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Foreign concessions in the USSR textile industry in the 1920s and early 1930s: The public-private partnership experience

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Abstract

Despite the Soviet government's declarative efforts to engage foreign capital in rebuilding the economy during the 1920s, most concessions did not last long and were liquidated before the respective contracts expired. This article considers the conditions and key outcomes of concession enterprises, as well as the reasons and mechanisms for their premature liquidation, using the textile industry as an example. The main focus is on the indicators and reasons for the high profitability of these enterprises, lending issues and Soviet methods for limiting the growth of foreign concession operator profits.

Keywords: NEP, concessions, foreign capital, textile industry, profitability, taxes, labor conflicts, trade unions.
JEL classification: N34, N44, N64, N84.

1. Introduction

In the 1920s, concessions were seen as an important (if not the only) form of economic interaction between Soviet Russia and foreign firms, and the "capitalist surroundings" in general. However, the "age of concessions" was short-lived. For some companies, the exodus from the Soviet economy was voluntary (or "voluntary-compulsory"), while others were prematurely liquidated by the Soviet government using blunt force. Why did even the successful and profitable concessions wind down their operations in the Soviet Union within such a short period? Why did the Soviet government, despite all assurances of its desire to develop cooperative relationships with foreign firms, often take every possible measure to limit production volumes, reduce profits and eventually "squeeze" them out of the economy? This article answers these questions using the textile industry

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as an example. During the New Economic Policy (NEP) period, concession enterprises accounted for 22% of the total output for clothing and haberdashery products. Textile concessions can be seen as an example of companies that supplied the domestic market rather than producing exports, whose operations were aimed at meeting the population's everyday demands, which were in short supply throughout the 1920s. In addition, while being relatively small, the foreign firms in this sector demonstrated some of the highest profit margins among all of the manufacturing concessions. This article will focus on those aspects of the foreign concessions in the textile industry that were perceived to be the most significant and painful (conflicting) for both sides.

The history of Soviet concessions has been the subject of a number of works appearing at different times throughout the last century.

In the years of the New Economic Policy and the first five-year plan (1920s–early 1930s), state workers and the economic authorities, along with trade unionists, produced a significant number of publications devoted to various aspects of the policy towards concessions. As more experience was gained, the authors started to pay increasing attention to comparative aspects, analyzing the practices and results of concession activity within the Russian Empire and Soviet Russia/USSR (Liandau, 1925; Troyanovsky et al., 1926; Ioffe, 1927; Butkovsky, 1928; Bernstein et al., 1930). During the same period, studies presenting an analysis of Soviet concession policy (primarily legal issues) also appeared abroad (Gershuni, 1927; Hwang, 1929; Wilisch, 1932).

From the 1930s to the 1950s, Soviet historiographical practice ignored the topic of concessions. The situation began to change in the 1960s with a renewed research interest in the New Economic Policy in general. From the 1960s to the 1980s, literature devoted to the theoretical and practical aspects of concession activities in the 1920s began to appear. A distinctive feature of these works is that they studied the problem not only at a national but also at a regional level, focusing on concessions operating in Central Russia (Karagaeva, 1964), the Transcaucasia (Dzhibladze, 1973), the Urals (Semenov, 1973) and in the Far East (Ershov, 1968). Among the foreign studies, works by A. Krimmer and E. Sutton deserve the greatest attention. While Krimmer (1934) examined the legal aspects of concessions, Sutton, in his two-volume book "Western technologies and Soviet economic development," studied a broad range of American archives and articles in the Soviet and foreign press during the 1920s and 1930s, focusing mainly on existing concession practices (Sutton, 1968).

More studies appeared during the post-Soviet period, this time free of the ideological bias inherent in the earlier works. This was due to the ongoing declassification of large amounts of archival documentation. The interest in imperial and Soviet experience with concession policy and practice peaked in the 1990s and 2000s (Konoplyanik and Subbotin, 1996; Zvorykina, 2002; Varnavskiy, 2003). Among the works appearing at the time, we should highlight a monograph by A. G. Dongarov in which the author focused on identifying the causes for low performance among the concession practices in the USSR (Dongarov, 1990).

Most of the works that touched upon the issues of Soviet concessions were published during the 2000s and 2010s, and were aimed at closing a large number of "blind spots" still enshrouding the topic (Lisovskaya, 2006; Bulatov, 2011; Garkavenko and Khorunzhy, 2013; Kuvshinova, 2014). Their authors examined the specific legal regulations for concessions (Ledenev, 2018), practical issues and the results of cooperating with major foreign technology firms (Danilchenko, 2011), the process for liquidating concessions (Yudina and Bulatov, 2013), conditions for factory and office workers, and labor relations in concessionary enterprises (Yudina, 2009), and some reasons for the rapid wind-down of concessionary activities in the Soviet economy (Levin and Sheveleva, 2016).

Analyzing the available historical studies, we can see that the authors who reviewed various issues regarding concession activities at the sectoral and micro levels (using the example of individual concessionary enterprises), focused on mining enterprises, trade, forestry and agricultural concessions. The main interest for the manufacturing industries was directed towards metal processing and machine building as capital-intensive industries, which was viewed favorably by both the Soviet government and by major international companies alike. In the case of textile concessions, even where researchers mention specific companies, this is often limited to indicating the company name and the range of products it delivered.

The source base for studying the history of Soviet concessions during the 1920s is quite diverse. Several collections of documents on the history of Soviet concessions were published during the 2000s, reflecting a growing interest in the topic (Zagorulko, 2005, 2006; Khromov, 2006a, 2006b). The source base for this article is also comprised of the documents stored in the archive funds of the State Archive of the Russian Federation (GARF), primarily in the archive funds of the Main Concession Committee (F. R-8350). The most interesting documents are concession offers and their consideration and discussion materials; executed concession agreements and draft agreements; the correspondence between various Soviet institutions and organizations (the People's Commissariat for Foreign Trade, the Main Concession Committee (MCC), the Supreme Council of the National Economy (VSNKh), the Council of the People's Commissars (CPC), the Politburo, the State Planning Committee, the State Bank, etc.) concerning various issues related to concession operations; meeting minutes and reports by the Concession Committee; reports and materials concerning surveys of the concession operations, etc.

2. Fundamentals of concession policy and the negotiation process

On November 23, 1920, the Council of the People's Commissars of the Russian Soviet Federative Socialist Republic (RSFSR) adopted the Decree "On General Legal and Economic Conditions for Concession Activities," which, despite its brevity, was the main document regulating the activities of concession enterprises during the 1920s. The Decree provided the concessionaires guarantees against nationalization, confiscation and commandeering of property, as well as against unilateral changes to the concession's contract terms by the Soviet government, which can be described as exceptions from the strict regulatory framework during the "War Communism" times (Danilchenko, 2011, p. 95). This relaxation of the laws was, in fact, a result of the Soviet government recognizing the dire predicament of the Russian economy and its inability to offer economic recovery without engaging foreign capital. It can be noted that the CPC Decree of 1920 only set up a general framework for concession activities. Many important aspects of the concession policy were regulated by CPC resolutions on more specific issues, depending on which sector the concession operated in, its main activity region, and its economic and political importance.

The state organizations and agencies responsible for implementing the concession policy changed repeatedly in the early 1920s due to the lack of experience in this area and the development stage of concession practices, along with the ongoing formation of a unified state. Ultimately, the Decree by the All-Russian Central Executive Committee and the Council of the People's Commissars of the RSFSR on March 8, 1923, established the Main Concession Committee under the Council of the People's Commissars, which had the final say in any concession negotiations. On July 17, 1923, the CPC of the USSR signed a Decree "On the establishment of the Main Concession Committee under the Council of the People's Commissars of the USSR." G. L. Pyatakov was appointed its first chairman (Khromov, 2006a, p. 161).

Foreign capital could be present in the Soviet economy in various organizational forms: "pure" concessions (as they were often referred to in MCC documents), mixed companies, and the purchase of shares in Soviet state enterprises and trusts by foreigners. The third foreign investment option never gained ground during the 1920s, despite all of the Soviet efforts. A "pure" concession was seen as the most convenient option by both foreign companies and the Soviets. The concessionaires in this case received the greatest independence in the conduct and day-to-day management of their business, although the concession agreements put foreign entrepreneurs under the close scrutiny of Soviet authorities in any case.

The Soviet government's preference was due to the fact that "pure" concessions, unlike mixed companies, were treated as state property leased out; accordingly, no right of ownership was created for concessionaires in this case. In addition, unlike mixed companies, concessions did not require the Soviets to make any major financial outlays (given the obvious scarcity of public funds at the time) to pay for its part of the joint capital. All textile concessions existed as "pure" concessions.

Negotiations with potential concessionaire firms were considered of ultimate importance and secrecy, and information about them was not to be revealed to the general public, much less published in the press. Only a limited set of entities and people were allowed to hold negotiations. Either the Soviets or the foreign firm could initiate negotiations on concession contracts. To do that, the latter needed to apply to the Foreign Concession Commission in its country of operation, and if no such commission was present, then to the trade mission of the USSR. Inside the USSR, the foreign firm's representative could apply and present their case to the MCC, the Concession Commission of the respective People's Commissariat, or the Concession Commission of the CPC for the respective Republic of the Union.

State institutions and economic organizations were entitled to begin negotiations with foreign firms regarding a concession in the USSR strictly with the permission from the MCC, republic-wide or other foreign concession commissions. All of the required materials, including indicative terms and a list of facilities available for concession, were provided along with the authorization to negotiate. If the foreign firm's application was related to a facility already on the list of concession facilities (which means that the terms of its lease had already been agreed upon), negotiations could commence almost instantaneously. Upon receiving an application from a prospective concessionaire, a foreign concessionary commission or trade mission, the MCC had to determine whether the applicant and the objective of the concession were acceptable, determine the procedure for negotiations, etc.

In the case of verbal negotiations, certificates signed by the staff members conducting the negotiations had to be prepared. In the most important cases, minutes were drawn up and signed by the negotiators on both sides. All documents drawn up jointly with the concession applicants, along with the draft contracts, were to contain a reference to their provisional nature. All draft agreements were subject to approval by the USSR CPC. All draft contracts submitted to the MCC were to be signed by the applicants and accompanied by a cover letter with an "explanation of the key project conditions" (Zagorulko, 2005, pp. 131–135).

However, the closer to the end of the 1920s we look, the more remarkable the lack of interest by European and American firms and individuals becomes. These negative tendencies could be explained by the less-than-perfect organization of the negotiation process among other things. The existing rules for negotiating with foreigners effectively ruined the possibility of having a dynamic and constructive dialog on various issues. It was normal for negotiations to draw out for years, not just months, accompanied by dozens to hundreds of pages of correspondence with various Soviet institutions and organizations. This was enough for European and American companies to lose interest in a concession that lasted that long, and they preferred to take their money elsewhere. An attempt to streamline the negotiation process in 1928 by regulating it even further yielded no noticeable effect.

3. Number of proposals received and concession agreements executed

Table 1 presents data on the number of concession offers received and the contracts executed in different industries from 1921 to 1928. This data only relates to "pure" concessions and mixed companies; agreements on technical assistance have not been taken into account. According to the data cited by Dongarov, only about 7.5% of all concession offers received in those years resulted in an actual signed contract (Dongarov, 1990, p. 93). This figure takes into account technical assistance agreements. If we only take into account "proper" concessions (pure concessions and mixed companies), this figure drops to just 6.6% (see Table 1).

Although some concession applications were submitted by large foreign companies, most of the offers were from small and medium-sized firms. The concessionaires expressed the greatest interest in trade, extractive and manufacturing industry, and in some light industry sectors (including textile), which is shown by the annual trends in concession offers. Light industry, producing consumer goods, was attractive for many medium and small companies due to the minimal investment requirements and rapid turnover of funds, given the severe commodity shortages in the USSR.

We should note that the state promoted concessions in the mining industry to a greater extent (10.9% of concession offers resulted in contracts signed). There were several reasons for this. First, these were capital-intensive industries that were virtually impossible to expand in the short run using domestically available

Table 1
Distribution of bids received by the Main Concession Committee and concession agreements executed by sectors of the national economy. USSR, 1921–1928

Industry	1921/22	1922/23	1923/24	1924/25	1925/26	1926/27	1927/28	Total
Mining	37 (4)	99 (1)	52 (6)	32 (7)	24 (6)	20 (4)	1 (1)	265 (29)
Manufacturing	37 (0)	134 (5)	84 (5)	69 (9)	260 (13)	111 (2)	23 (0)	718 (34)
Agriculture	31 (2)	51 (7)	43 (1)	27 (2)	13 (0)	5 (0)	2 (0)	172 (12)
Forestry	10 (1)	41 (3)	24 (2)	16 (0)	12 (0)	10 (1)	0 (0)	113 (7)
Trades	10 (0)	38 (2)	8 (2)	7 (0)	12 (2)	6 (0)	2 (0)	83 (6)
Construction	Not identified separately			15 (2)	19 (1)	2 (0)	36 (0)	72 (3)
Commerce	55 (3)	124 (10)	104 (13)	73 (7)	97 (3)	49 (1)	3 (0)	505 (37)
Transportation and telecommunications	29 (4)	44 (3)	30 (4)	21 (1)	12 (0)	9 (0)	3 (1)	148 (13)
Other	15 (0)	48 (2)	51 (1)	21 (1)	16 (1)	2 (0)	1 (1)	154 (6)
Total	224 (14)	579 (33)	396 (34)	281 (29)	465 (26)	214 (8)	71 (3)	2230 (147)

Note: Each column provides the number of concession offers followed by the number of agreements executed in brackets; the data for the 1927/28 operating year is provided for the period from October to December 1927; technical assistance offers and contracts are excluded.
Source: Report on the activities of the MCC under the USSR CPC for the 1926/27 operating year (Zagorulko, 2005, pp. 324–325).

funds alone, especially when mining could not function without foreign technological support either. Second, these industries supplied raw materials to all other industrial production (state-owned and cooperative) through concessional payments favorable to the government, as prescribed in the concession agreements. Third, demand for the output of these industries (non-ferrous metals, oil, etc.) was high in foreign markets at that time in light of the post-war restoration of national economies, and it was possible to arrange non-currency exports in these industries.

In the manufacturing sector, only 4.7% of concession offers were signed. At the same time, 6 out of 34 concessions (17.7%) established in the USSR's manufacturing sector were in the textile industry.

The data in Table 1 shows a gradual decline by the end of the 1920s in both the number of concession offers and the number of executed contracts. The downward spike in the 1927/28 operating year is particularly noticeable. In addition to this, MCC noted a simultaneous decline in the quality of incoming proposals (Dongarov, 1990).

4. What did the USSR expect to gain from textile concessions?

The first concession agreements in the textile industry were concluded relatively late, in the autumn of 1926. This was not due to a lack of proposals by foreign firms, which were plentiful, but to the unwillingness of the Soviet economic authorities to let other players into this industry to compete against state-owned enterprises. In March 1923, the Board of the All-Russian Textile Syndicate stressed in a memorandum to the MCC that "the most desirable form for attracting foreign capital would be to include it as an interest holder" of the syndicate.[1] In December 1923, the Concession Commission under the USSR Supreme Economic Council

[1] GARF, fund R-8350, inv. 1, file 1828, sheet 9.

reported this to the MCC: "It is desirable for us to attract capital not for the operation of individual enterprises, but to participate in our trusts which usually suffer from a lack of working capital."[2] At the same time, the textile industry was seen as "one of the most profitable and developed sectors of the industry, and technically it is not inferior to the foreign business," from which it was inferred that "we cannot get much from attracting foreign capital" in this industry sector.[3] However, specific concession proposals from prospective partners that took into account the needs of the domestic market for certain goods could be considered. In addition, there was a policy of not conceding sustainable enterprises.

This position resulted in the absence of a serious approach to implementing the concession policy in the textile industry until 1926, when it became obvious that the industrial recovery process, which had been proceeding at a fairly rapid pace, failed to alleviate the consumer goods shortage in the USSR's domestic market. This was fully applicable to fabrics and various articles of clothing.

At a meeting on January 28, 1927, the Main Concession Committee discussed a concession plan for industry in general and for individual sectors. During the discussions, Leon Trotsky emphasized that "so far, the concession program has been going blindly," (Zagorulko, 2005, p. 76). He also noted during the meeting that the concession policy implementation had been guided by the following principle: "Whenever there is a bad spot, an obviously unprofitable one, it is written off as concessionary enterprise." At the same time, calculations were always made regarding "how much foreign capital can be allowed in a given industry so as not to lose our absolutely dominant position," (Zagorulko, 2005, pp. 80–81). During the meeting, a number of participants expressed support for the representative from the Concession Commission of the Supreme Council of the National Economy, who proposed that the concession policy should be based on two indicators: (1) "what was produced in Russia before the revolution and what was in short supply;" (2) "what was borrowed from abroad (in terms of equipment, production, and technology)" (Zagorulko, 2005, p. 77).

At the aforementioned meeting, representatives of various economic organizations reported on the state of affairs in various industries in terms of the current and potential engagement of foreign capital. I. N. Lopatin, representative of Central Administrative Board of Textile Industry of the Supreme Council of the National Economy of the USSR (Glavtextil), spoke on the issue of concessions in the textile industry. In his report he emphasized that the Soviet textile industry was dependent "on foreigners" in four areas: raw materials, equipment, steam-power plants, and technical supplies (Zagorulko, 2005, p. 94). The MCC report for the 1926/27 operating year, in the section assessing the need to attract foreign capital in the form of concessions in the textile industry, also noted that one of the main problems in the industry was a lack of raw materials and "spinning machines" (Zagorulko, 2005, p. 333).

80% of Soviet textile equipment was imported from Great Britain. Conditions for weaving production were somewhat better, since a substantial number of looms had begun to be produced in the Russian Empire. So by the 1920s, only the most sophisticated machines were imported. Nevertheless, the proportion of

[2] GARF, fund R-8350, inv. 1, file 1828, sheet 18.
[3] Ibid.

English equipment in the cotton and linen industry was still significant. The situation was more complicated in the worsted industry, for example, which relied exclusively on German and French equipment, in the coarse-wool and fine-cloth industries, which used German and English machines, and in the silk industry, with Italian-manufactured hardware (Zagorulko, 2005, p. 95).

According to the estimates in Lopatin's report at the aforementioned meeting, the Soviet machine-building industry would not be able to supply the necessary equipment to the textile industry. At the same time, he drew attention to the fact that "the equipment stock has become significantly outdated," with at least 25% needing replacement within the next five years, and just as many will need to be purchased and installed at newly built enterprises. It should be noted that in the mid-1920s the Soviet industry started producing the most popular machines for the textile industry—carding, batting machines, bobbin frames. However, enterprises were in no hurry to equip their factories with domestic machines, not being confident in their quality.

The flax industry was in the most run-down position, due to high production costs and consequently low profitability and low demand for fine linen fabrics. Lopatin noted: "The yarn produced by the French and the British is made from our flax, which is sold abroad at half the domestic price," (Zagorulko, 2005, p. 96).

One of the most urgent issues was that of raw materials. In particular, Lopatin noted in his report that over the next five years, Soviet enterprises would remain dependent on imported supplies of cotton and wool. In addition, dyes were also a problem with Soviet industry supplying about 30% of the textile industry's total needs. Furthermore, domestically produced dyes were inferior in quality to the imports. According to Glavtekstil estimates, 9–10 million rubles' worth of imported dyes had to be purchased to cover the demand of textile enterprises. (Zagorulko, 2005, pp. 94–95).

Therefore, concessions were envisioned for various sectors within the textile industry. The aim was to address the shortage of raw materials, equipment and capital in such a way that state-owned industry would not lose its dominant position.

5. Partner firms

Proposals to execute concession agreements came from both large companies and smaller firms, and even from individuals. But the Soviets tended to focus exclusively on "reputable" firms. All prospective partners were thoroughly profiled, collecting as much detailed information as possible. Since small firms were not as widely known, it was often impossible to obtain information about them. Therefore, it was often the case that offers from smaller companies were not even considered. They were immediately rejected. In addition, the Soviets tried to avoid conceding successful enterprises. In most cases, the contract was not signed because one of the parties indicated that the conditions proposed by the other party were unacceptable.

According to the MCC reports, six textile concessions were operating in the USSR during the 1920s.

A contract with Bernhard Altmann (Austria) was signed on August 7, 1926, for 18 years for the right to manufacture and sell stockings, gloves, jumpers, jackets and other knitted products made with cotton, woolen yarn and artificial silk.[4] The state knitting industry covered about 40% of demand in the USSR at the time, and knitwear prices were 50% to 100% higher than before the war. The concessions were expected to help satisfy the demand, reduce production costs, improve quality and curb the smuggling of knitwear.[5] The Altmann concession leased the former Gorbachev factory near the Kosino platform on the Moscow–Kazan railway.

A contract with the Oswald Trilling concession (Poland) was signed on September 27, 1926, for a period of 15 years. The concession received the premises of the Spartak factory (near the Bykovo station on the Kazan railway), "together with the territory belonging to this factory." At that time it was a working company, part of the Mossukno Trust, with 210 production workers and 20 office staff. However, the equipment installed at the factory was obsolete and "badly worn out," and production costs were high even compared to other state enterprises producing a similar line of goods. For this reason, Mossukno considered shutting down the facility, and it only survived thanks to the concession agreement. The Trilling concession was created to produce "all kinds of woolen and half-woolen cloths," as well as "various kinds of blankets (plush, jacquard, etc.), woolen yarn, carpets and shawl goods".[6]

The Novick and Son (Poland) concession agreement was approved on June 15, 1926, for a period of 12 years, authorizing the concessionaire to "manufacture and sell felt hats, caps and ready-made hats, felt boots and other felt goods." It is worth noting that this firm had been doing business in Russia before 1917, and had Belgian Hat Factory in Moscow. This time the concession received a lease on the former Baranov factory in Pavlovsky Posad, which the concessionaire was obliged to put into operation within 9 months of the effective date of the contract.

A 15-year agreement with Tiefenbacher Knopffabrik (Austria) was signed on April 7, 1926, for the right to produce garment buttons out of coconut wood, celluloid and artificial horn. A similar production line was set up at Częstochowa Factory (Poland) and at Cellugal Factory (former Bloch & Ginzburg Factory), Germany. The contract was executed on March 2, 1926, for a period of 15 years (Zagorulko, 2005, p. 201).

As we can see, not all of the organizations listed were proper textile enterprises by the nature of their production. Some of them produced haberdashery goods. However, the MCC and the RSFSR Concession Commission classified all of these enterprises as textile concessions. This is why this article deals with all six concessions, while focusing on the Altmann and Trilling concessions.

6. Concession agreements and the general conditions for textile concessions

Standard concession agreements for various industries such as transportation and construction were developed only in the mid-to-late-1920s; up to that time, each agreement was prepared on a case-by-case basis, and the terms

[4] GARF, fund R-8350, inv. 2, file 4, sheet 60.
[5] Ibid., inv. 1, file 566, sheet 25 rev.–26.
[6] Ibid., sheet 26–26 rev.; inv. 2, file 153, sheet 294.

could be adjusted during the course of negotiations. In any case, however, each concession agreement firmly established the basic conditions for operating the concessionary enterprises. The agreements varied in duration from several months to several decades. Annual production volumes for the entire product line (sometimes increasing year over year, once the initial production setup period was completed) and sales terms were also prescribed in the contracts. For example, according to the concession agreement, the Trilling concession committed to install equipment to produce at least 200,000 meters of cloth or 100,000 meters of blanket twill per year by the end of the second operating year, and at least 300,000 and 150,000 meters, respectively, by the end of the third year.[7] In the case of Altmann, the concessionaire committed to be processing at least 25,000 kg of yarn (different grades) per year within 14 months of the contract being approved. By October 1, 1927, the factory had to be equipped in order to produce 50,000 kg of woolen yarn a year. The concessionaire was also obliged to ship at least 30% of the yarn produced for the production of stockings and gloves.[8] For the Novick and Son concession, the contract also established annual production volumes as follows: 20,000 dozen felt caps and finished hats, 13,000 dozen felt shoes and 22,000 meters of felt piece-goods.[9]

The concession agreement also specified the amount and forms of capital to be invested by the concessionaire in restoring and establishing the new production. Specifically, the Trilling concession was required to install at least $40,000 worth of equipment within the first operating year. For Altmann, the cost of equipment to be installed at the factory had to be at least $60,000 for knitting and at least $30,000 for wool-spinning. Concessionaires could usually import equipment from abroad duty-free, but with the payment of a license fee.[10] The Novick and Son concession had nine months to import machinery, equipment and inventory in strict accordance with the approved list. In addition, the concessionaire was authorized to import raw materials (while paying all prescribed duties and taxes) as long as they were not produced in sufficient quantity in the USSR. At the same time, the quota of imported raw materials was conditioned upon achieving the production volumes. During the first operating year, raw material imports were permitted in the amount necessary for one year’s production volume, “without the right to transfer currency abroad in payment for the raw materials.” Thereafter, the concessionaire was to coordinate the amount of raw materials to be imported with the VSNK annually, “provided that this amount does not exceed 20% of the total value of the raw materials processed at the concessionary facility in a given year”.[11]

It is noteworthy that the concession agreements in the textile industry did not specify the quality of the imported equipment. The contractual requirements were limited to stating that the equipment had to represent new technology; this apparently meant that its partial physical wear did not preclude it from being installed at Soviet facilities. The MCC believed, and repeatedly stated in reports

[7] GARF, fund R-8350, inv. 2, file 153, sheet 294.
[8] Ibid., inv. 1, file 566, sheet 25 rev.
[9] Ibid., sheet 25.
[10] Ibid., sheet 25 rev.–26.
[11] Ibid., sheet 25.

and during meetings, that this was a serious failure in the Russian party's approach, as it allowed the concessionaires to install some equipment which had been previously used in European factories.

Each concession agreement necessarily had a clause prescribing the procedure and rate for tax payments, as well as all of the contributions to the Government (excise duties, customs duties, royalties, etc.). As a rule, the contract permitted a change in the royalty fees charged by the Soviet government in case the concession achieved high profit levels, or extra taxation of "excess profits." For example, in the Trilling agreement, the concessionaire agreed to pay the following fees to the government: (1) a royalty in the amount of 6% of the turnover, with exported products being exempt from the royalty payments; starting in the second year of the concession, the royalty could not be lower than 40,000 rubles a year; (2) an additional royalty payment if the company's net profit in any year exceeded 25% of the capital invested by the concessionaire; (3) a rent payment of 20,000 rubles a year.[12]

In accordance with the concession agreement, payments of Altmann concession included: (1) a royalty on the turnover of the enterprise — 8% for knitted goods and 5% for wool, if the turnover is less than 400,000 rubles per year in the second operational year, less than 800,000 rubles during the third year and below 1,000,000 rubles in all subsequent years; (2) a tax on excess profits by special royalty payments which varied from 25% to 50%, depending on the level of profit; (3) annual rent for facilities and equipment at 8,000 rubles; (4) taxes, social security payments and other fees on par with state enterprises transferred to self-financing.[13]

The payments specified in the concession agreement with Novick and Son included: (1) a royalty in the amount of 10% of the enterprise's gross proceeds during the operating year; starting from the third year, the minimum threshold for this royalty payment was set at 50,000 rubles; (2) an additional royalty payment in the amount of 20.0 to 33.5% of profits, if profit exceeds 25% of invested capital; (3) a rent payment in the amount of 32,000 rubles per year; (4) taxes, social insurance payments and other fees on par with state enterprises transferred to self-financing.[14]

In accordance with the concession agreement, the concessionaires were to comply with Soviet labor legislation, and provide all of the required financial and other information to the controlling Soviet organizations. The agreements provided for an early termination of the contract by either party, and also defined the procedure for handling any disputes. Upon expiry of the contract, the concession's capital was transferred to the government.

In analyzing the content of concession agreements, we can note that when it came to enterprises selling their products to the domestic market, the Soviets insisted on an inflated amount of fixed assets imported when the concession was established and production launched, because this capital would be transferred to state ownership after the expiration or premature termination of the contract. Contractual restrictions on production volumes were another peculiarity of

[12] GARF, fund R-8350, inv. 1, file 566, sheet 26.
[13] Ibid., sheet 25 rev.
[14] Ibid., sheet 25.

the arrangements. This was done for two reasons: first, to protect state-owned enterprises that produced similar products from competition and, second, to reduce foreign exchange costs, which was especially important for factories and plants operating on imported raw materials. Consequently, for concessions aimed at foreign markets, agreements included higher production volume commitments since the concessionaire had to pay the state a fee for each unit of product exported. This posed a threat to concessionaires in the event of overproduction in certain markets, as they would not be able to reduce production in that case.

However, it should be noted that the concession agreements only defined some of the operational terms for foreign concessions in the Soviet economy. Another, equally (and sometimes more) important part of these conditions was set by the regulations of the central and local authorities. Compliance with these regulations was mandatory for the concessionaires, as the contract obliged them to comply with Soviet legislation. Through this mechanism, the government could always change the operating environment for the concession enterprises in general or on an individual basis, without formally violating the concession agreement.

In accordance with the adopted regulations, the concessionaires could import equipment and raw materials only with permission from the Soviet authorities, and only if they convincingly justified the impossibility of acquiring similar products within the USSR. Additionally, the volume of imports could be limited for concessionaires in favor of state and cooperative enterprises under the conditions of the approved annual import plan.

Payments for imported goods and the export of profits and salaries for foreign concession workers could only be made by submitting respective applications, which were reviewed by the industry People's Commissariats and the People's Commissariat for Finance (PCF). Direct purchases of various goods abroad were carried out via the USSR's foreign trade missions. Concessionaires received the right to export the currency needed to pay for the raw materials purchased there. However, in a number of cases, this ability was limited by accompanying requirements. For example, the Trilling concession could only export for this purpose either the currency "received from sales of the company's products," or else the exported amount could not exceed 30% of the value of the imported raw materials, and payments could only be made nine months after the importation. A similar nine-month deferral rule for payments for imported raw materials was specified in the agreement with the Novick and Son concession.[15] In addition to paying for raw materials, concessions were entitled to withdraw profits earned, make "annual repayments of invested fixed capital at 6%" and amounts "received from liquidating the enterprise."[16]

The system was overly complicated and generated numerous conflicts that negatively affected concessionary enterprises. Additionally, it allowed the Soviets to create absolutely intolerable working conditions for a specific foreign firm it may have lost interest in cooperating with, thus forcing an early termination of the concession contract.

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[15] GARF, fund R-8350, inv. 1, file 566, sheet 25–26.

[16] Ibid., 25 rev.–26.

In many cases concession agreements were amended by executing addenda initiated by the Soviet party, for instance, when the original terms allowed the concessionaires to earn higher profits, to import used instead of new equipment, etc. These kinds of addenda were supposed to be signed by mutual consent of the parties. Clearly, the concessionaires were not interested in additional restrictions, but the Soviet economic authorities often found leverage, actually forcing the concessionaires to accept obligations that were detrimental to their interests.

The agreements also stated that the concession enterprises would be transferred to the government upon the expiration or early termination of the concession. In the case of textile concessions, upon expiry of the contract, the enterprise was transferred free of charge to the government, "which pays the concessionaire the outstanding portion of the costs incurred with the consent of the Government," during the past few years (usually 3–5 years). In some cases, such as with Novick and Son, the government also received a supply of fuel and materials sufficient for the company to operate for three months. If a concession was terminated early, the enterprise was transferred to the government free of charge.

Given all these circumstances, the Soviet government's interest in a concession was the only guarantee of its survival. As soon as this interest vanished, the foreign firm would be "squeezed out" of the Soviet economy.

7. Profitability

The issue of the profitability of concessionary enterprises was of interest and concern to the Soviets, including the fact that the concessionaires had the right to withdraw their profits abroad in hard currency. In addition, the government was interested in the profitability of concessionary enterprises for purposes of assessing their efficiency in investing capital in the Soviet manufacturing industry compared with the returns on invested capital they could obtain at home or in other countries.

The MCC report for 1926/27 indicated that the commercial profit of the concessionary enterprises in the USSR was about 9 million rubles, and after accounting for all payments to the Government, the total profit attributable to the concessionaires was about 6 million rubles. The ratio of net profit (excluding unprofitable enterprises) to invested equity (fixed assets and working capital) varied from 20.4% to 460.7%, and averaged 85.4% (Zagorulko, 2005, p. 406). The MCC report for the 1927/28 operating year drew attention to the fact that "the state takes more than $^1/_3$ of the profits" of the concession enterprises, "but this is not enough by far." Moreover, during 1927/28, "the concessionaire's share of the profit was higher than in the previous year, which shows the inadequacy of the excess profit taxation scale at its higher levels." The ratio of concessionaire profits to invested capital was 95.9% in 1927/28 (Zagorulko, 2005, p. 449, 451).

Overall, for all concessionary enterprises in the manufacturing sector of the RSFSR, 1926/27 profits were 633% of those in the previous operating year, and 1927/28 profits were 164% of those in the previous year (Zagorulko, 2005, p. 557). Relative to invested capital, the profits of concessionary enterprises in the manufacturing sector across the RSFSR averaged 92.6% in 1926/27, and 130.2% in 1927/28 (Zagorulko, 2005, p. 557).

The available performance reports for selected textile concessions allow us to assess their profitability. In particular, we can obtain the following indicators (see Tables 2, 3, 4):

(1) Return on Equity (ROE):

ROE = Net profit / Equity capital × 100%;

(2) Return on Labor (ROL):

ROL = Net income / Headcount × 100%;

(3) Return on Sales (ROS):

ROS = Net profit / Revenue × 100%.

In calculating ROE, it is more common to use the average annual equity level, which represents the arithmetic mean between the values of this indicator at the beginning and the end of an operating year. The Soviet concession authorities used the end-of-operating-year figures for their calculations. Tables 2 and 3

Table 2
Invested capital, net profit and number of employees in textile concessions, 1926–1928.

Name of concession	Invested capital ('000 rubles)			Net profit ('000 rubles)		Number of employees	
	1926/27	1927/28					
	as of 10/1/1927	Option 1	Option 2	1926/27	1927/28	1926/27	1927/28
Częstochowa	139.2	222.8	181.0	590.8	435.4	457	420
Trilling	99.7	154.9	127.3	304.1	710.2	607	817
Cellugal JSC	181.0	237.9	209.5	130.1	514.4	276	323
Tiefenbacher	337.2	390.7	364.0	523.5	1,180.3	530	769
Altmann	176.4	404.9	290.7	68.8	–	1,136	599
Novick and Son	192.0	122.7	157.4	105.8	362.5	136	193
Total	1,125.5	1,533.9	1,329.7	1,723.1	3,218.7	3,146	3,121

Note: The "number of employees" column includes factory and office workers.
Sources: Zagorulko (2006, pp. 639, 624–625, 664–665). The values in the "Option 2" column were calculated by the author.

Table 3
Profitability of textile concessions, 1926–1928.

Name of concession	ROE			ROL	
	1926/27	1927/28		1926/27	1927/28
		Option 1	Option 2		
Częstochowa	424.4	195.4	240.6	129.3	103.7
Trilling	305.0	458.5	557.9	50.1	86.9
Cellugal JSC	71.9	216.2	245.6	47.1	159.3
Tiefenbacher	155.2	302.1	324.3	98.8	153.5
Altmann	39.0	–	–	6.1	–
Novick and Son	55.1	295.4	230.4	77.8	187.8
Total	153.1	209.8	242.1	54.8	103.1

Sources: Zagorulko (2006, pp. 639, 624–625, 664–665); author's calculations.

Table 4
Profitability of textile concessions sales, 1926–1928.

Name of concession	Revenue ('000 rubles)		Gross profit ('000 rubles)		ROS			
					Gross		Net	
	1926/27	1927/28	1926/27	1927/28	1926/27	1927/28	1926/27	1927/28
Częstochowa	2,515.1	3,944.2	950.5	674.0	37.8	17.1	23.5	11.0
Trilling	2,260.5	4,810.3	478.1	1,136.2	21.2	23.6	13.5	14.8
Cellugal JSC	844.9	2,664.4	186.8	953.3	22.1	35.8	15.4	19.3
Tiefenbacher	1,806.7	3,830.7	801.4	1,861.2	44.4	48.6	29.0	30.8
Altmann	1,061.7	5,797.7	71.5	–	6.7	–	6.5	–
Novick and Son	368.9	1,762.1	162.6	583.5	44.1	33.1	28.7	20.6
Total	8,857.8	22,809.4	2,650.9	5,208.2	29.9	22.8	19.5	14.1

Source: Zagorulko (2006, pp. 660–661, 646–647).

provide both methods: option 1 represents the amount of equity at the end of the year, and option 2 is the annual average.

It can be noted that the profitability indicators of textile concessions exceed the average level for all concessions (both for the overall Soviet Union, and at the individual republic level), as well as those of the manufacturing sector in general.

The Altmann concession, which ended 1927/28 with a loss of about 500 thousand rubles, had special circumstances.[17] The main reason was that the company began experiencing serious problems with the sales of its products in December 1927. The problem was that the All-Russian Central Union of Consumer Societies (Tsentrosoyuz) imported about 6 million rubles worth of knitwear goods from Latvia while enjoying benefits from customs duty payments. The potential clients of Altmann, of which 80% were government and cooperative organizations,[18] either refused to purchase the concessionaire's goods altogether, or offered an extended payment in arrears. Moreover, the Tsentrosoyuz called for its customers to completely stop buying knitwear from Altmann.[19] To get out of the crisis, the concessionaire first reduced prices by 10%, then started selling its products at Mostrikotazh trust prices, "which were undoubtedly unprofitable given the terms for payments in arrears." We should note here that state and cooperative organizations paid only 30% of the price in cash for the concessionaires' goods, and the other 70% against promissory notes and open accounts (Levin and Sheveleva, 2016). As a result, Altmann started selling products at a 50% discount, just to take in enough money to pay wages and cover various operating expenses. Bernhard Altmann himself noted that in the USSR, unlike other countries, he had no opportunity to submit any buyer's promissory note to the bank, and also had no access to loans, which forced him to import currency from abroad, which was absolutely unprofitable and could not continue indefinitely.[20]

Lending issues were fundamental for both the Soviets and the concessionaires. Despite the high profits earned by concessionaires, many of them experienced a shortage of working capital, forcing them to draw loans from the State Bank.

[17] GARF, fund R-8350, inv. 2, file 8, sheet 69
[18] Ibid., file 8, sheet 249.
[19] Ibid., file 8, sheet 263.
[20] Ibid., file 2, sheet 178.

To a large extent, this was due to the provision of long-term credit to buyers and the need to account for promissory notes received from state and cooperative enterprises. At the same time, the "strained financial situation" was more characteristic of small companies, while larger firms were more or less stable.

A decree by the Council of the People's Commissars of the USSR dated May 17, 1927, authorized Soviet banks to issue loans to concessionaires by taking promissory notes into account, provided a back-to-back loan is opened abroad for the state-owned and cooperative organizations. It is worth noting here that the accounting for promissory notes for the buyers of concessionaire products was, in fact, a way of crediting the Soviet state and cooperative enterprises, rather than the concessions.

The concessions were increasingly indebted to the State Bank: 67,000 rubles as of October 1, 1926, 892,000 rubles as of October 1, 1927, and 2,192,000 rubles as of October 1, 1928 (Zagorulko, 2005, p. 452).

Loans were mainly provided against promissory notes issued by state and cooperative organizations. Loans against goods were only provided in exceptional cases. At the same time, a significant portion of the loans was provided to concessionaires subject to the State Bank obtaining a back-to-back loan abroad. As a result, as of October 1, 1928, out of the total indebtedness of 2,192,000 rubles, 1,700,000 were owed under back-to-back-loans. Moreover, in many cases the loans were provided to the concessionaires on the condition they would avoid exporting a certain amount of profit until the loan is repaid. This condition was imposed almost universally, when a concessionaire was interested in a loan, but could not arrange a back-to-back loan to the State Bank. In addition, the conditions for obtaining the loan included a requirement to reduce prices of the products and to provide credit to purchasers represented by state and cooperative organizations and institutions. Loan rates for concessionaires were almost the same as those for state customers. This allowed the government to demand that a concession provide credit to purchasers, at a reasonable rate.

Going back to the Altmann concession, we should note that it managed to obtain a back-to-back loan from the State Bank with support from the MCC, but this did not fully resolve the situation. The company remained in a challenging financial situation, aggravated by the actions of the Soviets. The raw materials purchased abroad were seized at customs, the Unified State Political Directorate (OGPU) arrested the company's commercial director twice, and nobody could run the business in his absence. The only way Altmann managed to stay afloat was by setting up an OST JSC with Rudolf Scheller, specifically "for operating the concession."[21]

Overall, the number of unprofitable concessions was insignificant; most still demonstrated high profit margins. Among the textile concessions, Trilling, whose profits were described by the Soviet concession authorities as "predatory," is noteworthy in this respect.

High profit margins caused acute discontent for the Soviets, which resulted in a desire to reduce them by any means. The MCC and the RSFSR Concession Commission took a number of measures "to mitigate the negative impact of concessionary enterprises on the national economy of the Soviet Union."

[21] GARF, fund R-8350, inv. 2, file 3, sheet 305.

First, a number of concession contracts were renegotiated “to adjust for identified deficiencies and defects.” In the case of enterprises catering to the broad consumer market, the emphasis was “on adjusting the scale of taxation on excess profits upwards and on setting limits on raw material imports.” Drafts of these agreements were handed over to Cellugal, Częstochowa Factory and the Altmann concessions. Secondly, starting the next financial year (1928/29), many enterprises were forced to switch to domestic raw materials or to purchase imported raw materials exclusively through state organizations. For example, enterprises that used celluloid, partial galalith, etc., switched completely to domestic raw materials. Imported wool was only obtained through state organizations. Thirdly, actions were taken to reduce the price of concessionary goods. In practice, however, this resulted in a ban on the purchase of concessionaire products by local organizations and institutions in a number of regions (Zagorulko, 2005, p. 454). Although the Main Concession Committee called such actions “kink,” it did little to lighten the load for the concessions.

The report on the activities of the working commission of the People’s Commissariat of the Workers’ and Peasants’ Inspection of the USSR on purging the MCC under the Council of the People’s Deputies of the USSR, dated August 10, 1930, indicated that over three economic years (1926/27, 1927/28, 1928/29) the foreign exchange balance in the manufacturing sector remained generally passive (Zagorulko, 2005, p. 149, 153–154). This fact was one of the main reasons why the Soviet side sought “liquidation” of the concessions through early redemption. That, however, required serious foreign currency outlays.

8. Raw materials issue

Most concessions in the manufacturing sector used “acutely scarce raw materials.” So, if they bought raw materials on the domestic market, they were exacerbating the shortage. Accordingly, the state enterprises had to spend foreign currency to buy the required raw materials abroad, to meet demand.

Celluloid was the primary input for Częstochowa Factory and the Cellugal concession. Tiffenbacher Knopffabrik used coconut wood. Trilling used wool. And Altmann used woolen yarn. In all cases, the RSFSR Concession Commission recognized these raw materials as scarce, but distinguished between raw materials that were demanded almost exclusively by concessions (e.g., celluloid) and raw materials that were consumed primarily by state-owned enterprises (e.g., wool). Therefore, the Soviets used various measures to handle the “raw material issue” for these two groups of concessionary enterprises.

The proportion of raw materials in the total cost of goods sold increased from 41% in 1926/27, to 45% in 1927/28, for manufacturing concessions in the RSFSR. Domestic raw materials constituted 36.8% of the total procurement in 1926/27, and 50.2% in 1927/28. This is confirmed by statistics showing a 97% growth in the raw materials procurement in general, as opposed to a 75% growth in imports, which was assessed by the RSFSR Concession Commission as “definitely a positive phenomenon.” Imports of raw materials were made “almost exclusively under foreign exchange licenses” (Zagorulko, 2005, pp. 547–548).

Table 5 provides information on the ways in which textile concessions were supplied with raw materials. We should note that the ratio of imported vs. domestic raw

Table 5
Purchase of raw materials in domestic and foreign markets, 1926/27–1927/28.

Company name	1926/27				1927/28			
	Total ('000 rubles)	Purchased domestically (%)	Imported from abroad (%)		Total ('000 rubles)	Purchased domestically (%)	Imported from abroad (%)	
			Under foreign exchange licenses	No foreign currency used			Under foreign exchange licenses	No foreign currency used
Częstochowa Factory	367.0	21.5	0.0	78.5	1,124.0	14.9	0.0	85.1
Trilling	1,305.0	96.7	0.4	0.9	1,783.7	99.3	0.7	0.0
Cellugal JSC	287.5	33.8	53.0	13.2	568.9	17.9	80.9	1.2
Tiefenbacher Knopffabrik	224.4	0.0	70.2	29.8	1,088.8	19.2	80.6	0.2
Altmann	598.8	1.0	99.0	0.0	2,260.9	47.6	52.0	0.4
Novick and Son	128.4	66.8	0.0	33.2	677.2	93.6	1.3	5.1
Total	2,911.9	53.5	31.2	15.3	7,503.5	52.7	33.8	13.5

Source: Zagorulko (2005, p. 641).

materials was different for different enterprises. For example, in 1926/27, Trilling sourced 96.7% of its raw materials domestically, with the figure rising to 99.3% the following year. During 1926/27, Novick and Son imported one third of its raw materials from abroad without the right to transfer the currency, but in the following year the concession obtained 93.6% of its raw materials domestically.

Resolving the issue of raw materials proved to be most challenging for the Altmann concession. During 1926/27, the company imported 99% of its raw materials under foreign currency licenses, which did not suit the Soviets. The MCC report stated: "The materials available to the Concession Committee allow us to draw the general conclusion that even with the very significant customs duties paid by the concessionaires, the difference in the prices of imported and domestic raw materials remains extremely large, allowing the concessionaires to gain significant profits in their favor" (Zagorulko, 2005, p. 549). For this reason, the government and economic officials often applied stiff pressure on the concessionaires, forcing them to stop purchasing raw materials abroad and to switch to raw materials sold by state-owned and cooperative organizations. As a result, one year later, domestic raw materials accounted for nearly one half (47.6%) of the Altmann concession's inputs. In addition, customs duties were used as a tool "to equalize the cost of foreign raw materials with that of domestic raw materials" (Zagorulko, 2005, p. 562). In addition, as mentioned above, most agreements permitted the export of currency for raw materials only 6 to 9 months after the importation of the respective materials into the USSR. The RSFSR Concession Commission noted the "disorganizing role" of concessions in the raw materials market, which became another motive forcing Soviet state authorities to consider parting with concessions.

9. Workforce and wages

According to the RSFSR Concession Committee, the social composition of workers at state and concessionary enterprises differed significantly. The latter, in particular, had a rather high share of peasants, sometimes up to 30%. Since the concessionaires were allowed to bypass the Labor Exchange market to recruit some of their staff, they hired the so-called "disorganized elements," particularly the "clerks, cult employees," etc. The workers at Częstochowa Factory included "a governor's wife, a countess, and some Kolchak officers," while the Cellugal concession employed "the intelligentsia and some damsels." In 1929, the Tiefenbacher Knopffabrik factory hired "former noblemen, factory owners, and landlords" (Yudina, 2012, p. 133).

In addition, concession agreements stipulated the possibility of employing foreign production and office workers, the share of which, however, was limited to 10-15%. In reality, foreigners accounted for about 3-4% of the total number of employees at most concessionary enterprises. We can assume the main reason for this was that foreign workers required significantly higher pay. Therefore, they were only hired for those positions that required special education, high qualifications, and managerial experience. For example, the share of foreigners during 1927–1928 was no higher than 2.7% among factory workers and 37% among office workers at Spartak Factory (Trilling concession).[22]

[22] GARF, fund R-8350, inv. 2, file 153, sheet 250.

The MCC emphasized that this small percentage of foreigners included professions such as accountants, etc., which could well have been found in the USSR. The reason why the Soviets were concerned about this issue was that a significant share of the foreign concession's earnings could be withdrawn in foreign currency. According to the People's Commissariat for Finance, foreign production and office workers transferred an average of 20,000 rubles in foreign currency abroad every month, which was recognized as "quite burdensome" for the Soviet Union's foreign exchange balance (Zagorulko, 2005, p. 487). Therefore, the MCC considered it important to remove the obstacles encountered in employing Soviet citizens at concessionary enterprises. However, Soviet employees were reluctant to work for the concessionaires, as this would result in them being excluded from the trade unions. Exclusion of "top concessionary employees" from the unions was a continual and widespread practice. Bernhard Altmann reported to the MCC in February 1929, that his factory workers planned quitting, frightened by the rumors that, as concession workers, they were facing disenfranchisement, along with their family members, "with all the resulting consequences."[23]

Table 6 shows the number of production and office workers at the textile concessions during 1927–1928. A reduction was only noticeable at the Altmann factory, which was explained by the company's challenging financial situation and the forced dismissal of half of the workers. At other factories, the number of employees either grew in line with production growth data, or remained stable.

The data in Table 6 allow us to conclude that for individual concessions, wages may have differed markedly even within the same industry. For example, the wages at Częstochowa Factory during 1927/28 equaled 116.00 rubles, and 134.30 rubles at Cellugal. The wages also differed greatly between concessions and state-owned enterprises that produced similar products. In 1927, the average earnings at the Altmann concession factory were 65% higher than at the state factory Krasnaya Zarya—95.00 rubles versus 57.57 rubles. In 1928, the difference decreased slightly, to 62.4%, while actual earnings increased to 132.90 rubles at the concession and 81.83 rubles at the state-owned factory. The situation regarding average monthly wages was similar between the Trilling concession factory and

Table 6
Number of production and office workers and average monthly wages at textile concessionary enterprises during 1927–1928.

Name of concession	Total number of workers as of October 1		Total number of clerks as of October 1		Average monthly wages (rubles)	
	1927	1928	1927	1928	1927	1928
Częstochowa Factory	407	362	50	58	93.00	116.00
Trilling	559	732	48	85	75.00	94.89
Cellugal JSC	249	299	27	24	130.00	134.30
Tiefenbacher Knopffabrik	500	719	30	50	110.00	138.15
Altmann	1,079	507	57	92	95.00	132.90
Novick and Son	128	171	12	22	85.00	93.76
Total	2,922	2,790	224	331	96.04	118.20

Source: Zagorulko (2005, p. 639).

[23] GARF, fund R-8350, inv. 2, file 8, sheet 298.

the state-owned Oktyabr factory. A factory worker at the concession enterprise would be paid 16% more on average (75.00 rubles vs. 64.45 rubles in 1927; 94.89 rubles vs. 81.80 rubles in 1928). A similar, and sometimes even more significant gap in earnings in favor of the concessions was also observed in other manufacturing sectors (woodworking, chemicals, metalworking, etc.). This state of affairs severely irritated Soviet economic, party and trade union officials, as it provoked increasing discontent among workers and strikes at state-owned enterprises, with workers demanding that their wages be equal to those at concessionary enterprises. However, it should be noted that these high wage rates were not initiated by the concessionaires, who were also dissatisfied with the labor costs being too high for the cost of the goods produced. Here, wage increases were caused by the factory workers' committees and sometimes by grassroots trade union organizations. For example, at a meeting with the Soviet trade representative in Vienna in April 1928, Bernhard Altmann complained about the factory committee being too aggressive in promoting across-the-board wage increases.[24] As a result, the situation became quite paradoxical in that while some Soviet organizations promoted the growth of concession worker earnings, others expressed dissatisfaction with the state of affairs and called for the "liquidation" of concessions.

10. How did the USSR "part" with concessions?

When a decision was made "at the top" about a concession being "harmful" or "useless" to the Soviet economy, that concessionaire's fate was sealed. The company would invariably be "squeezed out" using a variety of methods. One way to squeeze the concessions out of the Soviet economy was to organize a lengthy strike, which would render the company unable to meet its mandatory production volumes prescribed per the concession agreement, which served as grounds for the premature liquidation of the concession. The best known example of this way of parting with the concession was the strike organized by trade unions at the Lena Goldfields facilities, which created favorable conditions for the Soviet government to terminate the concession agreement early (Yudina, 2009).

There were also other options; for example, when the Soviets, with the involvement of various institutions and organizations, created unbearable conditions for the concessionaire under which it could not continue to operate. That situation could have been observed at the Trilling concession. On July 4, 1930, at a meeting with the MCC which was attended by representatives of the USSR People's Commissariat of Finance, Moscherstsukno trust, the Moscow Commissariat of the Economy and the Textile Workers' Union, the issue of terminating the concession agreement with the company with the least financial losses for the Soviets was discussed. The concessionaire was blamed for receiving excess profits of about 2 million rubles over three years,[25] for high prices and relatively low quality retail goods, and working with "domestic" raw materials, for which the state paid in foreign currency, while state enterprises experienced a shortage of these raw materials, etc. Since Trilling did not violate any clauses of the concession agreement, there were no formal grounds for early liquidation of the concession.

[24] GARF, fund R-8350, inv. 2, file 2, sheet 177.
[25] Ibid., file 153. sheet 385.

It was noted at the meeting that "the concessionaire would not agree to an amicable termination of the contract. Therefore, the only remaining way would be to create conditions for the concessionaire such that he would not be able to work in the USSR."[26] The following actions were considered to be the most impactful: (1) to raise the rent considerably through the Utilities Department; (2) to limit the ability to sell products in retail stores, "by mobilizing our buyers accordingly;" (3) to make the concessionaire pay for at least 70% of the imported raw materials with their own money, which the Soviets believed would reduce the output and therefore profits; (4) to engage labor inspectors, who would find violations and demand they be corrected as soon as possible, resulting in considerable expense. All of these measures should lead the concessionaire to a realization that he "would not be left alone,"[27] thus making him more compliant.

The plan worked, and on August 26, 1930, the Trilling concession liquidation agreement was signed, setting out the manner and timing for the concessionaire's property to be transferred to the state. Within two days of the contract coming into effect, the parties were to appoint their representatives to a parity commission "to be formed for the transfer and acceptance of the concession facilities." The Commission was composed of two representatives from each party, and several assistants as required, and was expected to complete its work within two weeks. Within three days of signing the agreement, the concessionaire was to publish an announcement of the concession liquidation in the "Economicheskaya zhizn" ("Economic Life") newspaper, indicating that any individuals or institutions that had any claims against the concession could submit these claims to the Parity Commission within 14 days. After signing the deed of acceptance, the enterprise was deemed to have been transferred to the government.[28]

The concession liquidation agreement also defined the procedure and amounts to be paid to the concessionaire by the Soviet government in the event of early liquidation of the concession. They were required to pay Trilling 800,000 rubles, including the equivalent of 667,249.25 rubles in U.S. dollars. Whereas the ruble portion of payments was transferred almost immediately, payments in foreign currency could be stretched over a long time period. In this case, the equivalent of 500,000 rubles in U.S. dollars would be paid within five days of signing the deed of transfer, but no later than 25 days after the effective date of the concession-liquidation agreement. The rest of the sum was paid in 14 monthly installments up to November 1931. All of the installments were also paid in dollars, at the official rate set by the quotation commission of the State Bank as of the payment date.[29]

If the foreign firm committed even the smallest infraction of the concession contract during its operation in the USSR, parting with it did not require that much effort, as the Soviets had legal grounds for early termination of the concession. In the case of Altmann, the concessionaire was charged with failing to comply with a clause in the contract committing to "build its own wool spinning mill" within the stipulated time, and construction had not been carried out even after the one-year grace period had expired. In addition, the MCC made a number

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[26] GARF, fund R-8350, inv. 2, file 153, sheet 385.
[27] Ibid., inv. 2, file 152. sheet 40.
[28] Ibid., inv. 3, file 495, sheet 8–9.
[29] Ibid., inv. 3, file 495, sheet 10–11.

of other claims: violation of royalty payment deadlines, violation of reporting procedures, etc.[30] As a result of these claims, the company was confiscated from the concessionaire on February 9, 1930, and its current assets (raw materials, cash, promissory notes, finished goods, etc.) were seized and handed over for safekeeping to the Credit Bureau joint-stock company "until the further fate of the concession was sealed." Altmann initially requested that the case be referred to arbitration, whereupon the MCC and the concessionaire appointed arbitrators. However, some time later Altmann stated his readiness to temporarily give up arbitration if the Soviet government entered peaceable negotiations to end the conflict, with the concessionaire receiving appropriate compensation for his invested funds.[31] As a result, a concession liquidation agreement was signed on February 10, 1931, according to which the dollar equivalent of 260,000 rubles would be paid to Altmann in six installments, through December 1932.[32]

The Tiefenbacher Knopffabrik concession was also liquidated on June 26, 1930, "by mutual agreement of the parties," in which the Soviet government was to pay 650,000 rubles as compensation for the concessionaire's investment in the property being transferred to the state. Of these, 280,000 rubles were to be paid by the end of September 1930, and the rest to be paid in dollars in six installments, the last one occurring on October 1, 1931.[33]

At nearly the same time as the concessions listed above, two more textile concessions, Novick and Son, and Cellugal, were liquidated during the 1929/30 operating year. The only concession that "lingered" in the Soviet economy for a slightly longer period was Częstochowa Factory, which ceased to exist in January 1932 (Yudina, 2009, p. 412). However, as noted above, it would be stretching the point to classify this enterprise as a textile manufacturer. Thus, the "birth" and "death" of textile concessions happened almost simultaneously, starting on their way in the Soviet economy in 1925/26, and completing it in 1929/30.

11. Conclusion

Textile concessions in the USSR during the 1920s were in a somewhat different situation compared to, for example, foreign companies operating in the extractive and heavy manufacturing industries. This was largely due to the smaller size of the companies themselves, their less capital-intensive operations, producing for the domestic market and higher profit margins.

The presence of foreign concessionaires in light industry (including textiles) was heavily restricted by the Soviet government. Firstly, their products competed strongly with state-owned enterprises as they primarily serviced the domestic market. Since the state maintained higher price levels for industrial goods, this situation yielded higher profits to the concessionaires, a significant portion of which was withdrawn out of the country. It was much harder (if not entirely impossible) for textile concessions to cover the foreign currency costs of raw materials and the withdrawn profits by exporting their products, because it was

[30] GARF, fund R-8350, inv. 2, file 8, sheet 314–315; file 15, sheet 1.
[31] Ibid., inv. 2, file 15, sheet 1.
[32] Ibid., inv. 2, file 13, sheet 12.
[33] Ibid., inv. 3, file 489, sheet 38.

nearly impossible to sell these products abroad. Given that many concessions in light industry used imported raw materials, the financial consequences of their activities were comparable to actively importing consumer goods, which was exactly the opposite of what the Soviet government was trying to achieve. Thus, foreign concessions in the manufacturing sector, which were focused on the USSR's domestic market, were markedly limited in their operations by the currency resources of the state.

The government used various instruments to limit concessionaire activities, including a monopoly on foreign trade, an obligation to export and import raw materials and equipment through Soviet trade missions, and restricted access to credit, which led to a shortage of working capital even for concessions that yielded high profits. At the same time, it was "forgotten" that the textile concessions were working to meet the growing demand for consumer goods, which state-owned enterprises produced in small volumes (if any at all). Foreign concessionaires installed new equipment at Soviet factories and plants, restored old production facilities and built new ones, and contributed to the state coffers through various payments. However, the Concession Commission believed that the Soviet state's losses from the export of foreign currency outweighed the economic and fiscal benefits to the state from the concession operations. When "parting" with concessions, the Soviet government almost invariably created a situation in which early termination of the contract became inevitable even for those firms that had never violated the terms of their contract throughout all of their activities in the USSR.

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