

## **Economic Concessions for Ottoman Rumelia Railway Projects and Involvement of Foreign Capital, 1860-1936**

### **Rumeli Demiryolu Projesi İmtiyazları ve Yabancı Sermaye, 1860-1936**

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#### **Abstract**

Ottoman authorities considered a network of railways as an effective way of strengthening the sovereignty, benefitting more from trade with Western Europe and serving military purposes. Railways played a crucial role in transporting Western European manufactured goods and commercialisation of raw materials and other inland products of Central Anatolia. Also, efficient railway transportation allowed the connection of certain trade centres and ports. However, lack of capital, financial and technical abilities drove the Ottoman authorities back to foreign investors. Therefore performance of large scale, capital intense projects initiated European investors was substantial in the nineteenth century. The Rumelia railways and concession experienced political conflicts, negotiations, and financial difficulties. The concession was first awarded to a Belgian company which later passed to a German investor due to some financial problems. The Ottoman Empire lost some of its territories in Balkans and the railway company started to operate in multiple countries. This study aims to analyse the development of the Ottoman Rumelia Railway, so-called Oriental Railway, constructed by the European investors with concession provided by the Ottoman Government in the 1860s until it was bought and nationalised by the Turkish government in 1937.

**Keywords:** Ottoman railways, Rumelia railways, concession, railway concessions, oriental railway

#### **Öz**

Osmanlı Devleti demiryolu ağını hüküm sürdüğü coğrafyalarda egemenliğini devam ettirmek, Batı Avrupa ile daha kazançlı ticari faaliyet

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içinde bulunmak ve askeri amaçlarını gerçekleştirmek için etkin bir yol olarak telakki ediyordu. Demiryolları Batı Avrupa imalat sanayi ürünlerinin taşınmasında ve pazarlanmasında etkin bir rol oynadığı gibi Anadolu'nun iç bölgelerinin ürünleri ve hammaddelerinin kıyı liman bölgelerine taşınmasında da önemli bir rol oynuyordu. Ayrıca etkin bir demiryolu taşımacılığı da ticaret merkezlerinin çeşitli limanlara bağlantısını sağlıyordu. Ancak sermaye yetersizliği ve teknik kapasite zayıflığı gibi faktörlerle Osmanlı otoriteleri yabancı yatırımcıya ihtiyaç gösteriyordu. Bu sebeplerle, Osmanlı Devleti'nin 19. yüzyıldaki büyük ölçekli ve sermaye yoğun demiryolu projeleri yabancı sermayenin eliyle başlatılmıştır. Rumeli Demiryolu imtiyazları siyasi çekişmelere, müzakere, pazarlık ve finansal kayıplara sebebiyet vermiştir. İmtiyaz hakkı öncelikle Belçikalı bir şirkete verilmiş, ancak yaşanan finansal sıkıntılar sebebiyle Alman bir yatırımcıya devredilmiştir. Ayrıca Osmanlı Devleti'nin Balkanlarda toprak kayıpları yaşaması sebebiyle şirket birden farklı ülkede faaliyet göstermiştir. Bu çalışma Şark Şimendiferleri olarak isimlendirilen Rumeli Demiryolu Projesi'nin gelişimini analiz etmeyi amaçlamaktadır. Yabancı sermayedar tarafından verilen imtiyazla hattın inşaatı 1860'lı yıllarda başlatılmış ve proje 1937 yılında kamulaştırma faaliyeti kapsamında Türkiye Cumhuriyeti Hükümeti tarafından satın alınmıştır.

**Anahtar Kelimeler:** Osmanlı Demiryolları, Rumeli Demiryolları, imtiyazlar, demiryolu imtiyazları, Şark Şimendiferleri

## Introduction

Nineteenth century experienced a railway boom in the world and it reached a peak by the mid of the century. This new transport system started in the 1830s in Europe. The main railway lines in Western and Central Europe were almost completed constructed by the second half of the nineteenth century. Due to the lack of financial capacity, technology, and labour constructing and operating of railways in the Ottoman Empire were given to foreign capital holders via concessions however, there were some poor attempts of some national companies.

There were economic and political dimensions of the development of railways that provided a cheap, fast and secure way of transportation. Great Britain, in particular within the industrial revolution, necessitated markets for the products and having access to the raw materials. Therefore, British investors showed a great interest in Ottoman railway projects and some of them were contracted and operated by British initiatives that the first railway concession was granted to a British investor in 1856 to build a 211 kilometres long line between Cairo and Alexandria. The first concessions in Ottoman Anatolia in 1856 Ottoman Europe (Rumelia) in 1857 were granted again to British investors. However, these lines were relatively short and there was not an aim to connect the capital. They were rather connecting inland towns to the

port cities for having access to the agricultural products and exploiting the natural resources nearby.

European investors were seeking investment opportunities in the Ottoman Empire in the period so-called 'Railway Age' as the new mean of the transport system. The approach of the Ottoman authorities was in favour of adopting the same system in the empire and the Balkans were the first point the government aimed to connect with the capital. However, foreign involvement in the business was needed, namely in construction and operations. Rumelia Railways were the first railway concession in the entire empire as a project if earlier concessions were called short stretches. Therefore, political, military, economic and social impacts of the railway lines have always been important for the last period for the economic and political history of the empire as well as the early years of the Turkish Republic.

The paper focuses on European interest in the Ottoman market and Ottoman dependency on foreign investors in detail. Later, the proposal for obtaining concessions, agreements, and conflicts and how the lines were completed and operated is analysed. Number of studies were carried out on Ottoman railways as either articles or published books. However, using archival sources makes a unique contribution to the subject. In order to have a detailed study, Turkish archival sources are analysed not only by the concession granted but also by some other offers, negotiations, failed attempts, etc. for the European territories of the empire.

### **The European Interest and Motives for Foreign Investors on Ottoman Railways**

European capital owners considered the railway investments to be a profitable business as local authorities provided a kilometric guarantee. Investors were allowed to use European construction materials in railways especially iron and steel, transporting products in the empire with a better mean of transportation and reaching to the inland markets.<sup>1</sup>

Another factor that motivated European investors is the rate of high return. The construction boom was over in European railways and almost all lines were completed in the investor's country of origin or continuing with a low rate of return. Therefore, investment in the Ottoman Empire would have

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<sup>1</sup> "Considerable improvement has been taking place, during the past few years, in the means of transporting goods from the interior of the country to Smyrna; amongst which the most important is that of the railroad from Smyrna to Aidin, one of the richest agricultural district in Asia Minor...", Lewis Farley, *The Resources of Turkey; Considered with Special Reference to the Profitable Investment of Capital*, Longman, 1862, p. 96.

brought more return than investing in own country besides the risk. The interest of European investors could be well understood by looking to the fact for British railway construction by the mid of the century that “...*the railways reached out into the west and south-west corners of England and into the north-east of Scotland.*” By the year 1852 that only three towns were not served by a railway.<sup>2</sup> The British example shows that proposing railway projects to the Ottoman government for a concession provided a better return.<sup>3</sup> Besides the high return of railway constructions, connecting long distances and facilitating the transport of trade items must have been another reason attracted foreign investors.<sup>4</sup>

On the other hand, it is the general understanding that the Ottoman government and the Sultan himself were in favour of such investment in railways, however, the lack of technical skills and accumulated capital resulted in a dependency on the foreign investors. Besides the willingness of establishing railway networks in the empire, the Ottoman government seemed to be postponing or rejecting projects due to some economic and political pressure of investing countries towards exploiting the resources of the empire for their own economic interests.<sup>5</sup>

Foreign investors were British, French and German capital holders overwhelmingly and constructing railway lines was one of the most intense areas. The composition of foreign capital shows that despite the British

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<sup>2</sup> Phyllis Deane, *The First Industrial Revolution*, Cambridge University Press, 1979, p. 172.

<sup>3</sup> A travelogue describe railway concessions in general as “*At first the Government conceded what were then known as “the Ottoman Railways” to a contractor to whom it paid for the work by means of obligations, known by the term Lots turcs, which constituted a direct debt of the Treasury. Later, concessions to private companies were in some instances has recourse to, which implied the granting of kilomeric guarantees, given for the most part in the form of titles made over to the concessionaries, thus assuring them a fixed revenue...*”, Lucy M. Garnett, *Turkey of the Ottomans*, Charles Scribner’s Sons, New York, 1911, p. 84.

<sup>4</sup> Lord Palmerston, when he was the prime minister, opposed the Suez Canal project and in favour of having railway connection to India via Constantinople and then Asia Minor and the Persian Gulf. For a detailed assessment see Kurt Grunwald, *A Study of Baron Maurice de Hirsch, Entrepreneur and Philanthropist*, Israel Program for Scientific Translations, 1966, p. 29.

Moreover, Farley mentioned the significance of constructing railways in the soil of the Ottoman land as “...*railway...an impetus to trade, to an invaluable extent, will certainly be the result throughout this part of Asia Minor; and, the effect will be of equally incalculable advantage to British industry in every way.*”, L. Farley, *The Resources of Turkey*, p. 120.

<sup>5</sup> For a detailed assesment on European countries, investors and economic exploitations, Ottoman reactions and hesitations see Edward Mead Earle, *Turkey, The Great Powers, and The Bagdad Railway*, The Macmillan Company, New York, 1924.

hegemony in the early period of Ottoman railway investment, France and Germany entered into a rivalry with Great Britain.<sup>6</sup>

The first concession was given to a British firm to build and operate the Cairo-Alexandria line in 1856.<sup>7</sup> However, after the first concession, applications for obtaining concessions increased unprecedentedly not only railway constructions but also in various sectors such as banking, commerce, mining, and other mean of transportation.

Archival sources provide evidence that after the Crimean War applications for obtaining grants to build certain rail routes increased. Landau (1971) explained this increase as

“...In 1854 an edict of the Sultan recognised the beneficial effects of railways; two years later the first railway concessions were granted to British companies.”<sup>8</sup>

It became significant for the Ottoman authorities that the new mean of transportation was crucial for trade and economic development as well as the military success of the empire. Therefore, the government started to allow the execution of railway construction by European investors.

The other reason for the increase in the application should be the effect of the Anglo-Ottoman Commercial Convention of 1838 which granted privileges to the British merchants operating in Ottoman territories, sending foreign final goods to the Ottoman market and obtaining raw materials in return. Hence, railway transportation aimed to increase the commercial capacity<sup>9</sup> of the investing country.

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<sup>6</sup> However, after the 1870s, a decline observed in British investment in the Ottoman Empire and German started to be more influential later. For a detailed assessment see Şevket Pamuk, *Ottoman Empire and World Capitalism, 1820-1914*, Cambridge University Press, 1987, p. 15.

<sup>7</sup> Vahdettin Engin, *Rumeli Demiryolları*, Eren Yayıncılık, İstanbul 1993, p. 37.

<sup>8</sup> Jacob M. Landau, *The Hejaz Railway and the Muslim Pilgrimage, A Case of Ottoman Political Propaganda*, Wayne State University Press, Detroit, 1971, pp. 7-8.

<sup>9</sup> “For many reasons the larger share of the trade of Konia is in the hands of Germany, and unless English merchants bestir themselves the balance is likely to be increasingly in her favour wherever the railway goes. Her interest in the line gives her of course a special advantage, which is increased by the willingness of her traders to study the conditions of the market, and to make special efforts to create and meet the demand for their goods. They find it profitable to employ commercial agents at a higher rate of pay the English houses are willing to give...”, “...Manchester goods may be depended upon to make their way wherever the requisite facilities for transport are provided...” Earl Percy, *Highland of Asiatic Turkey*, Edward Arnold, London, 1901, p. 35.

On the other hand, the input needed for railway construction was provided from the country which the concession was granted. This was a way of finding a new market for European raw materials mainly steel and iron.

### **The Attitude of the Ottoman Empire to the Foreign Capital and Investors**

European capital mainly came from major European investors namely Great Britain, France, Germany, and Belgium to some certain sectors such as transportation-railways, ports, highways, banking, mining, and commerce. Pamuk (1987) analysed that the volume of investment in railways increased over years comparing other sectors and also it was the only sector that kept the biggest amount of investment in the entire empire among other areas and industries.<sup>10</sup>

An analysis made for the European foreign investment and sectors in the Ottoman Empire shows that almost half of the foreign capital invested in railways which disclose the importance of the sector. For the year 1890, the capital invested for railways was 41% while it was 23% for banking and for the year 1914 the share of railways increased to 63% while banking dropped to 12%. The other sectors such as commerce, industry, mining, insurance, and ports were negligible low levels.<sup>11</sup>

Ottoman Sultans, initially Sultan Abdülaziz, and western-oriented state officials were also in favour of foreign investment in railway concessions to have a transportation system similar to what they experienced in Europe. The period was called “Railway age” and European companies were seeking investment opportunities in the Ottoman Empire and despite the will, due to lack of sufficient requirement, the sector was left almost entirely to foreign investors.

### **Importance of Railways in European Turkey (Balkans)**

European investors interested in the economic outcome of the projects and seek to construct rail lines in densely populated zones which provided a high level of agricultural production. On the contrary, the Ottoman government aimed to use railways not only for commercial but also military and political purposes.

The Rumelia Railway Project caused high financial losses to the Ottoman Empire and therefore further concessions were either not provided to the

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<sup>10</sup> Ş. Pamuk, *Ottoman Empire and World Capitalism*, p. 64-65.

<sup>11</sup> Ş. Pamuk, *Ottoman Empire and World Capitalism*, p. 65-66.

foreign investors or the decision of granting took a long time. Certain lines to a certain financier took a long decision process of the government officials or rail projects were simply attempted to be carried out as state initiatives.

On the other hand, in 1875 the Ottoman government declared a moratorium on its debt payments and this must have a negative effect on the project and yet in 1881, the Ottoman Public Debt Administration was founded in order to collect revenues from the empire for the payments of the European creditors. This must be a relaxing effect to the foreign creditors for railways and other industrial projects. Indeed, archival documents support the idea that after establishing the Ottoman Public Debt Administration, competition increased among foreign investors for obtaining investment opportunities for railways and other industrial projects.

Reasons for constructing railways via foreign investors for the Ottoman government need a deep analysis that the government was in favour of the foreign capital in railway investments as it wanted to use railways for military purposes in the time of both peace and war by connecting inland centres to the main provinces and ports. By this way, the products of inland centres could be commercialised in domestic but also in international markets. Besides, the cost of transportation should be taken into consideration that railways aimed to be cheaper and faster mean of transportation.

The military defence was always very important for the Ottoman authorities; however, the nineteenth century was particularly a conflict period within interior regional conflicts and external attacks and wars. Therefore, railways played a significant role for non-economic reasons initially and the motivation of the authorities was military, namely the empire's military control, defence for mobilising troops beside the economic benefits.

However, Ottoman Europe was a very fragile region with the unrest of Balkan states subjected to the empire. On the other hand, Russian interference and political dissidence in Serbia and Bulgaria, Austrian provocation and occupation of Bosnia Herzegovina and Macedonian question etc. made the Ottoman government have easy and immediate control over the region. Therefore, railway construction in Rumelia played a major significance.<sup>12</sup>

Ottoman authorities, namely the Porte and the Sultan, were considering the European economic penetration as a danger to the empire's political and military power and therefore concerned for the proposal of every railway concession. However, technological backwardness, lack of capital and

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<sup>12</sup> For a detailed assessment see Stanford J. Shaw, Ezel Kural Shaw, *History of the Ottoman Empire and Modern Turkey*, Volume II, Cambridge University Press, 1977, pp. 146-167.

economic inefficiency made the Ottoman government granting concessions. Therefore, western technology and capital were inevitable for the Ottoman Empire, industrial changes and improvements.

For considering the Ottoman railways, transport policy of Tanzimat should be well evaluated. Ottoman economic and military decline effected trade and transportation as well. It is a well-known fact that Ottoman transportation was weak and the nineteenth century Ottoman bureaucrats and sultans were aware of the need for rehabilitation of the transport system and constructing railways. Poor economic conditions, low level of trade and return for the government must have been considered as real economic problems. Connecting cities via rail lines and having a high speed of construction like the European countries must have seen the way to overcome those problems.

Foreign influence was already existing in the Ottoman bureaucracy relations and economy. However, the Anglo-Ottoman Commercial Convention in 1838 increased this foreign influence in the Ottoman economy as well as domestic and international trade of the empire.

The other advantage for foreign investors was the monopoly power to operate in certain railway projects which mean that when a concession was given to a firm or capital holder they were given the monopoly right to operate for a certain concession period on the rail lines they built. The government guaranteed them the right to obtain profit for each constructed kilometre. This was called a 'kilometric guarantee' which increased revenues and therefore profits of the owners of certain railway projects.

### **Proposals for Granting Concession for the Rumelia Railway Project**

The railway projects in different regions of the Ottoman Empire are closely connected to the first foreign borrowing and the Crimean War as it was the first political and economic cooperation of Great Britain and France with the Ottoman Empire against Russia as its alliance. Western financiers' earlier attempts for providing loans were refused.<sup>13</sup> However, during the war, the empire went to the first external borrowing for financing the war and started negotiations of granting concessions. Therefore, granting concessions for railways is a post-Crimean expansion of western investors in the Ottoman Empire.

The Crimean War initiated a political rapprochement with Great Britain and it was known that after the war the Ottoman government initiated a

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<sup>13</sup> For a detailed assessment see F. S. Rodkey. "Ottoman Concern about Western Economic Penetration in the Levant, 1849-1856", *The Journal of Modern History*, Vol. 30, No. 4 (Dec., 1958), pp. 348-353.

call for European investors. There were some British investors who showed interest in constructing railways in the Danube, the Black Sea and some other parts in Rumelia with some commercial advantages as well as political, military and financial benefits to the Ottoman Empire. Above mentioned attempts by the British investors could not be implemented due to the ongoing war, being disagreeing on the possible return of investment or the rail line and the financial panic of the 1870s.

These proposed railway projects are various.<sup>14</sup> The first one offered by a British investor, Thomas Wilson for constructing a canal across the Dobrogea. However, the railway was only a possibility if the canal project could not be implemented. The other one was offered by few Ottoman military officers to have a railway line from Varna to Ruse. This line was for military purpose but negotiations could not be finalised. Austin Layard offered to connect Istanbul to Edirne as a different foreign constructor and the government reached an agreement for the “Istanbul-Edirne- Rustchuk-Inoz Railway Line”.<sup>15</sup> The plan collapsed due to the financial crisis in 1857 and this crisis resulted in a decline in the investment capacity of Western businesses.

Having a canal project was not limited to the above mentioned attempt that in 1855 there was another offer by two British engineers for railway constructions, having a canal between Danube and Kyustendil-(Kostendil).<sup>16</sup>

### **Chernovoda-Constantza (The Danube-Black Sea) Railway Line**

Foreign investors were seeking to have a kilometric guarantee which was mainly eliminating risk, guarantying and maximising the profit. The empire had to accept this in order to encourage investors. However, the first concession in Rumelia was an exception and Morawitz (1979) wrote that asking no kilometric guarantee surprised Western investors and governments.<sup>17</sup> According to the publication of “İmtiyazat ve Mukavelat”, the contract for the “Devlet-i Aliyye Karadeniz ve Tuna Demiryol Kumpanyası (Ottoman Black Sea and Danube Railway Company)” line was signed in 1857 for 60 kilometres between Chernovoda and Constantza, connecting the Danube to the Black Sea, granted to British M. J. Trevar Barkley for 99 years.<sup>18</sup> At the end of the agreed period

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<sup>14</sup> Foreign Office Papers (FO), 195/460, 1854-1856.

<sup>15</sup> Başbakanlık Osmanlı Arşivi (BOA), Hariciye Nezareti, Belgrad Sefareti (HR.SFS..3...), 32/20, 11.02.1298.

<sup>16</sup> BOA, Sadaret Defterleri, Amedi Kalemi (A.AMD.), 54/8, 08 C 1271.

<sup>17</sup> Charles Morawitz, *Türkiye Maliyesi*, Maliye Bakanlığı Tetkik Kurulu Yayını, No: 1978-188, Damga Matbaası, 1979, p. 306-307.

<sup>18</sup> “*The Danube and Black Sea Railway, from Kustenjeh on the Black Sea to Chernavoda on the Danube, about 40 miles, cutting off a great portion of the lower river. It has been constructed by an*

the railway line was transferred to the Ottoman government without any extra payment, however, the construction completed in 1860, due to territorial loss of the Ottoman Empire the line remained in Rumania.<sup>19</sup>

### Rustchuk-Varna Railway Line

After the Danube-Black Sea rail project, another railway concession, a cargo line project, in the same region was a concession for 99 years granted to British investors<sup>20</sup> as well from Rustchuk to Varna. Cameron (1961) interestingly described that line as an international enterprise in which French engineers worked with British contractors by using Belgian materials and capital which was provided by all of these countries including the Netherlands.<sup>21</sup> The contract for establishing a railway company was signed in 1859 and the name was “Rusjuk and Varna Railway Company”.<sup>22</sup> The company was unsuccessful in making the initial payment to the government and was informed about the situation.<sup>23</sup> The line was open in 1866 however; this project was transferred to the European Turkey Railway Company founded by Austrian Banker Baron de Hirsch in 1873 and finally the rail line passed to Bulgarian authorities in 1888 according to article 10 of the Berlin Treaty, similar to the previous line.<sup>24</sup>

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*English company, to provide for the corn trade and the through traffic. It is in rather a rough state, and the harbour of Kustenjeh is unfinished.”, Handbook for Travellers in Turkey in Asia Including Constantinople, Revised Forth Edition, John Murray, London, 1878, p. 6.*

<sup>19</sup> BOA, Sadaret Defterleri , Mukavelename ve Mukavelat Defterleri (A. DVN. MKL.), 1/7, 12.01.1274, Hariciye Nezareti, İstişare Odası (HR.HMŞ.İŞO.), 159/32, 05.09.1298, İmtiyazat ve Mukavelat, Volume I, III, Matbaai Osmaniye, İstanbul, 1302-1315, p. 39-47; C. Morawitz, *Türkiye Maliyesi*, p. 306-307.

<sup>20</sup> “*The Varna and Roustchouk Railway cuts off the Danube higher up at the foot of the Balkans, and is 140 m. long. It belongs to an English company, was begun in 1863, and was opened in 1866.*”, *Handbook for Travellers in Turkey*, p. 6.

<sup>21</sup> R.E., Cameron, *France and the Economic Development of Europe, 1800-1914: Conquests of Peace and Seeds of War*, Princeton University Press, 1961, p. 321.

However a travelogue mentions that Russian were interested and involved in construction. “When first the Russians entered Rustchuk, they determined to work the Varna and Rustchuk Railway themselves, and had a lot of waggons sent over for that purpose, besides having locomotives ready for it in Wallachia...” Henry C. Barkley, *A Ride Through Asia Minor and Armenia*, John Murray, London, 1891, p. 15.

<sup>22</sup> İmtiyazat ve Mukavelat, Volume I, p. 102-106, BOA, İrade Meclis-i Mahsus (İ.MMS.), 14/578, 24.05.1275.

<sup>23</sup> BOA, Sadaret Defterleri, Nezaret ve Devair Evrakı (A.MKT.NZD..) 349/32, 12.10.1277.

<sup>24</sup> BOA, Hariciye Nezareti, Sofya Sefareti (HR.SFR.04.), 318/33, 31.08.1884, C. Morawitz, *Türkiye Maliyesi*, p. 307-308.

### **Oriental Railway (Şark Şimendiferleri) Line**

Ottoman Empire signed three contracts for the European railway project before it was granted to the final investor. The first one was granted to a British investor in 1857 for constructing a line from Istanbul to Balkans via a concession for 99 years. The project failed due to the lack of initial capital of the contractor. The second concession was granted to another British investor in 1860 however, that project was terminated as well due to acting contrary to the contract provision. The third Rumelia project was granted to Belgian investors in 1868 via a concession for 99 years. However, the investors transferred all construction and operation rights due to being unable to complete the construction of the railway line, this transfer was not accepted by the Ottoman government and project was terminated.<sup>25</sup>

The biggest railway network project in European Ottoman territories could not be materialised until 1869. Therefore, the Ottoman government-appointed Davud Pasha, the ministry of public work, for seeking an investor for taking the responsibility of constructing a railway line in Rumelia.<sup>26</sup>

Ultimately, the project was granted to Baron de Hirsch to construct and operate a rail line of 2000 kilometres with a kilometric guarantee annually provided by the Ottoman government in 1869.<sup>27</sup> The concessionaire obtained the right to operate in state-owned mining, quarrying, and forests within a certain distance on both sides of the railway lines.<sup>28</sup>

The agreement for the Rumelia Railway Project had some changes due to some disagreement in the council of ministers of the Ottoman Empire. Therefore, some articles of the contract were modified after Davud Pasha negotiated them with Baron de Hirsch. However, a number of scholars criticised the Pasha for being inactive in negotiations and although he was sent to Europe again for changing the conditions of the contract and loosening the financial burden of the empire, there was either no change or not towards the best interests of the empire.

Engin (1993) argues that changes in the contract were about the length and locations of the proposed railway lines and all the possible burden and payment on confiscations were left to the Ottoman Government to be solved. Especially annual payment of 14000 franks as a kilometric guarantee for 99 years was found to be very heavy as the financial capacity of the empire was not sufficient for such payment. He also argues that the lack of an alternative of the empire for railway concession made the government accept such a heavy

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<sup>25</sup> İmtiyazat ve Mukavelat, Volume I, p. 23-30, 151-155, 424-435, Volume III, p. 1510.

<sup>26</sup> BOA, İradeler, Dosya Usulü İrade Tasnifi (İ.DUİT), 68/2-1, 3.

<sup>27</sup> İmtiyazat ve Mukavelat, Volume III, p. 1514-1525.

<sup>28</sup> İmtiyazat ve Mukavelat, Volume III, Article 10, p. 1514-1525.

contract.<sup>29</sup> On the other hand, Baron de Hirsh must have been bribed Davud Pasha and senior government officials and therefore the contract accepted with a high financial burden. It is estimated that dignitaries had their personal interest at the forefront while signing the railway contracts and granting concessions.

After the concession was granted in 1869, Baron de Hirsch established two companies in 1870 in Paris; “Societe Imperiale des Chemins de Fer de la Turquie d’Europe” and “Compagnie Generale d’Exploitation des Chemins de Fer de la Turquie d’Europe”. Construction works started in the same year and the first line was decided to be the 15 kilometers long “Yedikule-Küçükçekmece Line”.<sup>30</sup> The other lines such as Istanbul-Edirne Line<sup>31</sup> and Filibe-Burgaz Line. Another line from Sarimbya to Novi through the lines from Sofya to Niş, from Salonika to Skopje, Mitroviçe, Perelud, Sarajevo, Banaluka and aim to end at Novi was approved.<sup>32</sup>

The Rumelia Railway Project had some changes in 1872 and Engin (1993) explained the reason for this change as follows; the Company of Baron de Hirsch constructed the low-cost parts of the line that he had high profit than anticipated initially. However, he estimated rather a high cost for complicated parts and therefore he found a smart solution for these costly parts of the construction and he declared his decision to the Ottoman Government to transfer the rights to another company.<sup>33</sup> He became only the construction company and benefitted from this new arrangement. Baron de Hirsch made a new contract with the Ottoman government and the government disentitled all the concessions rights granted to Hirsch. Other significant changes in the project are as follow;<sup>34</sup> the company transferred all the right however, it accepted to fulfill the commitment to complete the lines in 20 months that of İstanbul-Edirne, Edirne-Dedeğaç, Salonika-Mitrovice, Edirne-Sarimbey, Harmanlı-Yanbolu, and Banaluka Austrian border. The company renounced the income of a kilometeric guarantee of 8000 francs annually due to the termination of the concession. The length of the railway line constructed by the concession company was reduced from 2000 kilometres to 1250 kilometres. Earlier rights of the concessionaire to operate in state-owned mining, quarrying, and forests within a certain distance of the railway lines were all cancelled.

After the agreement with the construction company, the Ottoman government carried out a program to take serious control over the construction

<sup>29</sup> V. Engin, *Rumeli Demiryolları*, p. 57-58.

<sup>30</sup> BOA, *İrade Dahiliye (İ.DH.)*, 42815.

<sup>31</sup> BOA, *İ.DH.*, 43331.

<sup>32</sup> BOA, *İ.DUİT*, 136/18, 16.07.1287.

<sup>33</sup> V. Engin, *Rumeli Demiryolları*, p. 79-80.

<sup>34</sup> *İmtiyazat ve Mukavelat*, Volume III, p. 1514-1525.

of the rail line of 1215 kilometres. Taking into consideration earlier experiences with concessions granted to private and foreign contractors precisely, the government decided to take control over the construction. The situation was first taken to the council of ministers and was decided to do a feasibility study for cost estimation per kilometre.<sup>35</sup>

The total railway line increased to 1300 kilometres due to the Austrian enforcement as the Ottoman government accepted this in order to connect both sides of the railway lines to each other. On the other hand, the government started to consider the railway project on the mainland of the country which later called the 'Anatolian Railway Project'. Taking into consideration the damage caused by the foreign railway constructors, the necessity as well as the cost of construction of Rumelia and Anatolian railways, the government decided to go on a new foreign borrowing instead of issuing concessions to private firms.<sup>36</sup>

After making the final decision over the railway construction, the government hired a French engineer for better coordination and covering the lack of knowledge and experience at home. However, the general coordinator of the project was left to a local expert, Mirliva Hafız Pasha.<sup>37</sup> The railway line projects were prepared and approved but according to the last contract they had to be approved by the firm of Baron de Hirsch which was located in Paris and the distance was an obstacle which was thought to be intentional. If the line was not completed within the agreed period, Baron de Hirsch could have the right to claim compensation from the Ottoman government. Another issue was about the amount that Baron de Hirsch was subjected to make a payment of 8000 Francs per kilometres when different lines were connected to each other. Therefore, the delay was thought to be serving in the best interest of the company.<sup>38</sup>

Some lines on the projects such as Sirkeci-Yedikule Line, Küçükçekmece-Çatalca Line,<sup>39</sup> Edirne-Dedeğaç Line and Banaluka-Novı Line<sup>40</sup> were completed in 1872. However, the company failed to comply with the contract and therefore it was requested to compensate wrongdoings in the construction. Also, a commission was established to control the construction in different lines.<sup>41</sup>

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<sup>35</sup> BOA, İ.MMS., 1859, lef 1.

<sup>36</sup> BOA, İ.MMS., 1859, lef 1.

<sup>37</sup> BOA, İ.DH., 45720.

<sup>38</sup> V. Engin, *Rumeli Demiryolları*, p. 106-107.

<sup>39</sup> BOA, DUIT, 68/2-1, 3.

<sup>40</sup> BOA, Yıldız Esas Evrakı, (Y.EE.), 18-255/271.

<sup>41</sup> BOA, İ.DH., 46250/1.

The railway lines under the responsibility of the Ottoman government could not be completed due to financial insufficiencies and blocking actions of the construction company. The Ottoman treasury decided to create funds via foreign borrowing for the expenditures and construction of railways. Therefore, an agreement was signed between the Ottoman Bank and Credit General Ottoman in 1873 for the amount of 50.000.000 Liras of foreign borrowing.<sup>42</sup> This contract was terminated due to the financial panic of 1873.<sup>43</sup>

There were some offers to the Ottoman government when it was probably understood that the government's financial failures and not being capable of finishing the railway line by the year 1875. Interestingly, Baron de Hirsch brought an offer to the government to connect some railway lines in the Balkan cities. Despite the conflict with the Ottoman government Baron de Hirsch aimed to have more concessions from the empire. A wealthier banker, Agop Azaryan, proposed to build a line from Sofia to Bellova however, this proposal was also not considered seriously.

In addition to lack of capacity, economic depression and financial burdens, the uprising in Balkans made the Ottoman authorities focusing on repressing the uprising and securing the region. Therefore, railway constructions were not under consideration of the Ottoman government for a certain period.

There was a new period which could be named as "the period of conflict" between the Ottoman government and Baron de Hirsch after the construction. Hirsch wanted to transfer some railway lines to the Ottoman government according to the agreement of 1872. However, due to the low quality of the constructed railway lines and some structural deficiencies, the Ottoman government wanted to set up a commission and perform a decision accordingly. On the other hand, Baron de Hirsch set up another commission 1874 and these two commissions present almost opposite reports that while one side reported the lines to be in a bad condition and incomplete, the other report presented that the lines were constructed based on the agreement that Ottoman authorities approved with high quality. At a final stage, an independent commission was set up but a result could not be obtained due to the uprising of Balkan nations.

There were two important unexpected developments supervene upon the Russo-Turkish War of 1877-1878 that the railway construction company wanted to operate in Austria and requested permission from the Ottoman

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<sup>42</sup> BOA, İMMS., 1937/1.

<sup>43</sup> The economic recession triggered "the Panic of 1873" and the Austrian capital city showed the first symptoms of the panic. Vienna's stock market crashed and the Ottoman government bones lost value and the foreign borrowing became impossible and therefore the contract was terminated.

government. This request was discussed by the council of ministers and accepted.<sup>44</sup> Engin (1993) claims however that, there was not much of a difference for the Ottoman Empire having the company operating in Austria. Bulgaria could have been a better place and beneficial for the Ottoman Empire in controlling railway lines and Russian influence and political intervention over Bulgaria.<sup>45</sup> Nevertheless, as a result of the decision of the Ottoman government, Baron de Hirsch transferred his operations and directors of the company to Vienna from Paris in 1878.

The other development was about the decision on the position over the railway lines in Balkans in the Berlin Congress. According to the agreement, the Rustchuk-Varna Railway Line was left to the Bulgarian government. However, the Ottoman Empire reserved the rights over the railway lines in the provinces in Eastern Rumelia. Moreover, the position and uniting of Balkan railway lines were left to the decision of Ottoman, Austrian, Serbian, and Bulgarian governments.<sup>46</sup> After the congress, the Austrian government was willing to have the lines constructed and linked immediately, however, on the Ottoman side railway construction was suspended due to political, military and financial instabilities and a decision on this issue could only be taken after establishing the “Ottoman Public Debt Administration” in 1881.<sup>47</sup> The delegates of the four countries came to an agreement in 1883 and every country committed to construct railway lines in their own territories which means a line from Budapest to Belgrade by Austria, a line from Bellova to the Bulgarian border via Sofia, Salonika-Mitrovitza Line by the Ottoman Empire, a line from Belgrade to Nis and a line from Nish to the Bulgarian border by Serbia, and a line from Nish to Pirot, from Pirot to the Ottoman border via Sofia by Bulgaria.<sup>48</sup>

After the agreement, the Ottoman government granted a concession to a construction company founded by the Imperial Ottoman Bank together with Paribas, the Societe Generale, Bleichroder, the Frankfurt private banking house of Bethmann and the Comptoir National d'Escompte de Paris, with a nominal capital of 30 million Francs. The government guaranteed 175.000 Francs per kilometres to the company. The Serbian government completed the line from Nish to Vranje in 1886 and that means the line was ready to meet the Turkish

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<sup>44</sup> BOA, İ.MMS., 2711, 50/2166, 29.08.1291.

<sup>45</sup> V. Engin, Rumeli Demiryolları, p. 181.

<sup>46</sup> BOA, HR.HMŞ.İŞO., 170/10, 13, S 1304, Muahedat Mecmuası, Volume V, Hakikat Matbaası, 1297-1307 (1880-1890), p. 110-141.

<sup>47</sup> D. C. Blaisdell, *Osmanlı İmparatorluğu'nda Avrupa Mali Denetimi "Duyunu Umumiyeye, Doğu-Batı Yayınları, İstanbul, 1979, p. 86-102.*

<sup>48</sup> BOA, İ.DH., 70440/18288.

network of the Skopjo- Vronje Line. The company finished the construction in 1888 in two sections of 131 kilometres in total length.<sup>49</sup>

Railway construction in Ottoman Europe had been a constant source of conflict with Baron de Hirsch and the Ottoman authorities and negotiation took more than a decade. In 1887, grand vizier Kamil Pasha passed the message of the Sultan and his desire to see Baron de Hirsch in Istanbul urgently.<sup>50</sup> Interestingly, there was an offer by the agent of Baron de Hirsch to the Ottoman government for ending the conflict.<sup>51</sup> The Ottoman government decided to appoint an arbitrator for the conflict despite some offers of Hirsch in different times.<sup>52</sup> Ultimately, a committee of an arbitrator, two for both sides, was established and a famous German jurist Gneist was appointed<sup>53</sup> to the task. Gneist obliged Baron de Hirsch to pay 23 million Francs.<sup>54</sup> Nevertheless, within the decision of the committee, Baron de Hirsch sold the company to a group led by the Deutsch Bank and the Wiener Bankverein (Georg von Siemens and Moritz Bauer) with 188.00 shares of the company in 1890.<sup>55</sup> This agreement ended the era of Baron de Hirsch in the Ottoman railways business.

Grunwald (1966) claims that Baron de Hirsch's entrusted tasks for constructing the railway lines were completed in 1875 with 1179 kilometres but, the lines that the Ottoman government was subjected to construct were not completed.<sup>56</sup> However, the Ottoman archival documents represent the opposite that the rail lines in the plain were constructed with low quality, the lines in the mountains were left unfinished.<sup>57</sup>

While there was a concern on the quality and cost of the railways to the Ottoman Empire, Morawitz (1979) claims that Baron de Hirsch had a considerable amount of wealth however, it should not be exaggerated since his task required hard work and he achieved an important public project with high risk.<sup>58</sup> On the contrary, Engin (1993) asserts that the profit should not be underestimated and the cost to the empire was at an unprecedented amount.<sup>59</sup>

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<sup>49</sup> İmtiyazat ve Mukavelat, Volume III, p. 1849-1853; G.D. Feldman, P. Hertner, *Finance and Modernization; A Transnational and Transcontinental Perspective for the Nineteen and Twentieth Centuries*, Ashgate Publishing, 2008, p. 36.

<sup>50</sup> BOA, Hariciye Nezareti, İdari (HR.İD.), 2009/90, 18.11.1887.

<sup>51</sup> BOA, Başkitabet Dairesi Maruzatı (Y.PRK.BŞK.), 13/61, 24 Z 1305.

<sup>52</sup> BOA, İ, MMS, 4099.

<sup>53</sup> BOA, İrade Hariciye (İ.HR.), 313/19974, 13.05.1306.

<sup>54</sup> K. Grunwald, *A Study of Baron Maurice de Hirsch*, p. 58-59.

<sup>55</sup> K. Grunwald, *A Study of Baron Maurice de Hirsch*, p. 61.

<sup>56</sup> K. Grunwald, *A Study of Baron Maurice de Hirsch*, p. 41.

<sup>57</sup> V. Engin, *Rumeli Demiryolları*, p. 177.

<sup>58</sup> C. Morawitz, *Türkiye Maliyesi*, p. 314.

<sup>59</sup> V. Engin, *Rumeli Demiryolları*, p. 89, 90, 99, 123.

However, Grunwald (1966) argues that the profit of Baron de Hirsch was must be substantially high but hardly earned.<sup>60</sup>

After solving the conflict with Baron de Hirsch, the Ottoman government accelerated the railway project in Rumelia again by granting concessions to the private investors. Salonika-Istanbul and Salonika Monastır were the two lines given importance for connecting the capital to Rumelia and moving troops from Istanbul to Salonika when needed.

The concession for the Istanbul-Salonika Line was granted to a French banker Rene Baudoay residing in Istanbul with a concession of 510 kilometres for 99 years in 1892. The Salonika-Constantinople Junction Railway Company (Societe du Chemin de Fer Ottoman Jonction Salonique-Constontiple) was established as an Ottoman joint stock company.<sup>61</sup> The construction was completed in 1896 and started its operations, however due to the competition with sea transportation the line did not yield much revenue and therefore the government needed to pay the amount of 6 million Francs annually as kilometre guarantee.<sup>62</sup>

The concession for the Salonika-Monastır line was granted to Alfred Kaulla, the director of Württembergische Vereins Bank and the intermediary of the Deutsche Bank of 219 kilometres for 99 years in 1891.<sup>63</sup> The construction of the “Salonika-Monastır Ottoman Railway Company” was completed in 1894 and started its operations under the Oriental Railway Company. The Ottoman government guaranteed gross revenue of 14,300 francs per kilometre.<sup>64</sup>

Oriental Railway Company moved its headquarter to Istanbul in 1910 and operated in railway business under the control of German and Austro-Hungarian shareholders during the Balkan Wars and the First World War. Interestingly, the original oriental rail line was aimed to be 2000 kilometres when it was granted to Baron de Hirsch in 1868 and by the end of the second Balkan War only 466 kilometres long line left for the empire. The Ottoman Empire continued losing control in the Balkans and left some of the networks to Romania and Bulgaria, Greece and Serbia.<sup>65</sup>

After the establishment of the Turkish Republic, operations of foreign companies within concession were aimed to be limited and the government made some acquisitions. There were some discussions on the parliament about

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<sup>60</sup> K. Grunwald, *A Study of Baron Maurice de Hirsch*, p. 60.

<sup>61</sup> BOA, A.DVN.MKL., 34/14, 06.12.1310.

<sup>62</sup> V. Engin, *Rumeli Demiryolları*, p. 207.

<sup>63</sup> BOA, A.DVN.MKL., 82/24, 01.03.1309.

<sup>64</sup> C. Morawitz, *Türkiye Maliyesi*, p. 318.

<sup>65</sup> G.D. Feldman, P. Hertner, *Finance and Modernization*, p. 28.

the acquisition of the railway company.<sup>66</sup> The railway company was bought by the Turkish government under the nationalisation (147-51-4, 30.07.1932) and it became operational by the state by the beginning of 1937.<sup>67</sup>

### Conclusion

Various sources show that Ottoman authorities tried to adopt European technology into different areas of the economy by granting a concession to private and foreign investors. Railway projects were among these areas where foreign investors were interested and intensely operating. The Ottoman government granted concessions by taking chances of possible disadvantages for the country. Possible economic and political obstacles for the country were taken into consideration initially. However, some unsuccessful attempts, failures in carrying out the construction, loss of money caused by concession owners were actual outcomes of these decisions and operations.<sup>68</sup>

Railways projects marked the last period of the Ottoman Era with giant projects such as Anatolian, Rumelia, Bagdad and Hejaz Railways. The railway projects were initiated almost completely by the European investors via concessions, however, ended by the modest attempts of the state due to some conflicts, delay in construction, financial difficulties, etc. While the interest of foreign investors was economic, the Ottoman Sultan and the government carried out some military and political aims predominantly in order to control certain regions of the empire and move troops from a region to another faster. However, economic benefits such as increasing trade, carrying the agricultural products of inland regions to the port cities via railway networks and make the production more for the trade than subsistence.

The construction of railways was an important issue for the Ottoman Sultan Abdülaziz's transport policy. Therefore, the Sultan gave priority to the construction of railway lines connecting commercial centres and ports with the inland regions. Sultan himself was closely involved with the construction of Rumelia Railways which he believed railway line itself was to an effective way of integration with Europe. However, the financial capacity of the empire was not sufficient to finance railways; he sent one of his ministers, Davud Pasha, to some European countries to find financial support for the construction.

After long negotiations, the concession of constructing the Rumelia Railways was granted to a banker, Baron de Hirsch, in 1868 with an agreement on the 2000-kilometre railway line and the right of 99 years of operation. The

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<sup>66</sup> Başbakanlık Cumhuriyet Arşivi (BCA), 20-117-19, 18.12.1927.

<sup>67</sup> BCA, 152-76-32, 05.01.1937.

<sup>68</sup> BOA, Dahiliye Nezareti, İdare (DH.İD.), 41/16, 1326 Ra 26.

empire provided a kilometric guarantee annually to 2200 Francs per kilometre. However, the empire went on borrowing for financing the kilometric guarantee; the railway construction was not completed and stopped in 1871. In 1872, the construction length was reduced to 1250 kilometres, but the construction of the line failed and the Ottoman Empire could take neither military nor economic advantage of this railway line.

Morawitz (1979) argues that the Ottoman economy did not benefit much from construing and operating railways on the European lands due to the low population density and transportation. The amount of goods carried by the rail system was not at a significant rate.<sup>69</sup> However, the Anatolian part of the empire benefitted from railways and remote lands were opened as new agricultural fields. İzmir-Aydın and İzmir-Kasaba lines are the best examples of this change that agricultural production from inland part of the region could be carried to the port of İzmir via railways, namely, production for market increased with the railway transportation. This increase in production increased state revenues accordingly.

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<sup>69</sup> C. Morawitz, *Türkiye Maliyesi*, p. 305-306.

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