its 1929 report was congratulatory. L.B. Rabinovich, an ROP director, hailed the year 1928-9 as "the turning

¹¹ On As-Is see R.W. FERRIER, *The History of the British Petroleum Company*, Vol. 2, Cambridge, forthcoming, 1989.

¹² Unless otherwise stated, this section is based on BP Archives.

¹³ *Petroleum Times*, 9-x-1926, p. 653. See also CARR & DAVIES, *op. cit.* p. 716, note 1.

point in the development of ROP's operations, being the apex of turbulent expansion". Its growing distribution network, increased sales and the important market share agreement with the combine (see below) indeed made 1929 a landmark. There were two sides to ROP's business. Of lesser importance, it acted as a commission agent for Neftesyndikat; that is, payments for some of Neftesyndikat's contract sales were made through ROP. But its main business was as an importer and distributor of oil products throughout the UK and Ireland. Its sales, £ 500,000 in 1924-25, had increased to almost £ 4 million by 1929 (see Table 2).

ROP maintained a Head Office in London, regional offices in provincial cities, ocean installations at Avonmouth (19,000 tons capacity) and Grangemouth (22,000 tons) and rented storage on the Thames (from Cory Bros) and on Merseyside. Its internal accounts were very detailed, the product of a tightly structured organisation and a sophisticated reporting system which could enable ROP managers to keep very close control of the business. Comprehensive information was produced on stock levels, rapidity of turnover, costings and allocation of expenses.

ROP obtained its supplies mainly from Neftesyndikat, at prices based on Reuters quotations, an authoritative contemporary source. In 1928-29, ROP sold a total of 307,192 tons of oil products, 77% of which were benzine, and purchased 222,000 tons of products from Neftesyndikat and 38,000 tons from the USA and Romania. Prices paid for benzine were as follows.

	1927-28	1928-29
Average price of benzine purchased from Neftesyndikat:		
fob	£ 6.52	£6.09
cif	£ 7.86	£7.86
Average price of benzine purchased elsewhere:		
fob	£10.63	£7.41
cif	£12.38	£9.13

Sales were effected through bulk contracts with commercial transport firms, some Municipal authorities (in 1929 these include Bristol, Birmingham, Plymouth, Sheffield and Liverpool) and garage owners. ROP, like other oil distribution companies, did not own filling stations, but would sell pumps and storage tanks to garages or shops, often on a hire-purchase basis. The business could be cut-throat. ROP cited instances where it would finance the purchase of an already installed competitor's pump by a garage, and then sell the pump back to the garage on an HP basis, putting its own trade mark on the pump in the process.

The following figures give some indication of ROP's expansion in the year ending October 1929. -

	October 1928	October 1929
Employees	943	1,097
Remuneration of employees	£171,122	£212,995
Cars	80	94
Lorries	205	262
Railway tank wagons	168	210
Water transport units	2	2
Sales	181,183 tons	307,192 tons
Pumps	2,867	3,364
Capital expenditure for year	not known	£136,097

Turning to the balance sheet for 1928-9, (Table 1) creditors (£ 530,834) included £ 53,000 owed to Anglo-American for benzine sold by ROP, the debt to be repaid in kind. On the financing side, reserves totalled £ 452,537 and consisted of a special fund for increasing ROP's initial capital of £ 216,513, accumulated depreciation of £ 153,347 and provisions for bad and doubtful debts and claims of £ 82,677. (Depreciation rates were 30% on cars and lorries and 10% on installations). Loans totalled £ 483,575, and of these £ 420,651 was owed to Gosbank and £ 62,924 to the Midland Bank. ROP did not utilize all its credit facilities in 1928-9: these were £ 250,000 by the Midland Bank and £ 200,000 each by Lloyds and Equitable Trust, large amounts considering the political climate.

ROP's results showed a negative return on capital employed. No profit could have been declared were it not for Neftesyndikat's credit notes in 1926-7 and 1928-9.

	£ 1926-7	£ 1927-8	£ 1928-9
Net Profit	8,190	- 4,143	8,278
Credit note from Neftesyndikat	275,000	375,000	400,000
Actual loss	-266,790	-379,143	-391,722

By conventional standards the balance sheet was unhealthy, a state of affairs commented upon at length by the ROP directors. An indicator of a company's liquidity, i.e., its ability to pay its debts, is the ratio of current assets to current liabilities. For 1927-8 ROP's current ratio was 1.46:1; for 1928-9 it was 1.37:1. While there is no "correct" ratio, one of less than 2:1 may be cause for concern. This indicator includes stocks, but stocks must be sold to provide liquid funds to pay debts. The liquid ratio repeats the above calculations after eliminating stocks. Ratios for these two years derived then are 0.71:1 and 0.52:1 respectively, a decidedly unhealthy condition. ROP recognised the minor part played by its own capital (£100,000) in its financial

Table 1
ROP BALANCE SHEETS 1928 AND 1929

	Year ending 1st Oct 1928 £	Year ending 1st Oct 1929 £
<i>Fixed Assets</i>		
Land & Buildings	162,399	205,820
Moveable Property (1)	237,436	323,977
Motor & Equipment Spares	17,934	24,069
Total Fixed Assets	417,769	553,866
<i>Current Assets</i>		
Shares in Subsidiaries (2)	999	1,001
Prepayments	5,634	7,617
Debtors	558,259	532,236
Stocks	729,339	1,118,370
Cash	125,374	136,572
Total Current Assets	1,419,605	1,795,796
<i>Current Liabilities</i>		
Creditors: Neftesydkat	564,903	778,581
Others	406,994	530,834
Total Current Liabilities	971,897	1,309,415
Net Current Assets	447,708	486,381
Total Net Assets	865,477	1,040,247
<i>Financed by:</i>		
Share Capital	100,000	100,000
Reserves	263,167	452,537
Loans	506,453	483,575
Balance of Profit	-4,143	4,135
Total	865,477	1,040,247
<i>Fixed Assets</i>		
Cost	417,769	553,866
Accumulated Depreciation	82,938	153,347
Net Book Value	334,831	400,518
(dep'n fund included in reserves above)		

(1) Consists of containers, cars, lorries, railway tank cars.

(2) Shares in the City Petrol Co., formed by ROP in 1927-8.

Source: BP Archives.

Table 2
ROP PROFIT & LOSS ACCOUNTS 1928-1929

	Year ending 1st Oct 1928 £	Year ending 1st Oct 1929 £
Sales	1,986,575	3,999,196
(tons sold)	181,183	307,192
Profit on Sales	?	681,595
Credit Note from Neftesydicat	375,000	400,000
Other Income	?	19,965
Gross Income	708,920	1,101,560
General Trading Expenses	584,881	825,734
(including: salaries	153,102	242,644
publicity	29,492	31,838
transport of goods in UK)	148,150	250,708
Depreciation	43,086	75,452
Credit Expenses	78,135	133,073
Reserve for Bad Debts	6,961	59,023
Net Profit	-4,143	8,278

ROP PRODUCT SALES IN TONS
& UK TOTAL OIL IMPORTS FROM THE USSR

	Benzine	Kerosene	Total Turnover (tons)	Value of ROP sales £	UK Oil Imports from USSR (tons)
1924-5	31,456	20,629	?	499,500	182,786
1925-6	55,456	12,716	?	810,202	213,320
1926-7	84,254	28,579	?	1,149,757	234,051
1927-8	153,266	20,734	181,183	1,986,575	341,313
1928-9	238,053	31,432	307,192	3,999,196	953,005*

Source: BP Archives & Vneshnyaya Torgovlya SSSR, *op. cit.*

* For period Oct. 1928-Dec. 1929.

Table 3
 ROP MARKET SHARE
 UK & IRELAND CONSUMPTION (in millions of gallons) AND ROP % MARKET SHARE

	1928		1929		1930		1931		1932		1933	
Motor Spirit	836.6	5.5%	920.4	6.6%	1029.7	6.3%	1073.1	8.1%	1108.5	6.4%	1179.2	5.3%
Kerosene	207.4	4.8%	216.3	3.7%	203.3	4.0%	212.3	3.8%	217.1	4.8%	222.5	4.8%
White Spirit	14.7	—	14.4	—	15.2	3.0%	14.7	—	14.5	6.9%	14.7	0.7%
Auto Gas Oil	—	—	—	—	0.2	—	0.7	—	2.7	—	9.0	2.8%
Gas Oil	80.3	3.3%	84.5	—	77.2	8.7%	77.3	—	78.1	9.1%	75.2	5.4%
Fuel & Diesel Oil	187.7	3.3%	212.6	—	223.9	—	229.7	—	254.1	3.6%	268.1	1.6%
	1934		1935		1936		1937		1938			
Motor Spirit	1253.6	3.5%	1322.9	3.5%	1406.0	2.9%	1460.5	3.2%	1517.6	3.1%		
Kerosene	226.1	2.6%	22.0	2.8%	229.1	2.1%	234.8	3.5%	226.7	3.9%		
White Spirit	16.0	3.1%	17.0	0.3%	18.1	0.3%	19.4	—	19.4	—		
Auto Gas Oil	21.0	1.9%	38.2	2.6%	56.8	2.2%	79.0	1.2%	102.6	1.7%		
Gas Oil	72.4	3.5%	65.8	4.8%	60.1	2.1%	64.0	—	67.7	—		
Fuel & Diesel Oil	277.7	0.1%	287.2	1.9%	310.3	0.8%	311.3	—	309.7	—		

Source: BP Archives.

"That's the spirit!": Russian Oil Products Ltd. (ROP) and the British Oil Market, 1924-39

structure, noting that Neftesyndikat and Gosbank were the principal sources of funds. The Board of Neftesyndikat regarded favourably the proposal to increase ROP's initial capital of £ 100,000, and the outward appearance of the balance sheet would have looked healthier then, but it was never increased. A special fund had been set aside for this; in 1929 it stood at over £ 216,000 and is included in the reserves figure.

In his report on the accounts for 1928-9, Rabinovich acknowledged the importance of the year. He stressed again that the company's own capital resources (£ 100,000 share capital and £ 216,513 fund for increasing the capital) were absolutely insufficient for maintaining ROP's operations. Examining the loss for the year of over £ 390,000, Rabinovich analysed three factors: prices realised; costs of sales; organisation and trading expenses. The British oil market was highly competitive, prices depressed. The 1929 agreement with the combine had enabled ROP to increase its prices, but overall there was no prospect of substantial earnings. At the same time, ROP's cost of sales concerned Rabinovich, who complained of shortages and irregular deliveries from Neftesyndikat. In 1927-8 ROP imported 97,118 tons of benzine, 16% of which came from non-Russian sources. In 1928-9, it imported 239,382 tons of benzine, 37% of which were non-Russian.

ROP mixed various benzines and cracked kerosene in order to produce the quality blends required for the British market. It had problems in obtaining the necessary higher quality benzines it required from the USSR. (The proportion of high quality Grozny No. 1 benzine in ROP's benzine imports fell from 20% to 5% in these 2 years, and Baku benzine — a main component in ROP's blends, from 34% to 5%). This meant ROP had to import light US benzines to cover the deficit in order to maintain its quality reputation, and though the quality of its imports from the USSR had fallen, there had been no corresponding fall in price. Rabinovich stated Russian prices had been raised to full market quotations from March 1929 and discounts made previously had been cancelled. Organisation and trading expenses were expressed in distribution costs, and these had fallen steadily from £ 5.20 per ton in 1926-7 to £ 4.85 in 1927-8, and to £ 4.40 in 1928-29. Rabinovich claimed these compared favourably with the combine's distribution costs.

Rabinovich's conclusion was that the heavy loss for 1928-9 should be attributed mainly to the comparatively low prices realisable on the British market (a situation which ROP itself had helped to engineer) and the high prices fixed by Neftesyndikat on oil sold to ROP. ROP calculations showed a profit had only been made on kerosene and that all other products had been sold at a loss. There were other factors too: the auditors, Price Waterhouse, had insisted upon extra depreciation provision, the lower quality of oil products received from Neftesyndikat had forced ROP to make purchases elsewhere, and there had been an increase in the provision for doubtful debts to £ 82,677. Rabinovich's forecast for 1928-30 was a net loss of about £ 180,000. Despite losses, he urged that ROP must prepare for the day when the agreement

with the Combine would end (in 1932), and requested Neftesyndikat to authorise it to proceed with more construction work to develop its marketing capabilities.

The Managing Director, R.G. Terakopov, in his report commented upon the general over-production in the world. Oil supply generally exceeded demand, and would continue to do so in the near future, thereby destroying any hope of price increases. Terakopov anticipated a shake-out in the UK market: there were too many petrol pumps, the average filling station in 1929 was not a paying concern and there was no doubt, according to Terakopov, that many filling stations would have to close. The future of garages, which had a pump or two as a side-line, looked more secure. His solution was a scheme whereby the combine and all larger independent companies would organise one general oil distribution organisation in which participants would have a specific participation quota. Each participant would hand over to the new organisation its retail network and facilities at a valuation, and receive shares in exchange, and only two or three qualities of petrol would be sold under one brand name. Terakopov argued such a centralised organisation would produce considerable economies of scale. Clearly the reality of contemporary market forces was acknowledged in ROP as in other oil companies, but Terakopov's solution, based perhaps on Soviet domestic experience, went far beyond anything contemplated under As-Is.

Negotiations began in January 1927 between Anglo-American Petroleum Company (acting on behalf of the Combine) and ROP to regulate ROP sales in the British market and guarantee it market share. After many hiccoughs, these resulted in a three year agreement in early 1929. The *raison d'être* of an accord was essentially that as competition was keeping prices below world levels, both sides had a mutual interest in raising them. The 1929 agreement was both a recognition that ROP was a force in the market and a conscious attempt to include the Russians in the collaborative process of As-Is. For ROP, problems in becoming established in the British market may have been more difficult than anticipated, but now that a share had been achieved it perhaps no longer saw the need to play the rogue elephant.

Memoranda of agreement were drawn up in January 1927 between ROP and Anglo-American which stipulated levels of ROP's own sales and ROP deliveries to Anglo American over a 3 year period. Interestingly also, it envisaged that Anglo-American might negotiate a participation in ROP itself. This idea remained in the talks during 1928 when a 51% participation in ROP was mentioned, but eventually came to nothing.¹⁴ One problem was compensation for owners of oil properties nationalised in Russia in 1918. Prices mentioned for sales to Anglo-American allowed for a 5% discount. This would be placed in a special fund to be used eventually for compensation. The Russians were reportedly anxious that this must be seen only as a normal

¹⁴ FO 371/12583, N42, FO minute by Palairret, 4-i-1927.

commercial discount, not as an admission on their part of any compensation liability.¹⁵

The agreement came into effect in April 1929. ROP's own sales quota for motor spirit was fixed at 225,000 tons p.a., with any increase dependent on growth of the total market. ROP's kerosene sales were fixed at 30,000 tons p.a. Arrangements were also made for sales of kerosene and benzine made by Neftesyndikat through ROP. While the combine would not purchase any Russian benzine directly, the agreement did provide for deliveries of 125,000 tons p.a. fuel oil, 40,000 tons p.a. of kerosene, and up to 60,000 tons of gas oil. ROP's prices remained slightly below those of the combine. The compensation problem produced a final flurry of contention. The agreement as signed dropped the 5% discount as envisaged in the 1927 documents. However, prices were set for the combine's purchases at US Gulf prices less 1/- per ton discount. Shell claimed this was in recognition of compensation, ROP claimed it marked an abandonment of compensation claims and that the 1/- was a commercial discount usual in such transactions.¹⁶

One immediate visible effect of the agreement was an increase in UK petrol price by 2½d per gallon and kerosene prices by 1½d per gallon. Combine companies were requested by His Majesty's Government (HMG) to explain this, and a Committee on Petrol Prices was formed to consider the question, which had generated considerable interest and concern in Parliament. Their explanation essentially was that they had to meet the competition from ROP which had developed from 1927, and the agreement with ROP now terminated the "price war". Petrol prices rose then to realistic levels, "That world-level of prices which in the long run is essential to the maintenance of supplies for the British market".¹⁷

For the oil companies, the agreement symbolized a failure to boycott Soviet oil and the coming to terms with ROP. Some government officials believed it represented a capitulation to the Russians, and the *New York Times* wrote much credit for it must go to G. Sokolnikov, head of Neftesyndikat.¹⁸ The agreement by no means implied the end of competition, merely its regulation. Competition for municipal contracts in particular continued to be vigorous. Similar agreements were concluded elsewhere. In Germany in 1930,

¹⁵ BP Archives.

¹⁶ POWE 33/349, see minutes of 27-x-1931 and 21-iii-1932. On 17th July 1928 Medway Oil and Storage Co. and Power Petroleum Co. announced they would set aside 5% of the f.o.b. cost of all supplies of oil coming to them from the USSR. This established the compensation fund. The arrangement ended in 1930, when it was decided to distribute the accumulated sums of around £ 300,000. An independent arbitrator, Mr E D van Walree, was appointed to do this, and applications from companies which considered themselves eligible for compensation were invited; BP Archives.

¹⁷ CAB 27/383 and POWE 33/340, Cmd 3296, Prices of Petroleum Products; statement by the oil companies concerned, 18th March 1929. For Parliamentary interest in the issue, see *Hansard, House of Commons*, Vol. 226, entries for March 1929.

agreement was reached over Russian gas oil sales. The June 1931 price agreement for motor spirit in Switzerland included the Russians, although this lasted only two months. In other countries, the principles of As-Is were more difficult to apply. Low priced Russian supplies intensified competition in Denmark, Sweden and Norway. In Denmark, Russian motor spirit had a negligible share of the market in 1930; by 1933 it had secured a 20% share.¹⁹

ROP made many attempts to attract more business. It advertised frequently.²⁰ It introduced different grades of motor spirit and in 1930 it applied again for inclusion on the Kings Roll. Established in 1919 as a means of helping disabled servicemen find employment, employers who enrolled under the scheme received preference when tendering for Government contracts. ROP first applied in 1928 for enrollment, and now although it satisfied all the Government's ordinary conditions, its application was refused because of the tense diplomatic situation between Britain and the USSR. The Ministry of Labour now could see no reason why ROP application should be rejected. The application went to the Cabinet, and was again refused, partly because of rumours that ROP was discharging British employees, replacing them with people more "politically sound" and engaging more Russians.²¹ In 1934 ROP applied to be included on a list of approved firms for marketing of aircraft engine lubricating oils. This followed purchase of Soviet lubricating oil by the Air Ministry in January 1934.²² The Director of Contracts noted the request posed problems. On technical ground, ROP could be admitted, but from a political point of view it was probably inadvisable to place ROP on the Air Ministry tenderers' list in view of the press and parliamentary outrage which would result. The Foreign Office was most averse to the idea; an official minuted particularly "when we know that they exist to carry on subversive activities under cover of trading activity which involves them in large losses each year".²³

4. The Dilemma of Soviet Oil

The appearance of Soviet oil on world markets was greeted with hostility by major oil companies whose assets had been nationalised, and the problem over compensation shaped their reaction to Soviet oil and ROP. Shell claimed

¹⁸ FO 371/14043, N1416 and N1666. See also POWE 33/340 for Shell's reaction; Shell annual report for 1929 and POWE 33/349 for statement by USSR State Bank of April 1929. Sokolnikov was a former Finance Commissar.

¹⁹ BP Archives.

²⁰ For instance, see *Petroleum Times*, 12-xii-1925, 26-ii-1927, 14-vii-1934, 22-vii-1936.

²¹ CAB 24/216; FO 371/18304, N2194.

²² CAB 24/247.

²³ FO 371/18304, N2194.

its investment in Russian oil amounted to £ 53.8 million.²⁴ Oil companies concerned used many methods to apply pressure on the USSR for compensation. The British Government was a sympathetic champion, pressure groups such as the Association of British Creditors in Russia (ABCR, formed in 1921) were particularly active, and the companies themselves played the economic warfare card in attempting a boycott of Soviet oil.

The Anglo-Soviet Trade Agreement of March 1921 had left the question of pre-war debts and compensation in abeyance. Instead, and infuriatingly, during its negotiation Leonid Krassin, the Commissar for Foreign Trade, held talks with several oil companies over new oil concessions. Although the "stolen property" argument carried weight, each company could not help looking over its shoulder and was not prepared to risk losing any commercial advantage that might accrue from access to Soviet oil supplies. The British Government itself was anxious that any concessions should fall into British rather than American hands.²⁵

Shell, and its managing director Deterding, was at the forefront of the dilemma, pursuing a policy of both boycott and trade. Its position revealed a conflict of political preference and commercial advantage. Following the 1922 Genoa conference, major oil companies led by Shell and SONJ, formed a "front uni" directed against any dealings with the USSR until their claims were satisfied. But as soon as this was established, it "felt the impact of the disintegrating forces of self interest".²⁶ Reports emerged in 1923 of a Shell kerosene contract with the Russians which effectively destroyed the front. SONJ began to consider controlled purchases of Soviet oil might be more effective than boycott. In November 1924 relations between SONJ and Shell were patched up and together they incorporated a joint trading company in Liechtenstein, which would be used in a scheme to purchase all Soviet oil exports, moves towards which were the subject of exploratory talks with the Russians.²⁷

The Conservative Government of 1924-29 was anti-Soviet in character. Winston Churchill and Sir William Joynson-Hicks, the Home Secretary, were prominent in urging a break in relations in the wake of the Zinoviev let-

²⁴ G.S. GIBB & E.H. KNOWLTON, *History of the Standard Oil Company (New Jersey); The Resurgent Years 1911-1927*, New York, 1956, p. 356; POWE 33/349, Waley Cohen to Board of Trade, 24-xi-1927.

²⁵ FO 371/6930, N12270. See also *ibid*, N11062 and N10279 and FO 371/8163, N10831, Greenway to J.C. CLARKE (Petroleum Dept.), 29-xi-1922.

²⁶ GIBB & KNOWLTON, *op. cit.*, p. 341. See also LOUIS FISCHER, *Oil Imperialism*, New York, 1926, pp. 93-95; H. HEYMANN, "Oil in Soviet-Western Relations in the Interwar Years", in *American Slavic and East European Review*, December 1948, p. 307; FO 371/9346, N3994 and N4154, Waley Cohen to Petroleum Department, 8-v-1923.

²⁷ GIBB & KNOWLTON, *op. cit.*, p. 346.

ter affair. The Foreign Office cautiously explored ways of reducing contacts. In March 1925, Spies Petroleum Co. and Baku Consolidated protested to the Foreign Office about an Anglo-American Co. contract for Soviet kerosene and benzine, arguing that the oil would come from confiscated properties. The Foreign Office found there was no legal right of intervention,²⁸ but it informed Anglo-American it could not endorse a commercial transaction which enabled the USSR to make profits from what were virtually stolen goods. In the long run also, the ability of the USSR to find buyers would reduce the prospect still further of compensation.²⁹

The problem was one of settling on a policy. In May 1925, the Foreign Office considered in some depth whether there was a case for preventing the sale of Soviet oil in Britain, but on political, legal and moral grounds, it concluded HMG could not and should not do anything to prevent this trade, a move which would affect many companies importing Soviet oil apart from ROP.³⁰ Politically, however desirable it might be to embargo Soviet oil with the objective of bringing the USSR "to heel" over claims and debts, the Foreign Office felt such a policy would not be practical politics: it would have no effect, and anyhow, oil trade was legitimate under the Trade Agreement. Legally the position has been determined by the Court of Appeal in the *Sagor* case in 1921. (The Court had held that since HMG had recognised the Soviet Government *de facto* through the Trade Agreement, property which the Soviet Government possessed in Russia through its own legislation, whether nationalized or not, was to be treated as the property of that Government). Nothing could be done legally to prevent the sale of Soviet oil in the UK.³¹ Morally, although it was wrong that the USSR could freely dispose of goods stolen from UK owners in the UK, it had been doing so since 1921 without hindrance, and it might be argued it was better for the former owners that their plant and equipment be worked rather than left idle. As for earning from oil sales, some in the Foreign Office believed the money might be used for financing propaganda activities, though in 1926 one official commented the Soviet economic position was so serious that all earnings were earmarked to finance imports.³²

Over a rumoured Shell-SONJ oil contract in 1925, the Foreign Office wondered whether anything could be done to frustrate it. Three approaches were possible. HMG and the US Government might jointly attempt to per-

²⁸ FO 371/11023, N1247, Minute by Strang, 11-iii-1925.

²⁹ FO 371/11023, N3046.

³⁰ FO 371/11023, N3279, FO memorandum of 27-v-1925. The FO here and on other occasions did not distinguish between ROP and Soviet oil exports to Britain in general.

³¹ FO 371/6895, N5860 and N6852 deal with the *Sagor* case. See also CAB 47/7.

³² FO 371/11024, N4887, FO memorandum of 23-viii-1925; FO 371/11023, N3046; FO 371/11781, N729, minute by Maxse, 17-ii-1926.

suade the companies to cease talks with the Russians. However, it was felt the two companies would retort that Russian oil was already being sold in Britain, and that if they did not purchase it then the French would. Secondly, Britain might place an embargo on Soviet oil. Disregarding the question of the Trade Agreement, the Foreign Office thought this would be ineffective "even if we reverted to the war measure of certificates of origin". Thirdly, Britain might initiate an agreement between the UK, USA, France, Italy and Rumania for a general embargo on Soviet oil. This was considered unrealistic and would have meant a practical denunciation of the 1921 Trade Agreement.³³

In August 1925, the Home Secretary Joynson-Hicks, (who regarded it as his duty to guard Britain from "evil, from communism and from Bolshevism")³⁴ talked with Cadman (APOC Chairman) and Deterding of Shell, and urged them to boycott Soviet oil. While highly sympathetic, neither wanted to tie their hands. Deterding said neither Shell nor SONJ felt they could sacrifice Soviet business if APOC were to be in some way connected with Soviet oil. APOC was at that moment negotiating with a German company — OLEX — a contract to sell Persian oil. Cadman told Joynson-Hicks that APOC would inform the Germans it could not conclude a deal if they were selling Soviet oil. However he wanted to be able to say this was desired by HMG. Joynson-Hicks reluctantly could not agree, since it would imply an HMG embargo.³⁵

In 1925 also there was considerable yet ineffective pressure group political activity against Soviet oil and ROP. ABCR arguments were taken up and utilised in a barrage of parliamentary questions by Conservative members at the end of 1925.³⁶ If this and other protests in fact provoked official investigations, the results could not have pleased the plaintiffs as ROP received a clean bill of health. The company was investigated by the Home Office in 1925 and by the Metropolitan Police in 1926. The Home Office reported "there is no evidence to show that ROP is being used for subversive purposes"³⁷ The Metropolitan Police, on behalf of the Home Office, investigated whether ROP was engaged in spreading Bolshevik propaganda in late

³³ Earlier, the French had suggested an entente between the USA, UK and France, against the purchase of Soviet oil, FO 371/11023, N4491, de Fleuriau to FO, 2-viii-1925. There was also a possibility, according to the Chancellor of the Exchequer, of exerting pressure through UK banks on Belgian and French banks which were financing small purchases of Soviet oil; see FO 371/11024, N4924.

³⁴ Quoted in G. GORODETSKY, *The Precarious Truce: Anglo-Soviet Relations 1924-27*, Cambridge, 1977, p. 62.

³⁵ FO 371/11024, N4888, N4924, N6765, and FO 371/11781, N677.

³⁶ See FO 371/11024, N6532, N6563, N6621, N6622, N6634, N6707.

³⁷ FO 371/11024, N5504, HO to FO, 28-ix-1925.

1926. It found ROP was not, that ROP was a genuine business concern and its customers viewed it as straightforward and honourable.³⁸

5. Cancellation of the Trade Agreement, May 1927

Many in Baldwin's administration had striven for severance of Anglo-Soviet relations, but were initially restrained by moderate elements in the party and by the Foreign Office. Soviet response to the General Strike weakened their position, and with the campaign to "Clear out the Reds" a rupture became only a question of time.³⁹ Two weeks after the "Arcos Raid" on 12 May 1927, the British cancelled the 1921 Trade Agreement. Baldwin stressed in Parliament the following day that this represented only a political break: Britain still desired to trade with the USSR. The direct effect of this so far as ROP was concerned was that two of its directors were required to leave Britain.⁴⁰ Indirectly, the political rift could hardly promote ROP's commercial ambitions. Its position was made worse by the attention Soviet oil received when Standard Oil (New York) began supplying its Indian markets with Soviet oil, thereby precipitating a price war with Shell, and by the Daily Mail campaign.

On 21 May 1927, the Daily Mail announced it would distribute posters to garages and filling stations who requested one and signed a pledge that their petrol was definitely not Russian. A week later the paper claimed some 16,000 posters had been distributed. The campaign was ineffective: a contemporary commentator noted it "died down because there was little genuine feeling in the country against Russian oil *per se*";⁴¹ and ROP's sales continued to increase. However, it did produce an outraged response from companies dealing in Soviet oil. Power Petroleum Co. asked for "fair play", pointing out it was a British company employing hundreds and that nearly every British company was buying Soviet oil, and cited Baldwin's remark that the break with the USSR was a political break — Britain still favoured trade. ROP's own reply came in the Evening Standard in August, advertising its product as a "good petrol for a fair price", and repeating that Baldwin had

³⁸ FO 371/11775, N4156, Met. Police report of 2-ix-1926. See also FO 371/11775, N2371, British Moscow Mission to Sir Austen Chamberlain, 20-v-1926 and N 2670, Inland Revenue to FO, 10-vi-1926.

³⁹ E.H. CARR, *Foundations of a Planned Economy, Vol. 3 (1)*, Macmillan, London, 1976, pp. 21-22.

⁴⁰ FO 371/13318, N561. In FO 371/12605, N3318 is CMD 2895, a selection of government papers dealing with UK-USSR relations 1921-27. See also CAB 23/55. The police raid on the offices of Arcos and the Russian trade delegation in London led to the discovery of documents which established to HMG's satisfaction that Soviet officials there were engaged in espionage: see Carr, *op. cit.*, p. 25.

⁴¹ C.T. BRUNNER, *The Problem of Oil*, Ernest Benn, London, 1930, p. 24.

stated "Britain was wholly in favour of legitimate trade". Its message was "Russian Oil Products are responsible for the Reduction of Prices". "That's the Spirit!"⁴²

There remained a fundamental question of policy, however, which these events exposed, and which Sir Philip Cunliffe-Lister (President of the Board of Trade) brought to the Cabinet's attention in November 1927.⁴³ He argued there were contradictions in British policy towards Soviet oil which required solution. Frankly, the Government was making anti-Soviet oil statements while at the same time saying it did not wish to place any obstacles in the way of Russian trade and that the cancellation of the Trade Agreement did not ban trade. The Cabinet accepted his recommendations and concluded at its meeting on 23 November that "while no obstacle is placed by the Government in the way of any form of trade, and while every British subject is free to buy or not as he pleases, it is the practice of HMG to avoid buying goods formerly the property of their own nationals which have been confiscated without payment".⁴⁴

In effect this meant very little. The question of an embargo was left unresolved, as was the strategic problem, posed but not resolved, for which there was some precedent. During the General Strike oil shipments had been delayed at Batum.⁴⁵ The policy was reviewed by the Labour government following the 1929 agreement between ROP and the Combine, which made it difficult for government purchasing departments to be certain they were not purchasing Soviet oil. The restrictions were lifted in August 1929.⁴⁶

6. The withdrawal of Soviet oil

Soviet oil exports peaked in 1932 at 6.1 million tons. In 1933 they fell 20% to 4.9 million tons and by 1937 amounted to only 1.9 million tons. Specifically, exports to the UK peaked in 1931 at around 1.1 million tons, fell by 45% in 1932 to 0.6 million tons and in 1936 stood at 0.3 million tons. This constituted a dramatic withdrawal. The diminishing competitive threat of Soviet oil meant a new agreement with ROP and the Russians generally was unnecessary from the combine's point of view. In 1935, Royal Dutch could state in its annual report that although Soviet production was increasing, the

⁴² *Evening Standard*, 21-vii-1927, 3-viii-1927.

⁴³ CAB 24/189, CP No 289, memo by President of Board of Trade on Purchases of Russian oil, 22-ix-1927. (Also in POWE 33/340).

⁴⁴ FO 371/12584, N5558.

⁴⁵ FO 371/11795 N2627, N2960, N3131, N3234, N3437.

⁴⁶ POWE 33/340, Graham to Macdonald, 17-viii-1929, and Vincent to Sir Henry Payne, 22-viii-1929. Despite this it emerged subsequently in 1933 that government departments had made no purchases from ROP. POWE 33/340, Mellmore (BOT) to G.H. INCE (Minister of Labour) 20-ii-1933.

USSR as a factor in the international oil market was steadily losing ground and could now hardly be regarded as a rival.

ROP's status in the British market was clearly linked to wider issues of Soviet oil production and exports, and in these circumstances ROP could not maintain its former level of sales and position in the market unless it received priority supplies. ROP's sales in Britain peaked in 1932 at about 330,000 tons, and thereafter declined to around 200,000 tons p.a. for the remainder of the decade.⁴⁷ A combination of production problems and increased domestic demand strained Soviet oil export capability, while falling world oil prices implied running faster to keep up. Between 1922 to 1931 Soviet oil production increased at an annual average rate of 19%. In 1932 production actually fell by 4% and was static in 1933. This was more than enough time for Soviet planners to have become deeply concerned about future oil prospects. Production then increased at an annual average rate of 6% in the period of 1934 to 1938, although not at the rates scheduled in plan targets. Since 1928 Soviet specialists had pressed for exploration in new parts of the country, perhaps in anticipation of production fall-off in traditional producing areas.⁴⁸ At the same time domestic demand was expanding under the industrialisation drive of the five year plans. For instance, Soviet vehicle production (lorries, buses, light vehicles) was 24,000 in 1932 and 200,000 in 1937, tractor production was 600 in 1925 and 113,000 in 1935.⁴⁹ The extent of falling revenues from oil exports was as follows:

	Total Oil Exports	Receipts
1930	4.7 million tons	548 million roubles
1932	6.1 million tons	375 million roubles

In the case of Britain, oil product exports realised 135 roubles per ton in 1930 and 65 roubles per ton in 1932,⁵⁰ (during which time sterling was weakening generally). Whether such trends were apparent to the oil companies by late 1931 was unlikely when moves were initiated to consider a broader, more comprehensive and world-wide arrangement with the Rus-

⁴⁷ Figures derived from Table 3. As a general point, available oil trade figures obscure the origins of some oil deliveries, creating enormous difficulties for establishing the real patterns of oil movements.

⁴⁸ LISICHKIN, *op. cit.*, pp. 188-9, 277.

⁴⁹ HASSMAN, *op. cit.*, p. 46; HEYMANN *op. cit.*, p. 315; *Narodnoe khozyaistvo SSSR v 1960*, Moscow, 1961, pp. 262, 291, 292; *Birmingham Bureau of Research on Russian Economic Conditions*, Pamphlet of May 1932, University of Birmingham. See also R.E. EBEL, *Communist Trade in Oil and Gas*, Praeger, 1970, Ch. 2.

⁵⁰ Data from *Vneshnaya torgovlya SSSR za 1918-1940*, Moscow, 1960. See also A. BAYKOV, *Soviet Foreign Trade*, Princeton, 1946, pp. 47-48.

sians before the more limited 1929 accord concerning the British market lapsed.

Talks commenced in May 1932 in New York within the framework of As-Is principles between three Russian oil industry officials and Charles E. Arnott, President of Socony, who was chairing a committee for the purpose. The Russians had extended their marketing activities to many areas of the world, and it was recognised that both they and the Romanians should be involved in new arrangements.⁵¹ The talks were destined to be brief and inconclusive. A ten-year agreement was suggested with much of the USSR's oil export trade to be taken over by the major oil companies. The Russians were ready to talk about market share based on their 1931 trade. Some companies — SONJ, Socony, Texas Co. — felt an early settlement with the Russians was of the greatest importance. On the other hand, J.B. August Kessler of Shell now believed Russian competition could be ignored.⁵² There was growing evidence of production strains: Kessler could foresee no increase in Soviet oil exports, and Socony in early 1933 announced cargoes of Russian benzine recently received in Europe and the Far East were of inferior quality to previous cargoes.⁵³ The desirability of an accommodation with the Russians was diminishing.

Around this time also, fundamental changes were occurring within ROP which would occasion a tough official stance against the company later. Staff and management changes in ROP from 1930 represented an enormous internal upheaval. In late 1930, Terakopov and Rabinovich left the Company, and other followed.⁵⁴ From 1929, ROP had begun to insist on union membership for its employees, and had started to employ more communists and Russians. Such changes paralleled campaigns in the USSR against "bourgeois specialists" and "wreckers".⁵⁵ There may also have been a conflict between ROP management and Moscow over ROP's supplies and purchasing policy (buying US benzine) when Neftesyndikat could not fulfil contracts, and in Moscow's eyes, ROP's losses may have been attributable to former management. If so, the new management got off to a poor start. In 1932 the company suffered a trading loss of £ 970,000, which was cleared by Soyuznefteexport.⁵⁶

⁵¹ M. PEARTON, *Oil and the Romanian State*, Oxford, 1971, p. 168 and generally Ch. VII.

⁵² BP Archives.

⁵³ BP Archives.

⁵⁴ *Petroleum Times*, 22-xi-1930, p. 811 and 2-v-1931, p. 625. This journal believed these changes would shake ROP's foundations; Terakopov and Rabinovich were well known and highly respected in oil-trade circles.

⁵⁵ CARR & DAVIES, *op. Cit.*, Ch. 21; N. LAMPERT, *Technical Intelligentsia and the Soviet State*, Macmillan, 1979, Ch. 3.

⁵⁶ FO 371/17274, N5885, William Strang (Moscow) to Sir John Simon, 29-vii-1933.

In February 1932 the Foreign Office produced a lengthy report on ROP. It found that until 1927, ROP's activities had been purely commercial, but from 1929 there were "unmistakable signs" that Moscow was preparing to use ROP as a channel for extensive Communist activities in the UK.⁵⁷ ROP had many attractive assets including its own transport system connecting depots throughout the UK, which could be used to spread propaganda and perhaps facilitate sabotage activities. Recently, questions concerning staffing had been taken out of the hands of Terakopov and Rabinovich, and entrusted to two Communist party members, one of which was the wife of the Manager of Moscow Narodny Bank in London. By the end of 1929, some 33% of ROP staff were communists. In February 1930 OGPU in Moscow instructed the Soviet consul in London to conduct a purge of these "outside elements" that still remained in ROP in order to reserve employment in ROP exclusively for members of the Communist Party. There was now evidence, which had been confirmed by Terakopov and Rabinovich, that newcomers from the USSR were "ignorant, obstructive, incompetent and often illiterate".

It was minuted in the Foreign Office that "The ROP is nothing but a centre of propaganda maintained at a very high cost — viz the subsidy which has reached £ 600,000 and has never been less than £ 400,000". The Foreign Office concluded in its report that (i) ROP through its trading policy was a disruptive force in the UK oil market; (ii) ROP was using the cover of legitimate trade to spread subversive communist propaganda; (iii) the USSR was using ROP as a means for indirectly subsidising the communist movement in the UK; (iv) ROP's stores of highly inflammable petroleum might be used for acts of criminal sabotage.⁵⁸

Nothing was done, however, to restrict the company's activities until a general review of Anglo-Soviet was undertaken in the early 1930's. The 1929 Labour Government had restored relations with the USSR following the 1927 schism, and in 1930 a temporary commercial agreement had been concluded. But there was now widespread concern about the balance of trade in the USSR's favour. A Cabinet Committee on trade with Russia reported in May 1932, and after receiving evidence from the Foreign Office and Board of Trade, it recommended terminating the temporary commercial agreement, with a view to replacing it with a more equitable arrangement.⁵⁹ In March 1933 a draft bill on the prohibition of all imports from the USSR was circulated. Use was made of the sentencing of two Metropolitan — Vicker's employees in Moscow to imprisonment in April 1933 as a pretext for applying the bill from 26 April 1933.⁶⁰

⁵⁷ FO 371/16336, N1370, memorandum by Bateman, 25-ii-1932.

⁵⁸ FO 371/16336, N2488, FO memorandum of April 1932. See also FO 371/16336, N4132.

⁵⁹ See CAB 27/480 for report and proceedings.

⁶⁰ CAB 24/239, CP 85 and CP 86, March 1933, and FO 371/17239, N2855; J.

ROP managed to continue trading despite what was to be a short embargo. It circulated local authorities that it could continue to fulfil contracts, but there were reports that the company was buying oil from the USA to plug the gap in its Soviet supplies and was possibly engaged in swap deals — Soviet oil being exchanged elsewhere for deliveries to ROP in Britain.⁶¹ A new commercial agreement was concluded in 1934 which, inter alia, addressed the problem of trade balances. There was little mention of oil here and none of ROP. Indeed the main thrust concerned goods such as timber, fur and canned salmon.

ROP's sales in Britain thereafter stabilised at around 200,000 tons per year. In Europe, Soviet oil sales continued to fall, a process accelerated by government import quotas and foreign exchange problems in some countries, notably Denmark. Some barter arrangements were made: for instance in Switzerland in January 1933 the Russians and the Swiss Cheese Union agreed to exchange 8,000 tons of benzine and 10,000 tons of gas oil for equivalent amounts of cheese. In 1935 the Russians sold their German oil company Depop, and in 1937 Soviet interests in Sweden were bought by Alfred Olsen, then acting as a representative for the Gulf Refining Co.⁶² In May 1939, inconclusive talks were held with Gulf regarding the sale of ROP itself.⁶³

Conclusion

The formation of ROP and oil marketing activities elsewhere in Europe constituted both a statement by the USSR that it was back in international business and a recognition that it could not reliably sell oil through contractual or other arrangements with existing major oil companies. The establishment of ROP and other distribution investments elsewhere in Europe meant the USSR was beginning to develop a fully integrated oil operation. While methods of distribution and marketing varied, Soviet oil pricing policy was designed for market penetration, to achieve sales volume and market share rather than maximise profits. In ROP's case, the 1929 Agreement permitted price increases, but continuing competition meant ROP could not break out of its cheap pricing policy. Perhaps too the company was sensitive to the political climate, for if it raised its prices a major attraction of its products would have been removed, and customers could easily change brands.

HASLAM, *The Soviet Union and the Struggle for Collective Security in Europe 1933-39*, Macmillan, London, 1984, pp. 16-18.

⁶¹ FO 371/17240, N3587 and N4405, Board of Trade to FO 12-vi-1933. In 1933 ROP imported over 69,000 tons of benzine from the USA 137,000 tons from the USSR and 4,270 tons from Romania — BP Archives.

⁶² FO 371/20346, N3343; *Petroleum Press Service* No 20, June 1936, p. 204 and PPS, No3, 1935 p. 8; BP Archives.

⁶³ FO 371/23697, N2675.

The USSR gained intangible benefits through ROP: links with international business, familiarity with marketing and distribution techniques, and tangible benefits in the form of sterling earnings. Yet in accounting terms ROP made huge losses. This was probably not too serious a worry: Soviet planners may have reconciled such losses for rouble oil against the benefits of financing imports of a specific domestic value with convertible sterling or indeed, the hope of better times to come. Over the period 1924-39 oil exports to Britain constituted over 10% of total exports to Britain, or some 2.6% of total Soviet exports.

The question of the relationship between ROP and Neftesyndikat (and later Soyuznefteexport) remains a grey area. It appears ROP had some purchasing autonomy on occasions when supplies from the USSR were strained — it did purchase US benzine for instance. There remains a question mark over capital investment policy. Sanction for capital expenditure came from Neftesyndikat, but the process by which projects were conceived remains uncertain.

Whether ROP may have achieved a greater share of the British oil market, or a greater share more quickly, had Anglo-Soviet relations been on a more friendly footing is a matter of conjecture, in which Soviet priorities for ROP and oil exports generally would play an important part. Nevertheless, ROP's commercial activities did not appear to be restrained by crises in Anglo-Soviet diplomatic and political relations except during the 1933 temporary embargo. The decline of ROP was part of the general withdrawal of the USSR from oil exporting after 1932 and not an isolated case.

To British Governments ROP was an unusual animal, to other oil companies an unwelcome competitor. Many in Baldwin's government would have liked to neutralise the company, but could only attempt to hobble it, while ROP's persistence and expansion in the market led to the 1929 accommodation with the combine. For both, after 1931 the problems posed by ROP began to disappear.



