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# The Anglo-Soviet Trade Agreement, March 1921

M. V. Glenny

The following is in part a necessarily very condensed summary of the events and manœuvres which led to the signature of the Anglo-Soviet Trade Agreement on 16 March 1921, and in part an attempt to examine the roles played in it by some of the politicians of the day.

To most Allied statesmen (if not, perhaps, to Winston Churchill) it was clear by the end of 1919 that the 'White' cause in Russia was lost and the policy of intervention a failure. No one, however, had a workable alternative policy. A Bolshevik-controlled Russia was a fact, and although the Foreign Office and the War Office might have good reasons for doubting the Bolsheviks' staying power, no other politically viable Russian regime existed. There was no alternative policy, that is, until Lloyd George unveiled his project to a meeting of the Allied Supreme Council in Paris on 14 January 1920,<sup>1</sup> four days after the ratification of the Treaty of Versailles. The proposal was to stop the blockade of Soviet Russia and to resume trade with 'the Russian people' through the agency of the Russian Co-operative Societies, a non-political trading organization, allegedly free of Bolshevik taint. On 16 January the Supreme Council approved both the policy and a press communiqué on the subject, which ended with a stern reminder to the bolsheviks that 'these arrangements imply no change in the policy of the Allied governments towards the Soviet government',<sup>2</sup> i.e. non-recognition. The Japanese government was informed, but showed little interest in the trade scheme; Japan at that time had her own plans, of a rather more direct and unsubtle nature, for extracting goods from Russia. Four days later two telegrams

<sup>1</sup> *Documents on British Foreign Policy, 1919-1939*. First Series (DBFP), II, No. 71/3, 867-75.

<sup>2</sup> *Ibid.*, No. 74/2, 894-96; No. 76/1, 911-12.

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were despatched simultaneously from Paris with official Allied blessing: one westward to Washington, explaining the new policy to the American government,<sup>3</sup> the other eastward to the Russian Co-operative Societies' joint board of management in Moscow, giving the Allied terms for a resumption of trade.<sup>4</sup> These were accepted in principle by a radiogram from Moscow on 23 January,<sup>5</sup> a mere week after Lloyd George had officially launched his new policy. It was a good start to a brave venture.

The going, however, soon got much rougher. It took four months of talk and telegrams before real negotiations started at the end of May 1920, when Leonid Krasin<sup>6</sup> reached London at the head of a Soviet trade delegation. A good deal had changed since January. Despite protestations that Lloyd George's overture to Russia was an *Allied* policy, that contact was to be restricted to Centrosoyuz (the short name for the joint board of the All-Russian Union of Consumer Co-operative Societies); that trade was its only object, and that it meant no recognition of the Soviets, all these conditions had been modified or quietly dropped altogether by the time serious talks got under way. Among the Allies, France had always been the least enthusiastic about the project and when invited by Curzon to participate in the opening talks with Krasin's delegation, the French government had declined, whilst Italy, although better disposed, sent only the Italian chargé d'affaires in London who attended one session.<sup>7</sup> The talks thus became an Anglo-Soviet confrontation. Meanwhile an even more drastic mutation had affected the Russian Co-operative movement and its

<sup>3</sup> Aide-mémoire: 'History and Inception of the Krassin Negotiations'. Signed E.F. Wise. 1 June 1920. Lloyd George Papers: F/202/3/11.

<sup>4</sup> Copy of cable: Berkenheim (Paris) to Korobov, Centrosoyuz (Moscow). Lloyd George Papers: F/58/1/2.

<sup>5</sup> *Dokumenty Vneshnei Politiki SSSR*, II, No. 222, 327.

<sup>6</sup> Krasin, Leonid Borisovich (1870-1926). One of the most remarkable of the early Bolsheviks, for a time in 1904-5 Krasin was second only to Lenin in the Bolshevik faction of the Russian Social Democratic Labour Party. Having fallen out with Lenin over party tactics, he gave up revolutionary politics in 1908 and went back to his profession of electrical engineering. At this he did so well that by 1917 he was a millionaire. Although critical of the Bolshevik seizure of power, he returned to party service as a delegate to Brest-Litovsk. During the civil war he occupied a number of high posts in economic administration. From 1920-1, when he negotiated the Anglo-Soviet Trade Agreement, Krasin was one of Soviet Russia's star diplomats in the West: delegate at the Genoa Conference and Rapallo, envoy to France and then to Great Britain, where he died at his post in London in November 1926.

<sup>7</sup> DBFP, VIII, 280; No. 25, 242.

joint board, Centrosoyuz, for on hearing of the Supreme Council's announcement of the raising of the blockade and the intention to trade with the Co-operatives, the Bolshevik Politburo had reacted at once by ordering the immediate communist takeover of the Co-operatives. The preliminary decree to this effect, worded by Lenin personally, was issued on 17 January and the executive decree, also from Lenin's hand, was drafted on 26 January and promulgated by the Council of People's Commissars (Sovnarkom) the following day.<sup>8</sup> No particular secret was made of the Bolshevik takeover of the Co-operatives and the obvious consequence of this move was that dealing with them meant dealing with the Soviet government. Although this was soon common knowledge, to satisfy Allied scruples Krasin and his fellow delegates were nominally co-opted on to the board of Centrosoyuz, enabling both sides to maintain the fiction (for anyone still naive enough to believe it) that negotiations would be carried on with the Co-operatives; but as soon as Krasin was safely in London no more was heard of this now threadbare camouflage.

There was equally little pretence, too, when Anglo-Soviet talks began in earnest on 31 May 1920, that they were purely to do with trade. At the preparatory conference of ministers at 10 Downing St. on 28 May, when the Cabinet met to brace itself for the shock of encountering a real live Bolshevik, Lord Curzon, the Foreign Secretary, firmly insisted – and his colleagues concurred – that ‘any agreement in regard to trade would be impossible unless a general agreement on the political questions at issue with the Soviet Government were arrived at. It was most desirable that a comprehensive arrangement should be reached. The conference was asked to remember that the recent political situation gave HMG an opportunity for driving a good bargain’.<sup>9</sup> Judging by the memorandum which Curzon had circulated to the Cabinet earlier that morning, the Foreign Secretary clearly took a very sanguine view of Britain's relative bargaining strength vis-à-vis Soviet Russia; in his opinion Britain's tactics should be those of unblushing *Realpolitik*: ‘We know from a great variety of sources that the Russian Government is threatened with complete economic disaster, and that it is ready to pay almost any price for the assistance which we – more than anyone else – are in a position to

<sup>8</sup> Lenin, *Polnoe Sobranie Sochinenii*. Fifth ed., XL, 53, 74–5.

<sup>9</sup> Cabinet 33 (20); CAB 23/21.

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give. We can hardly contemplate coming to its rescue without exacting our price for it, and it seems to me that price can far better be paid in a cessation of Bolshevik hostility in parts of the world important to us [by this Curzon meant, as always, India], than the ostensible exchange of commodities, the existence of which on any considerable scale in Russia there is grave reason to doubt.<sup>10</sup> Naturally a piece of political horse-trading of the kind envisaged by Curzon implied recognition of the Soviet government, a change of line tacitly accepted by the Cabinet before talks had even begun. The Foreign Secretary's confidence that the Russians would 'pay almost any price' was to be rudely shaken, however, during the ensuing ten months; on the other hand his lofty dismissal of any likely gain to be had from an 'ostensible exchange of commodities' proved reasonably well founded: for the six years trading that followed the signature of the 1921 Agreement (Britain denounced the Agreement at the time of the Arcos raid in 1927), the balance of Anglo-Soviet trade was consistently in Russia's favour.<sup>11</sup>

In fact, throughout the negotiations the need for trade was about the only point on which both sides agreed. The elements of dispute were first the political price which each side reckoned that it could wring out of the other; second, the complex question of Soviet recognition of Russia's pre-revolutionary debts and obligations to British creditors; whilst linked with this was the third and almost equally delicate problem of Soviet payment for goods with the gold acquired by the Bolsheviks, mainly by seizure, from the former Imperial State Bank and from the various White regimes during the civil war.

The progress of the negotiations in which these and other matters were discussed divides into three phases: from 31 May to 7 July 1920; from 8 July to 11 September 1920; and from 12 September 1920 to 16 March 1921. Despite the often wide differences between the British and Soviet viewpoints and the erratic communications between London and Moscow, the first phase of the talks was conducted in a fairly straightforward and businesslike way.

<sup>10</sup> Cabinet Paper: 'Negotiations with M. Krassin - Note by Lord Curzon'. C.P. 1350, 27 May 1920. CAB. 24/106.

<sup>11</sup> I.M. Maisky, 'Anglo-sovetskoe torgovoe soglashenie, 1921 goda', *Voprosy Istorii*, No. 5, 1957, 77.

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The issues were dealt with in four meetings between Krasin and Lloyd George, held on 31 May, 7 June, 16 June, and 29 June. The first two encounters were full-dress affairs,<sup>12</sup> whereas the cast-list for the meetings of 16 and 29 June was drastically cut. Apart from Lloyd George and Krasin, the participants on 16 June were confined to Sir Robert Horne, Philip Kerr, and – for some reason – Dr Fridtjof Nansen.<sup>13</sup> The 29 June meeting was regarded by both sides as crucial. The main points at issue had been reduced to two (the cessation of hostile propaganda and subversion; Soviet recognition of former Russian debts), but they seemed intractable; Lloyd George was about to leave to face the Allies at Spa, and to justify his deviation from the declared Allied policy of non-recognition of the Soviet government he needed to present the Allies (particularly France) with a successful *fait accompli*. It was, as he put it: ‘impossible to keep the negotiations open much longer. . . . It was . . . necessary to come to a decision as to whether trading relations were to be resumed without any further delay.’<sup>14</sup> Krasin, too, was very anxious about the meeting; indeed he expected the talks would founder on British rejection of the terms that Lenin insisted he should put forward.<sup>15</sup> Invited by Lloyd George to put the Soviet case, Krasin read out his statement.<sup>16</sup> His analysis corresponded to that of Lloyd George in reducing the outstanding points of dispute to two:

- (1) Propaganda, subversion and hostile acts.
- (2) Debts and claims against Russia by pre-1917 creditors.

Krasin then sub-divided the first into:

- (a) communist revolutionary propaganda among workers in Western Europe; and
- (b) hostile Soviet foreign policy directed against British interests elsewhere, especially the Middle East and India.

<sup>12</sup> *DBFP*, VIII, Nos. 24, 25, 281–306.

<sup>13</sup> ‘Interview between M. Krassin and the Prime Minister held at 10, Downing Street on Wednesday, June 16th at 5.30 p.m.’ 18 June 1920. Lloyd George Papers: F/202/3/19. The minutes of this meeting were countersigned by Dr Nansen as being ‘a fair summary of the proceedings’.

<sup>14</sup> *DBFP*, VIII, No. 37, 380.

<sup>15</sup> Report by Director of Intelligence, Scotland House. 29 June 1920. Lloyd George Papers: F/202/3/17.

<sup>16</sup> English and Russian texts, Lloyd George Papers: F/202/3/18, F/203/2/11.

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Summarized, the Soviet government's answers to these were: (a) To promise to cease propaganda and subversion in Britain as soon as the proposed trade agreement came into force, provided that Britain made a reciprocal undertaking; but the Soviet government insisted on the right of their representatives in Britain to put the Soviet case to the newspapers, in order to counteract the distorted and hostile reporting of Soviet policy prevalent in the British press; (b) Russia agreed to adopt a pacific policy towards Britain, provided Britain promised to do likewise – this to be laid down in a formal peace treaty. Since Britain belonged, however, to a military alliance, such agreement must be binding on the Allies and therefore made between Russia and the Entente as a whole.

As to Point 2 (Debts and Claims), Krasin then adduced no fewer than five reasons why the Soviet government should not recognize the Tsarist government's debts to private persons, on which Britain insisted:

- (i) If State debts to private persons were given priority over other classes of debts, Russia would be the loser, because she could not counterclaim *pari passu*, having by nationalization turned all *private* Russian claims into State claims;
- (ii) Private debts were only one class of debts and there was no good reason why that class should rank over others<sup>17</sup>;
- (iii) It was false reasoning to contend, as the British government did, that recognition of private debts was essential in order to restore confidence in Russian trade among business firms: it was, on the contrary, business people who were readiest to write off their bad Russian debts in order to get back to trading and hence to recoup past losses;
- (iv) Russia, devastated by war and intervention, refused to regard the reimbursement of foreign capitalists as a first charge on her shattered economy; on the contrary, she felt entitled to present the Allies with a massive bill of indemnity for the vast losses in life and

<sup>17</sup> This was an extremely telling argument, formulated not by Moscow but by Krasin himself, thanks to his expert knowledge of the workings of capitalist finance. Ironically it was also, *mutatis mutandis*, the same argument used by Montagu Norman, Governor of the Bank of England, when advocating exactly the opposite case to the British government, i.e. that Russia must be made to recognize *all* classes of debts, as to recognize only Tsarist government debts to private persons would be inequitable to other classes of creditors (e.g. bondholders). See Montagu Norman's letter to the Chancellor of the Exchequer, dated 21 July 1920. Cabinet Paper: C.P. 1674. CAB 24/109.

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property sustained as a result of Allied intervention in the Civil War;

- (v) The Soviet government regarded itself as absolved from all Tsarist debts, etc., due to the Allies' warlike acts of intervention and blockade. Any Soviet recognition of such debts could now only be negotiated by formal agreement, and could not be obtained as of right. A formal peace treaty with Soviet Russia was therefore essential.

Nevertheless, Krasin conceded, the Soviet government would 'examine' mutual debts and claims at a peace conference. Its terms were, therefore, that it would deal with points (1)(b) and (2) only as part of negotiations for a formal peace treaty (in other words the Soviets were applying pressure on Britain's two most sensitive points in order to secure a full-dress peace treaty and hence *de jure* recognition). However, if the Allies did not want to enter into peace negotiations now, then trade could still proceed on the understanding that all unresolved points in dispute be held in suspension until formal peace talks; meanwhile trade talks should go on subject to immediate settlement of practical matters such as the clearance of the Baltic minefields and the establishment of reciprocal trade missions.

The uncompromising Soviet terms filled Lloyd George 'with despair'.<sup>18</sup> He wanted an answer, 'yes or no', within a week, as to whether Russia was prepared to make an agreement on the lines of a British note which he would hand Krasin the next day. As such a demand required consultation in Moscow and Krasin doubted whether he could get there soon enough to obtain a reply in time, Lloyd George offered him a fast passage to Reval in a British warship. Since Krasin had protested earlier that as a mere trade delegate he felt himself to be in politically rather deep water, Lloyd George suggested that for further negotiations he might bring back with him anyone else he liked.<sup>19</sup> Next day, 30 June, Krasin received the British government's counter-terms.<sup>20</sup> Stripped of their coating of angry Welsh rhetoric, they boiled

<sup>18</sup> *DBFP*, VIII, No. 37, 387.

<sup>19</sup> Anyone, that is, except Litvinov, who was cordially mistrusted by both Lloyd George and Curzon.

<sup>20</sup> Draft typescript, annotated and amended in Philip Kerr's and Lloyd George's hands. 30 June 1920. Lloyd George Papers: F/202/3/20. Also *The Times*, 15 July 1920.

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down to four points on which both sides must agree as preconditions to a trade pact:

- (1) Cessation of military action, propaganda and other hostile action: 'the British Government propose what is tantamount to a general armistice, as the condition of the resumption of trade relations, in the hope that this armistice may lead ere long to a general peace'.
- (2) Exchange of all prisoners and detainees.
- (3) In return for a similar British undertaking, Soviet recognition in principle of all Russian debts outstanding to British traders for goods or services supplied and not paid for; the settlement of other debts and claims to be held over for future peace negotiations.
- (4) Exchange of official missions, subject to the right of each government to prohibit entry to any proposed mission member deemed *persona non grata* to the host country.

These stipulations ended by declaring that if no affirmative reply were received within a week of the Note's presentation, the British government would 'regard the negotiations at an end and in view of the declared unwillingness of the Soviet Government to cease the attacks on the British empire, will take counsel with its Allies as to the measures required to deal with the situation'.

Two days later, on 2 July, Krasin and his deputy, V.P. Nogin, boarded H.M. destroyer *Vimiera* and steamed non-stop to Reval,<sup>21</sup> while Lloyd George set off for Brussels and Spa.

Although the British Note sounded peremptory, it contained two distinct references (in Points 1 and 3) to what was Soviet Russia's main diplomatic objective: the conclusion of a peace treaty with the Allies, a procedure entailing the *de jure* recognition of Lenin's government. Probably on this ground, and out of a desire to preserve his vital diplomatic bridgehead in London, Chicherin, Commissar for Foreign Affairs, sent a (for once mercifully brief) note to Curzon on 7 July 'accepting the principles' laid down in the British Note of 30 June.<sup>22</sup> The first phase was over: Lloyd George had his *fait accompli* for the Spa Conference and the outlook for an Anglo-Soviet trade agreement seemed bright.

In another direction, however, the prospect for the Allies was

<sup>21</sup> Lubov Krassin, *Leonid Krassin - His Life and Work* (London, 1929), 126.

<sup>22</sup> *Dokumenty Vneshnei Politiki SSSR*, III, No. 6; 16-17.

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grim: Poland. Almost from its very start Lloyd George's essentially pacific overture to Soviet Russia had been accompanied, *accelerando e crescendo*, by the discordant noise of Poland's war with Russia. Striking suddenly on 27 April, the Poles had enjoyed a rapid initial success, capturing Kiev on 7 May; but three weeks later the Russians had thrown them back and by the time the Spa Conference assembled (5–16 July 1920) Poland was in a desperate situation. As the Red Army first crossed the provisional Polish frontier (the 'Curzon Line'), then pressed on towards Warsaw, British diplomacy concentrated on trying to induce the Poles and the Russians to stop fighting before defeat turned Poland – the eastern bastion of the Versailles system and the shield between Germany and Soviet-borne revolution – into a satellite of Moscow. When all seemed lost the Poles, encouraged by an Allied politico-military mission, rallied on 16 August and routed the Red Army in what became known as 'the miracle on the Vistula'. Two months later, on 12 October, Poland and Russia signed an armistice, confirmed on 18 March 1921 by the Treaty of Riga.

The Polish crisis inevitably brought the Anglo-Soviet trade talks to a halt, but did not break the link altogether. In fact when Krasin reached Moscow on 5 July for consultation, it was decided to 'strengthen' the delegation when it returned to London by the addition of Kamenev, a senior member of the Politburo, and Miliutin,<sup>23</sup> another old party member who was Vice-Chairman of the Supreme Council of National Economy. The third extra member to be accredited to the delegation was Theodore Rothstein.<sup>24</sup> The object of sending Kamenev was that he should step up the delegation's *agitprop* output among the workers as a means of putting pressure on the British government.<sup>25</sup> There were good grounds for adopting this tactic: the prospect of British intervention in the Russo-Polish war had aroused such revulsion in Britain that it caused the entire spectrum of British socialism, from the extreme right of the Parliamentary Labour Party to the far left fringe of proto-communist splinter groups, to unite in effective

<sup>23</sup> *DBFP*, VIII, Ch. X, Intro., 669.

<sup>24</sup> Rothstein is now considered on good evidence to have been the Bolsheviks' main undercover political agent in Britain after the expulsion of Litvinov in 1918. See W. Kendall, *The Revolutionary Movement in Britain 1900–1921* (London, 1969), 241 ff.

<sup>25</sup> G.A. Solomon, *Sredi Krasnykh Vozhdei*, I (Paris, 1930), 316.

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political opposition to the threat of British involvement.<sup>26</sup> Interestingly enough, when on 9 July the project for Kamenev to go to London was first mooted (by Kamenev himself, supported by Chicherin), Lenin was against it. On the next day he again rejected the idea, proposing that Krasin should remain at the head of the delegation, assisted by Vorovsky; but Chicherin, backed by some powerful colleagues, insisted that Kamenev should go; on 11 July Lenin gave way, nominating Kamenev as chief of mission and Krasin as his deputy.<sup>27</sup> By 20 July, however, when the newly constituted delegation had reached Reval on the way to England, the Red Army was about to enter Polish territory, and the British Note of that date, warning the Soviet government against advancing into Poland, stated that Kamenev and Krasin must stay in Reval, as trade talks would cease if Russia invaded Poland.<sup>28</sup> The delegation had to wait only a week: at a meeting on 26 July Lloyd George persuaded the Cabinet that although the situation was grave it was nevertheless better to have the Soviet delegation to hand, particularly when headed by Kamenev, known to be close to Lenin.<sup>29</sup> On 1 August Kamenev and Krasin reached London. Lenin was to regret letting Kamenev go. His propaganda activities in London had the effect of confirming the views of the anti-Bolshevik lobby, headed at Cabinet level by Winston Churchill, and he finally played into their hands by his ill-judged attempt to deceive the British government over a crucial clause in the Soviet peace terms to Poland. On 10 September Lloyd George summoned Kamenev to Downing Street and read him a curtain-lecture on his behaviour.<sup>30</sup> Britain did not actually expel Kamenev, as has usually been assumed: Kamenev was due to return to Moscow in any case.<sup>31</sup> But as Hankey said in a letter of 10 September to Lord Curzon, enclosing the procès-verbal of Lloyd George's ticking-off: 'From the discussion you will see that he is not likely to return.'<sup>32</sup>

<sup>26</sup> This episode is admirably described by L.J. Macfarlane: "'Hands Off Russia'" – British Labour and the Russo-Polish War 1920', *Past and Present* (London), 1968, No. 38.

<sup>27</sup> Lenin, *Sochinenia*, I; 236, 438.

<sup>28</sup> *DBFP*, VIII, 649–50.

<sup>29</sup> K. Middlemass (ed.), Thomas Jones, *Whitehall Diary*, I (London, 1969), 118–19.

<sup>30</sup> ICP 144A, 10 September 1920. CAB 21/173.

<sup>31</sup> Note from M. Kameneff to the Prime Minister. Cabinet Paper: C.P. 1840, 9 September 1920. CAB 21/173.

<sup>32</sup> ICP 144A, 10 September 1920. CAB 21/173.

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Kamenev departed on 11 September, leaving Krasin once more in charge, and the second phase of the negotiations ended with the state of play nominally unaltered since the Soviet Note of 7 July.

Inevitably, however, the political atmosphere had changed. Other problems, notably industrial unrest and Ireland, occupied most of Lloyd George's attention during the next few months. Labour and the trade unions also reverted to domestic matters and the 'Council of Action' faded out as a united left-wing pressure group on foreign policy. Although Lloyd George instructed E.F. Wise and his Russian Trade Committee on 14 September to pick up the threads of the trade agreement negotiations, and a Draft Agreement was drawn up,<sup>33</sup> such talks on the text of the agreement as did take place during the next ten weeks were at civil-servant and not ministerial level. The British government did not formally hand their draft to Krasin until 29 November.<sup>34</sup> The interval was occupied by a sort of three-sided tug-of-war over the Russian trade policy. Lloyd George did his best, when not otherwise occupied, to keep the project moving forward towards the signature of an agreement. Curzon, who considered that Russia desperately wanted trade with Britain, still saw it as the means of forcing the Soviets to concede those points which the Foreign Secretary regarded as essential to British interests, and throughout the rest of the negotiations he exerted every ounce of his political weight, with some success, to ensure that his demands were fulfilled before the agreement was signed. Aside from his perennial obsession about the Red menace to India, Curzon's chief concern was now the return of the British prisoners and internees still held in Russia. Although an Anglo-Soviet agreement on the exchange of prisoners had been signed on 12 February 1920 by James O'Grady (a Labour MP) and Litvinov in Copenhagen,<sup>35</sup> most of the British prisoners had still not been returned and Curzon was under increasing pressure from public opinion to get them repatriated. Consequently he persuaded the Cabinet on 15 September to declare that the return of all British nationals held in Russia was a *sine qua non* of the resumption of trade talks.<sup>36</sup>

<sup>33</sup> Cabinet 40(20). CAB 23/22; R. 213(1), 14 September 1920. CAB 21/173.

<sup>34</sup> *DBFP*, VIII, 867-8.

<sup>35</sup> *Agreement between His Majesty's Government and the Soviet Government of Russia for the Exchange of Prisoners*. Cmd. 587.

<sup>36</sup> Cabinet 51(20). CAB 23/22.

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Although this entailed an interminable and acrimonious exchange of notes with Chicherin, Curzon stuck to this demand like a bulldog. It was only after the exchange of prisoners had actually begun (on 5 November) that the Cabinet was able to debate the question of offering the Soviets a draft Trade Agreement.

Whereas for Curzon the projected trade agreement had at least some value for purposes of diplomatic leverage, Churchill was totally opposed to it and in this third and final phase of negotiation he used every weapon he could deploy in order to sabotage the policy. His chief allies were Walter Long, First Lord of the Admiralty, whose methods were so blundering and unintelligent that they did Churchill's cause more harm than good<sup>37</sup>; and Austen Chamberlain who, as Chancellor of the Exchequer, was much influenced by the bankers and City interests who lobbied him to press for unconditional Soviet recognition of the debts to all classes of British creditors and claimants.<sup>38</sup> The climax to Churchill's campaign of opposition to Lloyd George's Russian policy came in mid-November. With the British prisoners mostly repatriated, the Cabinet was due to meet on 17 November to decide whether or not to go ahead with formal negotiations with Krasin for signature of an agreement. On the day before, Churchill drew up a memorandum for his colleagues in which he marshalled every argument, some rational and some bitterly emotional, that he could raise against it. In essence his argument was based on eight points:

- (1) Since the Soviet state has taken over all trade, our traders will not be able to come into direct contact with ordinary Russian people, hence there will be none of the healthy 'educative influence' from

<sup>37</sup> Walter Long was rash enough to express his personal antagonism to the Russian trade policy in one of his Admiralty Weekly Reports (C.P. 1873), a secret intelligence review circulated to ministers, senior officials, and senior naval officers. This, being in contradiction of declared government policy, was a breach of the rule of Cabinet unanimity. Hankey, Secretary to the Cabinet, pounced on it and in a private letter to Long gave him a courteous but unambiguous rap over the knuckles. Copy letter, Hankey to Long, 24 September 1920. CAB 21/173.

<sup>38</sup> See joint letter to Austen Chamberlain from Montagu Norman, R.M. Holland-Martin (Chairman, British Bankers' Association), and F. Hugh Jackson (Chairman, Accepting Houses Committee), of 27 September 1920. Cabinet Paper: C.P. 1917, 27 September 1920. CAB 21/200. See also note 17 above.

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such contact that was originally said to be one of the main motives for our policy;

- (2) Far from having surplus produce to sell us, Russia is herself faced with famine;
- (3) The Soviets have nothing to offer but gold and precious stones, acquired by naked robbery;
- (4) Even if gold they possess so little that were we to acquire it all it would make no material difference to the British economy;
- (5) Equally, the small amount that the Soviets can buy from us will do nothing to relieve the distress of the huge Russian population; instead, a supply of goods such as locomotives will 'simply fortify the existing evil regime';
- (6) Churchill appreciates Lloyd George's argument that the government needs to impress the British working class that there is no obstacle to trade with Russia, but he proposes that the same result would be achieved by simply lifting the embargo and leaving it to individual traders at their own risk, as the US government has done;
- (7) The Bolsheviks are faithless and regard duping non-communists 'as a virtue and a duty'. Therefore 'all promises about abstaining from propaganda are worthless'; they will simply maintain that they have no control over the propaganda put out by the Comintern;
- (8) Nothing will stop Bolshevik designs on the Caucasus, the Middle East and India; being now rid of Wrangel, they are free to turn their army on the Poles or eastwards towards India.

Finally he pleaded: 'Ought we . . . to sustain this deadly conspiracy with the favour and countenance of the British Government?'<sup>39</sup>

On 17 November, the Cabinet argued long and inconclusively and although Birkenhead, Horne, and Bonar Law supported Lloyd George, no agreement was reached and the question was adjourned till the next day.<sup>40</sup> Churchill felt so strongly on this issue that during the Cabinet he passed a note to his friend Lord Birkenhead (F.E. Smith), the Lord Chancellor, and although that note has not survived, it is clear from Birkenhead's reply, written to Churchill later that day, that Churchill informed F.E. that he would resign if the vote went against him on the Russian issue at the next day's Cabinet. Birkenhead wrote thus<sup>41</sup>:

<sup>39</sup> 'Memorandum for the Cabinet'. War Office, 16 November 1920. Churchill Papers: C. 16/53. (N.B. For this and other references to the Churchill Papers I am greatly indebted to Martin Gilbert, Esq., Merton College, Oxford.)

<sup>40</sup> Cabinet 61(20). CAB 23/23.

<sup>41</sup> Letter, Birkenhead to Churchill, 17 November 1920. Churchill Papers:

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House of Lords, 17th November 1920

My dear Winston,

I have been considering very carefully the most alarming note which you handed to me at the Cabinet this morning. I am most clearly of the opinion that if the decision goes against you tomorrow, you will be making a mistake of a magnitude which shocks me, if you carried out any such intention. You would find yourself the hero of the *Morning Post* and the leader of some 30 Tories in the House of Commons, who disagree with you on 90% of all the subjects about which you feel really deeply. Moreover, you would cut yourself adrift, perhaps permanently, certainly for a very long time from the Coalition, which on every other point you support, in the necessity of which you believe, and of which in my judgment you are an indispensable member. [Birkenhead then gives his own reasons for supporting Lloyd George's policy] I have only to add that I am persuaded that this is not one of those great occasions with which a member of the government is faced with a decision so vital upon a principle (which his countrymen will recognize as adequate) as to justify him in separating from his colleagues with whom he is otherwise in general agreement, and withdrawing his services from a country which very greatly needs him in the constructive work of reorganization.

Yours as ever,

F.E.

[added in longhand:] 'This is rather pompous, but I had to dictate. F.'

Birkenhead's letter had its effect; Churchill argued hard at Cabinet next day, 18 November, the discussion went against him and he did not resign. Sir Robert Horne was authorized 'to conclude a Trading Agreement with Russia'.<sup>42</sup>

On the Soviet side of the hill, too, events were adding to the urgency of a trade link with Britain. Lenin was not alone among the world's politicians in distrusting Lloyd George's motivation, and in attributing the erratic course of the British approach towards Russia during 1920 to a positive desire on Lloyd George's part to dupe the Soviet government and to use chicanery to pursue a thoroughly hostile policy.<sup>43</sup> Trotsky, on the other hand, showed

C. 22/3. Cited from Mr Martin Gilbert's forthcoming volume of his Churchill biography, with the kind permission of C & T Publications Ltd.

<sup>42</sup> Cabinet 62(20), Minute 4. CAB. 23/23.

<sup>43</sup> See *inter alia* Lenin's note to Chicherin of 11 June 1920 in Lenin, *Sochinenia*, LI; 214-15. Also *Dokumenty*, II, No. 381, 567, for the Note addressed to Britain on the basis of Lenin's remarks to Chicherin.

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considerably more insight into the strains within the Entente and the subtleties of British political in-fighting as reflected in the vagaries of policy. In June 1920 he argued that Britain was by no means so implacably interventionist as France and that it was in Russia's interest to conciliate Britain as a means of splitting the Entente. A month later, Trotsky had urged acceptance of Curzon's 11 July offer of mediation between Russia and Poland on the grounds that it would achieve one of the prime aims of Soviet diplomacy – a formal peace treaty and recognition by the Entente – as well as peace with Poland which, in view of the Soviet military success, could well be had on terms favourable to Russia. Again Trotsky urged Lenin to exploit the divergencies in British policy and opinion.<sup>44</sup> But Lenin and a majority of his colleagues were so emboldened by the Red Army's advance that they overruled Trotsky and took a gamble on beating the Poles, setting up a Soviet Poland and – the great goal – revolutionizing Germany.

By December, however, things looked very different. The disastrous 1920 harvest presaging famine, peasant and worker unrest, and the chaotic state of the economy had already started Lenin moving on the road towards the concessions to private enterprise which were promulgated the following year as the New Economic Policy. The first step in this direction was the decree of 23 November announcing concessions in Russia to foreign capitalists. There is also evidence that Lenin had by now acquired a much clearer understanding of the interplay of forces within the British government, and had come to realize that Lloyd George and his supporters were in fact working hard to push through the trade agreement policy and were therefore to be encouraged. I am inclined to give a good deal of the credit for Lenin's improved grasp of the realities of British politics to Theodore Rothstein. For all his occasional lapses of judgment, Rothstein was a highly intelligent man who had spent a number of years in England. At one point in 1918, while working on the *Daily News*, he had actually been Balfour's unofficial adviser on Russian affairs as well as the clandestine Bolshevik agent in Britain.<sup>45</sup> He had gone to Russia in September 1920, after which in view of his known involvement in British revolutionary politics Curzon had refused

<sup>44</sup> I. Deutscher, *The Prophet Armed* (2nd ed., London, 1963), 462–3.

<sup>45</sup> W. Kendall, *op. cit.*

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Rothstein re-entry to Britain.<sup>46</sup> Such was the respect in which Rothstein was held in Russia that, having been unable to join the Bolshevik Party due to his long residence in England, as soon as he reached Russia in the autumn of 1920 he was given party membership with an honorary backdating to 1900. He was regarded by the Soviet leaders as the unchallenged expert on British affairs and both Lenin and Trotsky deferred to his judgment on this subject. In 1921 he was appointed Soviet envoy to Persia. But his influence on Lenin's thinking in regard to the tussle waged between Lloyd George and Churchill over the Anglo-Soviet trade policy is traceable, at least in part, to an article Rothstein published in the 15 October 1920 issue of the *Journal of the Commissariat of Foreign Affairs*,<sup>47</sup> to which I have found no previous reference in writings on this subject. It was entitled 'The right hand and the left hand of English diplomacy'; it is well worth quoting in its own right as a highly intelligent analysis of the situation and not merely as a marginal comment on Lenin's attitude. In it Rothstein explained, with an admirable lack of the usual Marxist class-struggle jargon and pseudo-dialectics, the essential dualism incorporated into British politics thanks to the concept of 'government' versus 'loyal opposition', in which on any given issue there are always no fewer than two policies at one time, each subscribed to by almost equal halves of the parliamentary forces, and continued:

British foreign policy is conducted on completely analogous lines, with the only difference that the opposition is often actually seated on the government benches, or is even located right outside parliament in the ranks of various leagues and societies . . . this is the situation which obtains today in regard to British policy towards Soviet Russia. Anyone who says that Lloyd George is insincere in his repeated announcements that he is seeking peace both with Russia and in Europe as a whole is oversimplifying the character and methods of British diplomacy. It is equally fallacious to underestimate the significance of the unofficial agitation in favour of peace with us which is being carried on in the Liberal and Labour press, as well as in the business and intellectual strata of British society. Undoubtedly 'Churchill's party', the party of the Court<sup>48</sup> and of certain francophile circles, headed by

<sup>46</sup> Copy of Foreign Office letter, ref. 214579/N/38 of 24 September 1920. Lloyd George Papers: F/58/1/57.

<sup>47</sup> *Vestnik NKID* (Moscow), 15 October 1920, 1-6.

<sup>48</sup> This ascription to Churchill of leadership of a 'Court party' is one of the

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the Northcliffe press, has already succeeded more than once in blocking Lloyd George's line of policy, but there is equally no doubt that if the 'Hands off Russia' organization was able successfully and unscathed to conduct propaganda for peace among the working class, it was Lloyd George's benevolent neutrality which allowed it to take place. This does not mean that Lloyd George could not have restrained Churchill if he had wanted to, nor that the only thing which restrained him from sending the police to close down the 'Hands Off Russia' organization was fear of the outcry that this would have raised. He needs both the Churchill party and the peace movement because the former is advocating a policy which might, without bringing the Coalition down, replace his own, whereas the latter is helping him to conduct his own Russian policy even in the face of powerful opposition . . . this is why Lloyd George makes no effort to get rid of Churchill, nor Churchill to shake himself free of Lloyd George; each needs the other equally much, because each one needs an insurance policy so that if his policy fails he is safeguarded from total political disaster. . . . thus even when Britain's right hand, represented by Lloyd George, is clasping ours, the left hand, in the person of Churchill, is sulking in the background ready to clench its fist and threaten us. Therefore our proper tactics should be not to give way to panic when we encounter the left hand nor to go wild with joy when offered the right hand. History, we know, is on our side, and the practical-minded British are the last people to commit national suicide simply to spite someone. For this reason I am convinced that the right hand will prevail. But there will still be many occasions when we have to contend with the left hand, until, that is, British diplomacy is convinced that peace is the winning card.

Even allowing for all the other factors making for rapprochement with Britain, it is perhaps not too fanciful to see a connection between Rothstein's thesis and certain passages in Lenin's speech on foreign policy to the 8th All-Russian Congress of Soviets on 21 December, in which he said:

The treaty, the trade agreement with Britain is not signed yet. At this very moment Krasin is conducting urgent talks on it in London. The British government has handed us its draft, we have given our counter-draft, but it is still obvious that the British government is dragging its feet over the agreement because the reactionary war party is still hard at work there; it has had the upper hand so far and is hindering the con-

recurrent and stubborn errors in Rothstein's otherwise quite perceptive analyses of British politics, and one which he had frequently repeated in his despatches to Lenin from London.

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clusion of a trade agreement. It is in our direct interest, and it is our direct duty to give all our support to whatever can help to fortify those parties and groupings who are striving for the signature of this treaty with us.<sup>49</sup>

Lenin made his speech on the same day that Lloyd George, Bonar Law, and Horne were conferring with Krasin in an attempt to iron out the remaining points of difference in the wording of the draft agreement. Despite Lenin's conciliatory tone, Krasin was still under orders from Chicherin to resist strongly certain of the British terms in the Preamble and in the 'recognition of debts' clause in Article VIII; Krasin himself insisted on some guarantee of security against arrest (by previous creditors) of Soviet gold brought to Britain. Lloyd George conceded a little, but it was not enough; the points in dispute remained unresolved.<sup>50</sup> The Cabinet met next day, agreeing that 'at present the conclusion of an Agreement was improbable'. To satisfy the House of Commons, who had been repeatedly promised a debate on the agreement but who now would not have one until the House reassembled after the Christmas recess, Horne undertook to make a deliberately vague and anodyne statement in the Commons the next day, 23 December, the last day of the session.<sup>51</sup> After Christmas Krasin and Horne met again to wrestle over the draft, until Krasin left for Moscow on 8 January taking with him the British government's amended version. During Krasin's two-month stay in Russia, Chicherin was furiously at work putting diplomatic pressure on Britain, directly by a stream of his shrill, sarcastic telegrams to Curzon, and indirectly by negotiations with Persia, Afghanistan, and Kemalists Turkey, all areas where Britain was highly sensitive to any encroachment.

The success of Soviet diplomacy in the Middle East at the end of February 1921 was really astounding, and compels admiration. Within the space of four days – 25 to 28 February – Russia completely turned the tables on Britain in this region. On the 25th Reza Khan denounced the Anglo-Persian treaty and on the 26th Russia and Persia signed a treaty aimed specifically against British interests. The same day Chicherin started talks with Kemalists Turkey, resulting three weeks later in a Russo-Turkish pact.

<sup>49</sup> Lenin, *Sochinenia*, XLII, 97–8.

<sup>50</sup> *DBFP*, VIII, No. 102, 879–92.

<sup>51</sup> Cabinet 75(20). CAB. 23/23.

On 28 February Russia took an even more ominous step in the direction of India by signing a treaty of friendship with Afghanistan.<sup>52</sup> It was a triumph which at one stroke cut the ground from under Curzon's feet in his attempted insistence on the naming of Persia and Afghanistan as British spheres of interest in the Preamble to the Anglo-Soviet Trade Agreement. But as if this assault on Curzon's fief were not enough, the Soviets also on 28 February gave an unpleasant shock to other British interests when Lomonosov, one of Krasin's colleagues (Krasin was Commissar for Foreign Trade), placed an order in Germany for locomotives to a total value of 72 million gold rubles (approximately £7 million at 1913 parity).<sup>53</sup> More than anything else, in Krasin's opinion, the fear of German competition aroused among British industrialists by this spectacular deal caused them to put pressure on Lloyd George for the speedy conclusion of the Anglo-Soviet agreement.<sup>54</sup> On 5 March Krasin returned to London with the draft agreement altered considerably in Soviet favour – the 'no propaganda' clause was greatly watered down and the demand for Soviet recognition of Tsarist debts removed completely – and eleven days later it was signed by Krasin and Sir Robert Horne.

This Agreement, which inaugurated the rather checkered history of Anglo-Soviet diplomatic relations, has received little attention in English historiography. In the Soviet Union, on the other hand, since 1956 when the re-examination of early Soviet diplomacy was encouraged, it has received rather more comment. Its significance in Soviet diplomacy is perhaps decribed best by Maisky, who was Counsellor at the London embassy under Krasin, and later his successor as ambassador:

This diplomatic document, though modest in scope, is of truly historic significance. The Anglo-Soviet Trade Agreement was not an ordinary trade treaty with the mere object of regulating commercial operations between two countries; it was an agreement of politico-commercial character: it gave the RSFSR *de facto* recognition by the most powerful capitalist power in Europe, a power which in those days still successfully

<sup>52</sup> *Dokumenty Vneshnei Politiki SSSR*, III, No. 305, 536-44; No. 342, 597-604; No. 309, 550-3.

<sup>53</sup> *Ibid.*, No. 310, 553-4.

<sup>54</sup> L.B. Krasin, *Vneshtorg i vneshnyaya ekonomicheskaya politika sovetskogo pravitelstva* (Petrograd, 1921), 11-16.

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contended with the USA for the role of the foremost capitalist country in the world.<sup>55</sup>

Perhaps Maisky is still too much of a diplomat to point out that whilst Russia was able to show solid diplomatic and economic gain from the agreement, its results for Britain were less creditable. As Curzon and Churchill had feared, the 'no propaganda' clause was a dead letter – the Comintern saw to that; all claims for the repayment of pre-revolutionary debts, etc., to British creditors and bondholders were forfeited and they have remained unrequited to this day; the Agreement proved useless as a lever for putting pressure on the Soviets; Lloyd George's thoughtless dropping of 'the Caucasus' as an area of special British interest is thought to have been a direct cause of the Soviet decision to invade and seize Menshevik Georgia in February 1921<sup>56</sup>; Lloyd George's 'bulging cornbins' in Russia, which were to have saved Europe from dependence on high-priced North American grain, proved a mirage. And yet – which other Allied statesman showed any greater foresight or constructive enterprise in tackling the new Soviet state, its skilled diplomacy and its supra-national ideology?

<sup>55</sup> I. Maisky, 'Anglo-sovetskoe torgovoe soglashenie 1921 goda', *Voprosy Istorii*, No. 5, 1957, 76–7.

<sup>56</sup> L. Schapiro, *The Communist Party of the Soviet Union* (London, 1960), 225; J. Garamvölgyi, *Aus den Anfängen sowjetischer Aussenpolitik* (Cologne, 1967), 107.