

## Profit under the Soviets: Timber Concessions, Western interests and the Monetary Reforms under NEP

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## PROFIT UNDER THE SOVIETS: TIMBER CONCESSIONS, WESTERN INTERESTS AND THE MONETARY REFORMS UNDER NEP

*In 1921, at the beginning of the New Economic Policy (NEP), V.I. Lenin pointed to the timber industry of the North as a promising opportunity for cooperation with Western interests and the Soviet state soon introduced timber concessions. However, these concessions were not particularly profitable and ended up as a short-lived experiment. This article analyses why timber concessions failed to make a profit, a critical question for the NEP's semi-capitalist economy. It finds that monetary reforms that began with the re-establishment of central banking in October 1921 and ended in May 1924 with the new ruble clearly contributed to the failures of the timber concessions. The relative stability of the new currency was seen as an important achievement, but with the exchange rate initially fixed, the new ruble became overvalued. Thus, the export of goods purchased in new rubles became less profitable, or simply unprofitable. This led to severe difficulties for timber concessions such as Russangoles, Russhollandoles and Russnorvegoles. We focus on the important Russnorvegoles concession. We also find that there were two occasions when this concession succeeded in circumventing the problem of the overvalued ruble for short periods, yet acting contrary to Soviet interests in this way contributed to the end of Western interests in the company.*

**Keywords:** Russian timber industry history; New Economic Policy (NEP); monetary reform; currency regulation and control

### Introduction

The Soviet government welcomed Western business interests in 1921 as part of the New Economic Policy (NEP). The government offered concessions, contractual arrangements by which Western parties were offered business rights in exchange for specific obligations. These contractual arrangements had the character of state-private partnerships that, under given conditions, granted privileges. Concessions were often mixed; they were offered to companies formed in the West that were jointly controlled by Western and Soviet interests. These concessions were important in rebuilding the economy after the civil war and war communism. Our focus is on

timber concessions. As Sune Jungar has observed, NEP timber concessions were not profitable, but '[t]he circumstances behind the lack of profitability are less than clear'.<sup>1</sup> The aim of this article is to present an in-depth economic and financial analysis of the profitability of timber concessions based on extensive archival research into the 1920s, when timber concessions played an important role in the Soviet economy. We focus on the Russnorvegoles concession, which was an especially important timber concession.<sup>2</sup>

In an address to the general assembly of the mixed timber concession holder Russnorvegoles, held in Oslo on 29 May 1925, managing director Frederik Prytz (1878–1945) was clear that the lack of profitability after two years of operations was a critical problem.<sup>3</sup> Prytz stated that in 1924, the first full year of operation, costs of production of what was shipped and sold were about 20 per cent above the proceeds from sales. The managing director pointed out that the situation was such that the liquidation of the company had to be considered. Moreover, liquidation was something that could be forced upon them as banks, such as those in the City of London, were reluctant to offer credit. It was said that the Western interests in Russangloles and Russhollandoles, two other timber concession holders in the White Sea area with close ties to Russnorvegoles, were in an even more precarious position as they had been in operation longer than Russnorvegoles.

The report included a discussion of the factors that led to the disastrous lack of profitability. Prytz was rather pessimistic about whether economic circumstances in the future would bring about positive changes, believing that the Soviet authorities had to change working conditions. He discussed the factors that drove down profits such as less favourable sales prices in the West, insufficient productivity mixed with high costs of operations, and the unfavourable exchange rate. Indeed, there were only two occasions when Russnorvegoles was able to face, or get around, the low profitability problem. First, when most of the output for the 1925–26 season was sold for a higher profit on the Soviet home market. Second, when intricate currency deals during the following season of 1926–27 allowed Russnorvegoles to prioritize the export of timber. However, the currency deals were seen by the Soviet authorities as contrary to their interests and were stopped in early 1928. The Western shares in Russnorvegoles were then acquired by the Soviet state at an advantageous price. In an almost impenetrable and highly complex manner, all this somehow contributed to Prytz ending up as a wealthy man. He turned to politics and was able to establish himself as a very prominent Norwegian Nazi. In Russia, with the definitive end of timber concessions based on East–West partnerships, a new era started for the timber industry.

This article analyses the factors contributing to the critical situation that faced Russnorvegoles and other timber concessionaires. Despite achievements by the concession companies in logging, floating, and after that producing and shipping sawn goods, Russangloles and Russhollandoles stopped their operations shortly after the navigation season of 1925.<sup>4</sup> Russnorvegoles, though, continued for another two dramatic and chaotic years. A study of the Russnorvegoles concession therefore provides an important case study of Soviet–Western agreements during NEP since timber concessions were vital to the Soviet economy and for East–West relations during NEP.

## On timber concessions

At the Tenth Congress of the Russian Communist Party on 8–16 March 1921, V.I. Lenin officially introduced NEP. Foreign trade had declined after the October Revolution and throughout the civil war. NEP was supposed to stabilize the economy after the exceptionally destabilizing economic situation brought about by war communism. The prominent Bolshevik Leonid B. Krasin was appointed People's Commissar for Trade and Industry in late 1918 and became an important representative on Soviet missions to the West.<sup>5</sup> In the early years of NEP, the Soviet state needed foreign currency. It focused on restarting exports and given the historical importance of timber it was natural to look to the timber industry. Semen Lieberman played a central role in establishing timber concessions with foreigners. Under war communism, even though he was not a Bolshevik, Lieberman became an influential timber expert who rose to prominence because he was able to secure provisions of firewood. Without access to coal from the Donbas, this was essential to keep the trains running. Krasin was also People's Commissar for Transport, and this brought him into contact with Lieberman. On 17 August 1921, Severoles (State Timber Trust of the Northern White Sea District) was formed, with Lieberman as its managing director.<sup>6</sup> Severoles was the first trust established and it served as a model for the establishment of other state trusts later.

Severoles was permitted to enter into partnership with Western parties to form mixed concession companies. Taking advantage of this, Russangloles was formed in what was most likely the first mixed timber concession company.<sup>7</sup> The London & Northern Trading Co., controlled by the brothers Schalit, was the Western partner of Russangloles.<sup>8</sup> London & Northern had been formed on 20 September 1919 with one million pounds in capital.<sup>9</sup> Russhollandoles was then formed in the spring of 1922 with Altius & Co. of Amsterdam as the main Western party.<sup>10</sup> The division of ownership for Russangloles and Russhollandoles, as well as Russnorvegoles, was divided equally between the Soviet state and the Western companies.

The third concession company, Russnorvegoles, is of particular interest in part because of a rich source base that allows a fuller picture of its history. The Norwegian officer and businessman, Prytz, played an important role in the history of Russnorvegoles. Starting out in 1909, he established himself as a central figure in the timber business of the White Sea region. He successfully built up the Russian-based Prytz & Co. before the start of the First World War. On a visit back to Norway, he saw the possibilities of making the company public could bring, given the booming Norwegian stock market. In 1917, Prytz & Co. became the Norway-based Russian Forest Industry (RFI). With Prytz as director, the company was successfully floated on the stock exchange in April 1917. The prospects of the RFI were fundamentally altered by the October Revolution. Under challenging circumstances, operations continued until the company was finally nationalized in March 1920 after the Soviet regime took over the North.<sup>11</sup> Prytz then waited and observed. Central in working for Norwegian interests in Russia, he was invited to take part as a Norwegian delegate at international conferences. Thus, Prytz was able to bring himself into contact with prominent Soviet representatives, such as Krasin.<sup>12</sup>

In the summer of 1922, three Western stakeholders—Onega Wood Co. (later taken over by Dutch Altius & Co.), Norwegian Bache & Vig/Bache & Wager, and the RFI—combined their interests and established an understanding known as the Onega

Combine.<sup>13</sup> In autumn 1922, Lieberman and Prytz made contact, which led to a contract for a concession in summer 1923.<sup>14</sup> Russnorvegoles was formally established in August as a Norwegian limited liability company with its constituent assembly and head office in Kristiania (known officially as Oslo from 1 January 1925).<sup>15</sup> Stipulated in British pounds, the shareholders' capital was set at 300,000 pounds. This capital was provided in kind, in the form of previously nationalized stocks of timber, as well as the plant, property, and equipment. Russnorvegoles rented the physical capital at quite favourable terms of 0.5 per cent of proceeds from sales.<sup>16</sup>

The concession contract was for twenty years, which was common for the timber industry. Initially it was thought that even this agreement could be extended. The forests located in the River Onega Basin were an important part of the concessional agreement. It included an area larger than Belgium, with about 70 per cent forestland. Logs harvested were paid for according to a complex contractual scheme based on stumpage fees. Russnorvegoles incurred the costs of logging and floating timber, and operating sawmills in Onega and Shalakusha, in addition to costs associated with shipping, taxation expenses, and similar charges.

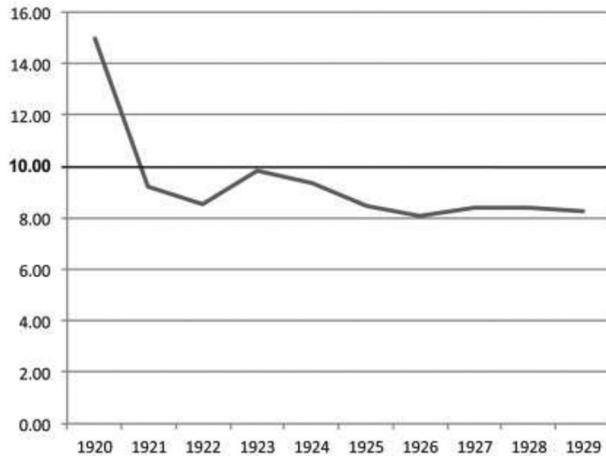
Russnorvegoles did not have the necessary cash to start operations. Help came from the merchant bankers Wm. Brandt's Sons & Co of the City of London. As revealed in documents from the Prytz Archive, there was close contact between London & Northern and Russnorvegoles.<sup>17</sup> Prytz established a City of London bank contact based on an introduction to the Brandts by London & Northern that also included a loan guarantee against commission.<sup>18</sup> This, and the engagement of Dutch Altius & Co. in Russnorvegoles, show that the Western interests behind the mixed concession holders Russangloles, Russhollandoles and Russnorvegoles were interrelated from the start. These concession holders, however, met working conditions that were very different from those experienced before the Bolshevik Revolution.

## Sales prices in the West

Prytz was not lying when he told his shareholders in 1925 that the company suffered from less favourable sales prices in the West. We have analysed the sales prices of imported sawn goods on the important British market.<sup>19</sup> This provides a fairly clear reflection of prices that could be asked on other European markets. Material from the British Forestry Commission, reported in loads of 50 cubic feet, presents sums of sawn softwood volumes from 1920 to 1929. In addition, we have the corresponding pound values for these load volumes. In dividing pound values by volumes, we obtain price series in decimal pounds per load. However, a more common timber measure

**Table 1.** Pound sterling per one St Petersburg standard, British current and price level adjusted timber prices in the 1920s.

	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
Current prices	38.55	21.74	17.28	18.80	17.64	16.06	15.16	15.46	15.36	15.02
Constant 1910 prices	14.93	9.22	8.51	9.85	9.30	8.46	8.03	8.42	8.36	8.27



**FIGURE 1.** Prices in the 1920s of UK imported sawn goods. Observed current prices in pounds are re-calculated and presented in real terms relative to a pre-First World War price of 10 pounds per standard.

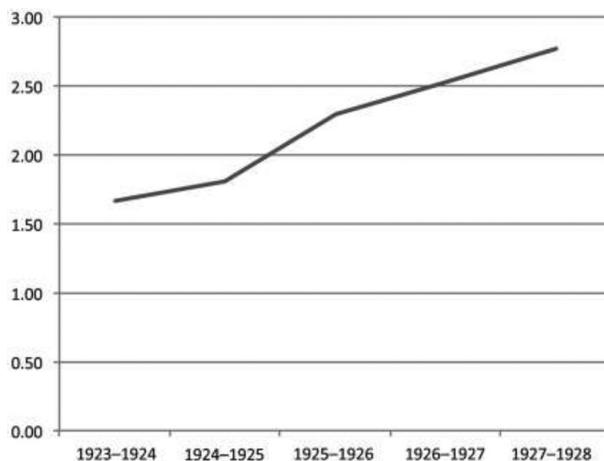
was St Petersburg standards. Multiplying loads by 3.3 gives measurements in St Petersburg standards with one standard equal to 4.672 cubic metres.<sup>20</sup> The first row of Table 1 shows the timber prices that came out of our re-calculations:

This corresponds reasonably well with the picture for 1921–25 reported by Prytz. Based on what came after 1925, Prytz was right to be pessimistic.<sup>21</sup> The bottom row of Table 1 shows recalculated prices if overall prices had been constant. Prytz refers to a pre-war price of 10 pounds per standard. Our 1920s timber prices are re-calculated given the British level of overall prices as registered before the First World War. To be more specific, this refers to 1910 overall prices and re-calculations are based on price index series published by the House of Commons Library.<sup>22</sup> Figure 1 presents our results graphically.

Figure 1 shows that soon after a short post-war boom came a lasting downturn. In both current and constant price figures, this is also what is seen in Table 1. Most interestingly, we are able to document that international timber prices during most of the 1920s were well below what they were before the First World War. For sellers of timber and sawn goods such as Russnorvegoles, this decline led to prices that were considerably less favourable than before the war. As we will see, after 1924 and the currency reform, prices approaching 8 pounds in pre-war money became untenable.

### Costs of operating in the Soviet Union

Representatives of the non-Russian shareholders of Russangloles, Russhollandoles and Russnorvegoles raised the problem of the unprofitability of their venture in a letter to Krasin on 19 May 1925, believing that he still had the standing he had before NEP.<sup>23</sup> However, under NEP, the Main Concession Committee became the organ that formally oversaw the concessions and Krasin was sidelined.<sup>24</sup> Not long after meeting Krasin



**FIGURE 2.** Nominal daily wages in the Timber Industry in new Soviet rubles, 1923–28.

Russangloles and Russhollandoles gave up. The Western interests of the two companies were sold to Severoles at about 20 per cent of their nominal values.<sup>25</sup> This meant that Russnorvegoles was alone in facing the Main Concession Committee.

In Prytz's 1925 report and in the letter to Krasin, the non-Russian interests presented an overly vague picture of the costs in rubles of operating in the Soviet Union. Most importantly, the lamentation in the letter to Krasin over high costs was not documented with figures. One important indication of operations can be found in wages paid in rubles. This is a meaningful approximation for industries that were clearly labour intensive, such as the timber industry. Based on the work of S. Zagorsky of the International Labour Office, it is possible to find nominal wages after 1923–24 in the new chervonets rubles. Zagorsky's work is based on material cost in year-long periods that differ from calendar years. That is what often is referred to as fiscal years. Figure 2 presents the period when Western interests were engaged in Russnorvegoles and the nominal daily wages.<sup>26</sup>

The increase in nominal wages was considerable. If a worker received 100 rubles in 1923–24, this wage increased to 167 by 1927–28, an average jump of just over 13 per cent per year. This increase varied from year to year and was particularly evident from 1924–25 to 1925–26 at almost 28 per cent. Increasing productivity, an important factor particularly during the first years of NEP, helped to neutralize increased costs from wages. However, as Zagorsky and others have noted, the race between productivity and nominal wages did not end up favourably for the concessions group. Nominal wages had a tendency to leap ahead of savings from increased productivity with inflationary pressure as a result, and from 1924–25 to 1925–26 this was clearly a problem.

It was important for concession companies active in the Soviet Union to be able to control their own productivity to cope with the increase in nominal wages. The 1925 report by Prytz focused on productivity and overall costs. First, he observed that '[w]hen we took over the administration in Onega, the production was in a very unsatisfactory state'.<sup>27</sup> He pointed out that 18 months after the takeover, Russnorvegoles was able to reduce the number of workers at the mills from 1,955 to 1,307, a fall of

33.15 per cent. Reductions were of the same magnitude in other divisions of the company. The high production costs in 1924, 20 per cent higher than the proceeds from sales, may well have been a result of the slow process of implementing the improvements in productivity pointed to by Prytz. In any case, the positive effects of these changes must have been offset by reductions in the sales price and increased costs of production. As seen in [Figure 1](#), from 1924 to 1925 the sales price declined about 9 per cent and, as seen in [Figure 2](#), wages as an indicator of costs of production went up 8.43 per cent from 1923–24 to 1924–25. The navigation season of 1925 could not have ended much better than the depressing results for the navigation season of 1924.

### Trapped in a financial crunch

As we have seen, the mixed timber concessions established at the beginning of NEP were soon in serious financial straits. Soviet monetary reforms established a fixed exchange rate that led to economic difficulties for exporters like the timber concessions. Financially, they were trapped in a crunch between low sale prices and expensive rubles. Russangloles and Russhollandoles gave up after three or four navigation seasons (that is, 1922, 1923, 1924 and 1925).<sup>28</sup> The exchange rate of the new currency, which had been fixed at the beginning of the monetary reform process and before the new currency was released into the economy, squeezed the concession groups. The monetary reform was an important element of NEP and aimed to restore sound monetary conditions, including a freely convertible currency. The English and Dutch concession holders most likely gave up because they saw the difficulties associated with the monetary reform as something that would endure.

When commenting on the difficult situation of Russnorvegoles, the managing director pointed out that '[the] chance of obtaining financial assistance in London for the continuation of our operations in Russia will be a very remote one',<sup>29</sup> referring to the essential short-term financing of working capital needed to keep the production cycle going. It may well also have been the case that Russangloles and Russhollandoles were simply forced to give up because they had been unable to get this kind of necessary short-term financial assistance in 1925. This did prove to be the case for Russnorvegoles, which was denied credit in the City of London. Facing the navigation season of 1926, however, they were able to find ways and means around this problem.

Russnorvegoles was able to carry on for another two years. As an immediate measure, sales were redirected toward the Soviet market.<sup>30</sup> Sales were now in rubles, which meant that the company avoided the unfavourable exchange from pounds to rubles and obtained better prices for sawn goods.<sup>31</sup> Moreover, in contrast to the actions of Russangloles and Russhollandoles, Russnorvegoles kept afloat by taking on the difficult task of confronting the Soviet authorities on the issue of negative profitability. Russnorvegoles engaged in direct communication with the Soviet Main Concession Committee about working conditions. After lengthy negotiations, it had only moderate success.<sup>32</sup> Next, it was important for Russnorvegoles that the unregulated exchange of the new ruble did not last. A Soviet decree on 9 July 1926 banned the

export of rubles and restricted the free exchange of foreign currency, such as the purchase of pounds against rubles. In complex ways, this affected Russnorvegoles. Next, we will take a closer look at the monetary reform process that ended in May 1924. This reform was not without flaws, as the 1926 ban on exports points to. However, as a regulatory currency regime, the ban was insufficient and this was something that Western parties involved in Russnorvegoles were able to take advantage of. In the two next sections, our focus is on currency problems more generally. After that, we will go deeper into the profitable currency deals that the ban made possible.

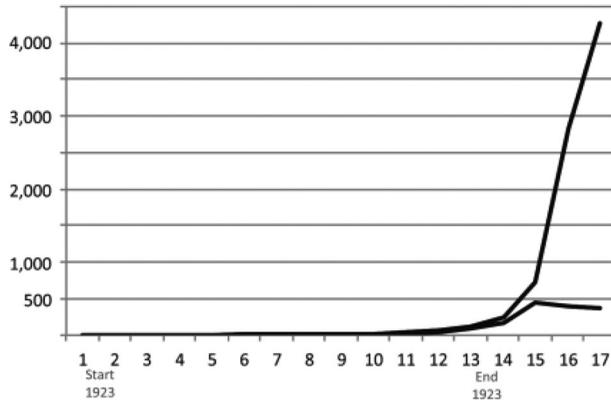
### Monetary reform and the purchasing power of the chervonets

In the letter to Krasin referred to above, the authors pointed to '[t]he high rate of exchange of the Tchervonetz [*chervonets*], which is not in any reasonable proportion to the purchasing power of the Tchervonetz in Russia'.<sup>33</sup> This contributed to the high cost of production for exporters that was felt in British pounds. Or, to express it another way, it meant that exporters got less back in rubles for revenues in pounds as compared to what would have been the case with a lower rate of exchange. This problem was a result of how the Soviet authorities tackled the stabilization of the country's currency as they implemented NEP. It was essential to bring an end to the notoriously inflationary *sovznaks*, the rubles used under War Communism and the first years of NEP. It was already the case during the First World War that money had been printed when needed. During the Civil War, the Soviet government printed money even more regularly.<sup>34</sup> In the end, the currency that circulated was not an effective store of value, medium of exchange or unit of account, and this damaged the economy. Central banking functions were re-introduced with the establishment of the Gosbank (Gosudarstvennyi bank) on 3 October 1921; while it did not copy its imperial, tsarist forerunner exactly, it was nevertheless inspired by it.

In presenting elements of the monetary reform process during 1921–24, we are particularly interested in how prices were established in the chervonets; that is, how what became the new ruble acquired its purchasing power. The literature on different aspects of the monetary reform is vast.<sup>35</sup> We have mainly based our conclusions on the work of Sakharii S. Katzenellenbaum and Leonid N. Yurovsky who were important economists in the 1920s with knowledge of the Soviet economy at the time.<sup>36</sup>

The main aim of the reform process was to establish a stable currency and collect taxes in it. This would ensure that the budget could be balanced, and that the printing of money was brought under control. Finding the right balance made it difficult to implement the reform as a single operation, so, for example, the 'bad old' *sovznaks* and the 'good new' chervonets were allowed to circulate in parallel for seventeen months. The period of monetary parallelism lasted from early December 1922 to the beginning of May 1924.<sup>37</sup> The 'exchange rate' between the chervonets and the *sovznak* was largely allowed to float. After May 1924, as some sort of prolongation of the monetary reform process, the chervonets disappeared in favour of a new ruble so that one chervonets became 10 new rubles.

The foreign currency exchange rate was fixed formally at the start of the monetary reform process, with the new currency anchored in gold. One chervonets was set equal to ten of the tsarist gold rubles minted from the late 1890s onwards, so

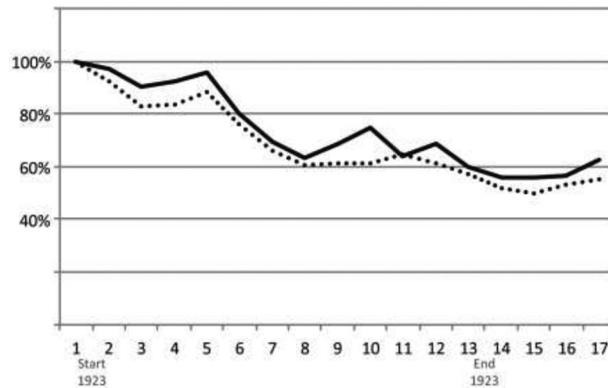


**FIGURE 3.** The lower graph shows how many times the initial circulation of sovznaks increased over the seventeen-month period (December 1922 – May 1924). Over the same period, the steeply upward bending graph shows how many times the initial price of one chervonets in sovznaks increased.

that the pure gold (24 carat) weight of one chervonets was 119.4792 grains.<sup>38</sup> Given that the US dollar in the 1920s was still linked to pure gold with 23.22 grains, the new currency received a fixed exchange rate to US dollars, and so to other currencies as well. One hundred new rubles equalled 51.46 US dollars (and one hundred US dollars equalled 194.34 rubles). Thus, for the parity value of the new ruble, 1 US dollar equalled 1.94 rubles. The official quotation included tenths of kopeks, so that 1 US dollar was officially set equal to 1.943 rubles. Having a bad record with money, Soviet authorities were faced with a formidable task in building confidence in the stability of the new currency. Without re-introducing a full gold standard as part of the process, markets for gold, dollars and pounds were established in Moscow and other places. Thus, the public was offered an alternative to keeping their money in rubles. The current value of the ruble was something that could be observed by everybody. This also gave Soviet authorities the opportunity to be active in established markets through market operations.

Over the seventeen month-long period of dual currency circulation, sovznaks continued to be printed. One reason for this was fiscal need. Over the first twelve months of the period, the circulation of sovznaks increased by a factor of nearly 50. Of course, this led to inflation in sovznaks. However, measured in what was paid in sovznaks for one chervonets, the price did not increase much more than the number of sovznaks in circulation. The full picture of sovznak circulation and the price of one chervonets over the seventeen-month period is presented in Figure 3.<sup>39</sup>

Over the first twelve months, from December 1922 to December 1923, the price of the chervonets increased less than 50 per cent per month. Conventionally, this has been seen as the benchmark for moving into the domain of hyperinflation. After twelve months, however, the monthly movement of the chervonets in sovznaks accelerated and took on a hyperinflationary character. This was associated to a minor degree with an increased circulation of sovznaks. That is, the hyperinflationary movement in the price for one chervonets in sovznaks was a result of a massive loss in the community's confidence in sovznaks.



**FIGURE 4.** The new ruble's relative purchasing power over a seventeen-month period (December 1922 – May 1924). Based on revised price indices by Gosplan for wholesale prices (dotted line) and the Conjecture Institute for retail prices (solid line). Based on end-of-month numbers.

Obviously, the dynamics of establishing prices and wages in new rubles was a more difficult and dramatic part of the monetary reform process. It determined the purchasing power of the new ruble. The real effective exchange rate vis-à-vis foreign currencies followed as a result. In [Figure 4](#), the path of the relative purchasing power of the new ruble is graphically presented.<sup>40</sup>

In the summer of 1924, after the end of the monetary reform, the new ruble was internally stabilized at a level that brought exporters, such as the timber concessionaires, severe difficulties. The poor purchasing power of the new ruble could have been reinforced by deflation. This did not happen. We see from the numbers presented in [Figure 2](#) that the pressures were instead towards pushing prices and wages upwards.

Katzenellenbaum observes that there was 'a considerable fall in the value of the chervonetz', with as much as a 40 per cent decrease over the seventeen-month period.<sup>41</sup> Nevertheless, over the final months of 1923 and into the first half of 1924, the value of the new currency stabilized. According to Katzenellenbaum, this situation lasted for at least five months. Thus, Soviet authorities were inclined to see the reform process as a success. However, one nagging question was whether the resulting exchange rate was where it should have been. Had the rate of 1 US dollar to 1.943 rubles led to an equivalent in rubles that was too low? It is always going to be difficult to answer that question and to determine what should have been targeted.

### Rubles under pressure: The consequences of devaluation

The purchasing power of the new ruble led to economic imbalances. People openly discussed the insufficient purchasing power of the new Soviet currency.<sup>42</sup> After the end of the monetary reforms in May 1924, an import-favouring exchange rate, together with a new, convertible and harder ruble, stimulated imports across the Soviet Union. Exports also became less profitable. With the help of the established foreign trade monopoly, it was possible to strike a reasonable balance in what came in and what went out in foreign currency. However, this was not a simple task, in

particular due to clandestine imports along lengthy borders that were difficult to control. The weakness of the new ruble was already being felt in 1925 and became obvious in 1926.<sup>43</sup> The foreign currency reserves of the Gosbank declined substantially and something had to be done. Of course, devaluation seemed the most appropriate action on the surface, but it was not the only possible solution given an overvalued ruble. Alternatively, the economy could be slowed down so that prices would be reduced. Currency regulation and control could also be introduced.<sup>44</sup>

Of course, the currency troubles must have led to deals by businessmen that would not have happened otherwise. Typically, these kinds of deals were referred to as 'speculation'. An example of this would be selling rubles at a favourable exchange rate because of a belief that a devaluation of the ruble was on the way. Less obviously, rubles would also be bought if offered at a sufficiently-reduced price.

In buying considerable amounts of rubles, London & Northern Trading Co. became engaged in speculation on an eventual devaluation of the ruble. This is well documented in accounting records of Wm. Brandt's Sons & Co., the City of London bank of both London & Northern and Russnorvegoles.<sup>45</sup> To be more specific, at the end of 1925 and in the first half of 1926, London & Northern acquired bills of exchange that were payable in rubles by the acceptor/drawee at maturity. Seen from the accounting records, no actual ruble amounts are shown, meaning that the implied exchange rate is unknown. As the drawer of the bills, London & Northern paid the opposite contracting party up front in pounds to receive an unconditional promise of later payments in rubles. The implied exchange rate must have been different from the official exchange rate that was under pressure. In being discounted – that is, sold for early payment and subsequent collection by the bank at maturity – the bills of exchange ended up in the books of Wm. Brandt's Sons & Co.<sup>46</sup> Along with about twenty separate bills of exchange of differing face values, later ruble transfers were bought by London & Northern for a total of nearly 400,000 pounds. Most interestingly, these bills of exchange are registered later in the books of the bank as returned; that is, they must have been seen as unpayable. Acceptors/drawees are the London-based Soviet controlled trading company Arcos Ltd. and Dvinoles Export Ltd.<sup>47</sup>

The period of maturity for the bills drawn up was typically up to one year. However, before the dates of maturity were due, it became clear that the Soviet authorities had opted for a step-by-step process of implementing currency regulation and control measures. As later seen in Germany, this took the place of devaluation. The beginning of this process came with the Decree of 9 July 1926 making the free export of rubles illegal.<sup>48</sup>

### **The ruble export ban and an opening for profitable currency deals**

Unlike the German ban on both the free export and import of the Reichsmark five years later, only the free export of the Soviet ruble was banned. Currency regulation was a new form of economic measures, and Soviet authorities learned as they went. Article 5 of the Soviet decree states that the '[e]xport and transfer of bank notes of the State Bank of the USSR, state treasury bills of the USSR and metal coins, as well as cheques and other payment documents issued in the USSR currency ... is

prohibited'.<sup>49</sup> This must have come as a big surprise to London & Northern and its City of London bank. The ruble bills drawn and discounted were unpayable by their acceptors, as it would have involved the export of rubles. However, if the rubles were made available for a Western party inside the Soviet Union, they would not have been hit by the ban of July 1926. Of course, the rubles made available would have to find a meaningful use inside the Soviet Union. Russnorvegoles was an obvious candidate for this. These currency conundrums brought London & Northern, Wm. Brandt's Sons & Co., and Russnorvegoles together in devising a plan to sidestep the regulations.<sup>50</sup> The deficiency of first Soviet currency regulations described here, and the profitable currency deals it resulted in, have been overlooked by scholars.

As a result of the implied tripartite understanding, Russnorvegoles must have received needed rubles that had been made available inside the Soviet Union via deals that London & Northern initiated. A problem with this was that Russnorvegoles had to acquire the rubles at the official exchange rate, at least officially. This was taken care of by an arrangement of 11 October 1926 with Bernheim Blum & Co. of Berlin, which became responsible for furnishing Russnorvegoles with rubles at the official exchange rate.<sup>51</sup> At the same time, contrary to the situation in 1925, Russnorvegoles was offered an additional generous credit by their City of London bank. The financing of current operations for 1927 was secured. For Russnorvegoles, this contributed to the attractiveness of the tripartite understanding.

It is clear that rubles were traded unofficially below the official exchange rate. This must also have been the case for rubles made available inside the Soviet Union. Given that Russnorvegoles bought rubles from the Berlin bank at the official rate, this raises the question of what happened with the difference between this rate and the unofficial rate. Russnorvegoles bought rubles for more than double the pound amount found in bills receivable journals of Wm. Brandt's Sons & Co. If the unofficial rate was 25 per cent below the official exchange rate, the net generated must have been a very impressive amount given that the Bernheim Blum & Co. deal amounted to more than £800,000.

Rumours about dealings in currency started to circulate, most likely beginning inside the Soviet Union. This included rumours about the physical smuggling of pound notes into the Soviet Union and black-market operations that allowed Russnorvegoles to acquire cheap rubles.<sup>52</sup> This is unlikely, and from what is documented through later arrangements, the company was provisioned with rubles at the official exchange rate. These, however, were rubles acquired cheaply in the West as ruble obligations that later were refunded in ruble cash inside the Soviet Union. These clandestine transactions from pounds to rubles came about in financial instruments more generally, not in banknotes. Of course, given the fundamental problem of official, expensive rubles, there was strong motivation to acquire less expensive rubles. The rubles that we know to have passed through Quisling's Gosbank account were most likely of the cheaply acquired kind.<sup>53</sup>

This still leaves the question of how much of the generated net ended up with London & Northern and how much with Prytz personally. We are not able to reconstruct a seamless picture of what happened. Nevertheless, our sources show that two parties benefited. First, London & Northern was able to take over most of the Western interests in Russnorvegoles. In helping the Russian Forest Industry out of a hopeless situation, the company's shares in Russnorvegoles were generously paid for and taken over by London & Northern. Then, Prytz acted as a well-paid agent for London & Northern in securing

more shares. In the beginning of 1928, Prytz personally received a bonus of 15,000 pounds from London & Northern for his involvement, which came on top of his already generous annual salary of about 3,000 pounds from Russnorvegoles.<sup>54</sup>

Russnorvegoles sidestepped Soviet intentions toward timber concessions on two occasions to try to make a profit. First, in 1926, it focussed on the Soviet market. Next, in 1927, it made currency arrangements to try to take advantage of confusing exchange rates. The currency deals Russnorvegoles became involved in led to the end of Western involvement in the company.

## Conclusion

The Soviet authorities discovered that Russnorvegoles did not contribute foreign currency to Gosbank as was assumed. At the end of 1927, the Main Concession Committee met to discuss this problem and in early 1928 it found the exchange via Bernheim Blum & Co. to be illegal. Russnorvegoles was even threatened with confiscation of what were considered illicitly-acquired rubles if the practice continued.<sup>55</sup> By now, the Western interests had already been almost entirely taken over by London & Northern. The favourable ruble arrangement came to an end in the beginning of 1928. As a consequence of this, London & Northern was forced to sell their interests in Russnorvegoles to the Soviet state, as represented by Severoles, at a very unfavourable price.<sup>56</sup>

It is clear that Prytz benefitted from his engagement with Russnorvegoles, and for some years he lived off his profits. He became engaged in right-wing politics. In Norway, the newly founded Agrarian Party (Bondepartiet) briefly caught his interest and in 1933 Prytz was central in founding the National Union (Nasjonal Samling) Party, the Norwegian Nazi party that was to play a controversial and tragic role in the country's history. He promoted the infamous Norwegian Nazi leader Vidkun Quisling and Prytz became the grey eminence of the party.<sup>57</sup> Most likely this was made possible by the proceeds of the intricate currency transactions made with Soviet rubles.

NEP included elements of a market-based economy. Historically, however, NEP was only an interlude on the way to what became a command economy after 1930. This period could be understood as the so-called time inconsistency problem of centralized economies. That is, the tendency at one point of time to make a decision that later on is opportunistically altered.<sup>58</sup> Modern historical investigations of the real functioning of command economies confirm that this was a major problem.<sup>59</sup> The Russnorvegoles concession, for instance, began as a long-term programme. It ended up as a short-term experiment. The problem was unprofitability of timber exports that had to do with the bigger question of NEP monetary reform. Most likely, the collapse of timber concessions was an unintended consequence of this reform. Thus, what we present can be seen as a case study that in an interesting manner documents how the Soviet Union in its early days strived with forming coherent strategies.

## Notes

1. Jungar, 'Skandinaviska företag', 171.
2. Lundesgaard and Tevlina, 'Russian Timber Industry in the 1920s'.

3. F. Prytz, *Report from the managing director captain Frederik Prytz*. The report is seven and a half pages long. On pages 3 and 4, before the copy of a letter to L. B. Krasin (then Soviet Ambassador in France), the critical lack of profitability is accentuated. See the Prytz Archive, The National Archives of Norway (hereafter NAN), RA/PA-0749.
4. The White Sea was frozen over and unnavigable for part of the year. The navigation season ran from May to November.
5. Krasin is discussed extensively in the memoirs of Simon Liberman, *Building Lenin's Russia* and the account by his wife Liubov Krasina, *Leonid Krassin*. See also Watson, 'Madame Krasin'.
6. Jungar, 'Skandinaviska företag', 162. According to Liberman, he played an important role in the formation of Severoles. *Building Lenin's Russia*, 99.
7. Russangloles was registered with an owner's capital of 150,000 pounds. See 'New company to acquire timber concessions', *The Financial Times*, 13 February 1922, 5. Registration came after an agreement on 31 December 1921 between Krasin, Severoles, and London & Northern Trading Co. See Sutton, *Western Technology*, 151–2 for added details. The only source that has surfaced directly from London & Northern is 'London & Northern Trading Co. (1929–32): Documents related to legal proceedings with Arcos as the other party' in the private archive of Mike Shalit, a grandson of one of the Schalit brothers, in Israel. For other material on legal proceedings, see 'Lloyd's List Law Reports' for 1932, 1933 and 1934.
8. Both Mark (Morduch) and Lipman Schalit passed away in the 1930s.
9. Sutton, *Western Technology*, 152. The story, as told by the descendants of the brothers Schalit to this day, is that this impressive amount was a result of proceeds from export sales made before the brothers were forced to flee Riga after the October Revolution. After a difficult journey to London, they found this money waiting for them at their London bank.
10. Sutton, *Western Technology*, 154. The stipulated owner's capital of Russhollandoles is not mentioned and has not been found in other sources.
11. See Goldin, 'The Civil War' and Novikova, *Provintsial'naia 'kontr-revoliutsiia'* on the Russian North.
12. Notes by Caroline Prytz (1888–1972) shed light on the life of her husband Frederik Prytz. She points out personal relations with Krasin dating back to the Genoa conference April–May 1922. Manuscript in the private archive of Jon Lundegaard.
13. 'Agreement' [on the Onega Combine]. Understanding of 6 June 1922. Private archive of Christoffer Vig, descendant of Jens Vig of Bache & Vig.
14. 'Concession Contract'. In Norwegian (translated version), contract sanctioned by the Main Concession Committee on 5 May 1923 and approved by the Council of People's Commissars (Sovnarkom) on 3 July 1923. Private archive of Christoffer Vig.
15. 'Articles of Association of The Russo-Norwegian Onega Wood Company Ltd. (Russnorvegoles A/S)' and 'Protocol from the constituent general meeting of Russnorvegoles August 11 1923'. Private archive of Christoffer Vig.
16. See page 10 of the version of the Concession Contract. The stated per cent is found under the heading of [Allowance for the rent of mills] 'Betaling for leie av brukene'.
17. The Prytz Archive was established on 24 February 1989 through a donation of Prytz's descendants to the National Archives of Norway. NAN, Prytz Archive, RA/PA-0749.
18. Draft or copy of letter from F. Prytz to London & Northern in the spring of 1924, NAN, Prytz Archive RA/PA-0749.
19. Forestry Commission, *Tenth Annual Report*, 64–67.

20. Jennings, 'A glossary of log and timber measures'.
21. F. Prytz, *Report from the managing director captain Frederik Prytz*, in what he states at the very beginning of his report. NAN, Prytz Archive RA/PA-0749.
22. Allen, 'Inflation: The value of the pound', [Table 1: Price Index 1750–2011](#), 10–15.
23. Before sending the letter, the representatives of the Western interests had personally met with Krasin in Paris. Approaching him must have been motivated by their perception that he was an important figure in the Soviet Union because of his role in NEP. However, for Krasin it was clear that the Main Concession Committee needed to answer these questions. Khromov, *Inostrannye kontsessii v SSSR*, 169. Not knowing that L.D. Trotsky had replaced him, Krasin forwarded the letter of 19 May 1925 to Georgii L. Piatakov. See A. Graziosi for an account of the role played by this important Bolshevik in 'Building the First System of State Industry in History'.
24. The Main Concession Committee was established on 21 August 1923 by the Council of People's Commissars and closed down on 14 December 1937. So far, we have not been able to access archival material directly from the Main Concession Committee.
25. 'Beretning til Generalforsamling i Russian Forest Industry Ltd. den 27 januar 1928'. Correspondence and other documents of Elias C. Kiær, Anno Norwegian Forest Museum, ARK-1030, Elverum.
26. Zagorsky, *Wages and Regulation*, 172. Over four years from 1923–24 to 1927–28, average nominal daily wages for the industry as a whole increased by 67 per cent. Zagorsky's next page includes nominal wages for industrial sectors for 1924–25 and 1928–29. The increase was somewhat more moderate for the wood sector than for the industry as a whole. The nominal daily wages were 1.66 (1923–24), 1.80 (1924–25), 2.30 (1925–26), 2.53 (1926–27) and 2.77 (1927–28).
27. Prytz, *Report from the managing director captain Frederik Prytz*, 3; NAN, Prytz Archive RA/PA-0749.
28. The editorial note 'Itogi i perspektivy deiatel'nosti Severolesa. Lesoeksportnaia rabota Severolesa', in the *Severoles* journal for 1923 (number 1–2, 18), mentions that the mixed concession companies exported 15,000 standards of various sawn goods in 1922. The journal was published by the Soviet timber trust company Severoles.
29. Prytz, *Report from the managing director captain Frederik Prytz*, 6.
30. In 1926, a total of 5,045 standards were shipped around Europe to the Black Sea and 14,227 standards to the Soviet market via Kem' and Arkhangel'sk for rail transportation. 'The Board's Report to the General Meeting of Shareholders of the Russo-Norwegian Onega Wood Company Ltd., March 10th, 1927'; NAN, Prytz Archive RA/PA-0749.
31. Optimistically, Prytz reported that the company possibly was 'able to show some – even if slight – profit in our next Balance Sheet'. However, the accounts closed by 31 October 1926 ended up with a loss. See 'Report from the Managing Director Captain Frederik Prytz to the General Meeting of the Russo-Norwegian Onega Wood Company Ltd. (Russnorvegoles A/S) – held in Oslo on 7 June 1926, and 'Financial Accounts for 1925–1926'. For both, NAN, Prytz Archive RA/PA-0749.
32. Lundesgaard and Tevlina, 'Russian Timber Industry in the 1920s', 9–10.
33. Prytz, *Report from the managing director captain Frederik Prytz*, 4. NAN, Prytz Archive RA/PA-0749.
34. Summarized, '[t]he old Russian ruble with which the country began the war perished during the war and the Revolution, depreciating fifty million times'. Katzenellenbaum, *Russian Currency and Banking*, 11.

35. See among others Heywood, 'Post-war Economies (Russian Empire)'.
36. Both are presented as professors. Equally important, however, is that they both occupied central positions during the monetary reform process. Leonid N. Iurovskii (1884–1938) was head of the Currency Department in the People's Commissariat of Finance. In a recent paper on the reform process, N.N. Nenovsky noted that Katzenellenbaum (1885–1960) graduated from Moscow University in law and economics, and wrote several books on monetary theory. He was a member of the Governing Council of the Gosbank and his signature was on many chervontsi. See Nenovsky, 'Lenin and the currency competition', 10, footnote 24.
37. This is interesting given Gresham's law. The law says that 'bad money drives out good' and is attributed to the English financier Sir Thomas Gresham (1519–1579). This tells us something about the difficulties faced by monetary reformers. The law, however, is relevant for minted money with an intrinsic metallic value. Paper money has no intrinsic value and gains value from the money-users' confidence in its value. The establishment of this was what Soviet authorities had to live up to.
38. Katzenellenbaum, *Russian Currency and Banking*, 101; Arnold, *Banks, Credit, and Money in Soviet Russia*, 148. For more on the role of gold, see Barnett, 'Exchange rate policy'.
39. Figures for the circulation of sovznaks are from a table presented by Katzenellenbaum, *Russian Currency and Banking*, 104 (column 5). Figures for the price of one chervonetes are from Table 26 of Arnold, *Banks, Credit, and Money in Soviet Russia*, 182–4.
40. The relative figures calculated are based on revised time-series from Gosplan and the Conjecture Institute found in Katzenellenbaum, *Russian Currency and Banking*, 108. For just a couple of months during the period, and obviously un-revised, we find the same statistics for the purchasing power presented in Yurovsky, *Currency Problems and Policy of the Soviet Union*, 94. The institute referred to is Nikolai D. Kondrat'ev (1892–1938) famous Institute for Economic Investigations, which played an influential role for some years in the 1920s.
41. The citation is from Katzenellenbaum, *Russian Currency and Banking*, 109.
42. See for instance, Barnett, 'Exchange rate policy', and Goland, 'Currency regulation in the NEP period'. Most interestingly, in the end, the problem of the overvalued ruble was not met with devaluation.
43. See, for example, the discussion 'Russia's Currency Problems', *The Economist*, 1 May 1926, 872–3.
44. In 1931, the German mark came under pressure. This was swiftly met by the authorities with a more or less fully developed system of currency regulation and control measures and no devaluation. See Child, *The Theory and Practice of Exchange Control in Germany*, in particular Chapter II, pointing to Germany's troubling experience with hyperinflation as an explanation for the choice of regulation and control instead of devaluation.
45. Accounting records that are of interest ended up in the Brandt Collection at the London School of Economics. See LSE Library Archives and Special Collections, GB 97 BRANDT.
46. For this, see Bills Receivable Journal 1 1924–1926 (Brandt/347) and Bills Receivable Journal 2 1927–1929 (Brandt/348) in the Brandt Collection at LSE.
47. 'Dvinoles' is spelled in various ways and the company was most likely a mixed concession holder operating along the Western Dvina all the way to the Gulf of Riga.
48. With an emphasis on a ban of free export of the ruble, the measures originally implemented were deficient and had to be expanded later. It was possible that

- there was an urgent need to control unwanted transactions involving ruble bank notes such as bank notes being physically taken out of the country. For a discussion of the border problems of the Soviet Union, see Chandler, *Institutions of Isolation*.
49. Decision 'On the order of delivery, shipment and transfer of foreign exchange values', 9 July 1926 by the Central Executive Committee of the USSR and The Council of the People's Commissars.
  50. We have not been able to find archival material that offers a sufficient description of the cooperative efforts. The Brandt Collection at the University of Nottingham includes written material from the bank. However, this collection is far from complete.
  51. For a description of the arrangement with the bank, see Lundesgaard and Tevlina, 'Russian Timber Industry in the 1920s', 12–15.
  52. For an analysis of what is often referred to as the 'ruble scandal', see Dahl, *Vidkun Quisling*, 126–31.
  53. On the role of Vidkun Quisling, see Lundesgaard and Tevlina, 'Russian Timber Industry in the 1920s'.
  54. Most of what we refer to has been presented in Lundesgaard and Tevlina, 'Russian Timber Industry in the 1920s'. The 15,000-pound bonus mentioned in a letter of 9 January 1928 from London & Northern to F. Prytz was overlooked in our earlier work. NAN, Prytz Archive RA/PA-0749.
  55. The meetings referred to are documented in diary entries of Andreas O. Wager, head of Russian operations at Russnorvegoles. Telegrams in the Prytz Archive from the Main Concession Committee to F. Prytz in February 1928 show that the Gosbank viewed Russnorvegoles as having acquired rubles in an inappropriate manner, and that the practice must come to an end. The diary can be found in the private archive of Jan Wager, a descendant of Andreas O. Wager. For the telegrams referred to, see NAN, Prytz Archive RA/PA-0749.
  56. See Lundesgaard and Tevlina, 'Russian Timber Industry in the 1920s' for details.
  57. See Borgersrud, '9 April revised' for a recent recapitulation of the central role of Prytz.
  58. With a path-breaking and Nobel Prize winning contribution from 1977 by F. Kydland and E. Prescott, time inconsistency became a central concept in economic reasoning.
  59. The work of Paul R. Gregory is an interesting example of this kind of investigation, *The Political Economy of Stalinism*.

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