

Searching for oil in Roubaix

Joost Jonker and Jan Luiten van Zanden find a rich seam in the archives of de Rothschild frères for the history of Royal Dutch Shell and the global oil industry

Baku with a forest of oil derricks in the distance, taken from the brochure *Kraftübertragungsanlage der Apscheroner Elektrizitätsgesellschaft Baku* (c.1903). De Rothschild frères was the biggest shareholder in this electricity generating company in Baku; Henri de Rothschild (1872–1947) was another big investor. Archives nationales du monde du travail, 132 AQ 301.



When we embarked on the Shell History Project in 2002, we envisaged with some delight the exotic locations we would have to visit for the first volume alone: Indonesia, of course, Singapore, Egypt, Romania, Russia, Mexico, Venezuela, Los Angeles, San Francisco, St Louis ...¹ Little did we know that we would do some of our most fruitful archival work exploring the archives of the Paris firm of de Rothschild frères deposited at the Archives nationales du monde du travail (formerly the Centre des archives du monde du travail) in the northern French town of Roubaix, a former milltown struggling to recover from industrial decline. These records provide a unique and very rich data source. The Paris firm filed the continuous flow of information which it received from its correspondents by country, economic sector, and sometimes even by company, allowing business historians an insider's view on developments in their research area. Some files are more informative than others, of course, and fortunately for us those concerning Royal Dutch Shell proved particularly rich due to the long and close association between de Rothschild frères and the oil company. The material even enabled us to get a close look at key parts of Royal Dutch Shell about which few other records have survived. The association between Rothschilds and Royal Dutch Shell began when, during the second half of the 1880s, the Paris firm's London agent, Fred Lane of the shipping brokers Lane & Macandrew, approached M. Samuel & Co. He proposed that the firm should embark on the Asian trade in lamp oil drawing kerosene supplies from a company owned by the Paris Rothschilds, the Caspian and Black Sea Oil Company, usually referred to by its Russian acronym of Bnito. This business was to be firmly established in a fiercely competitive market by transporting the kerosene in bulk, using specially built tankers designed to meet the stringent safety requirements of the Suez canal. In December 1891 Samuel & Co. became Bnito's exclusive agent for bulk sales east of Suez and the first cargo arrived in Singapore the following August. The syndicate which Samuel & Co. formed for running the kerosene trade was incorporated as The 'Shell' Transport & Trading Company in 1897, its managers Samuel & Co. retaining a majority share in the company.

Lane also linked de Rothschild frères with Royal Dutch. Set up in 1890, this company produced its first oil on the Indonesian island of Sumatra in 1892, a few months before Samuel & Co.'s cargo of kerosene arrived at Singapore. Royal Dutch rapidly developed into a major player in the Asian market, driven by the energetic Henri Deterding, appointed marketing director in 1896 and general managing director five years later. Deterding had two ambitions: to turn Royal

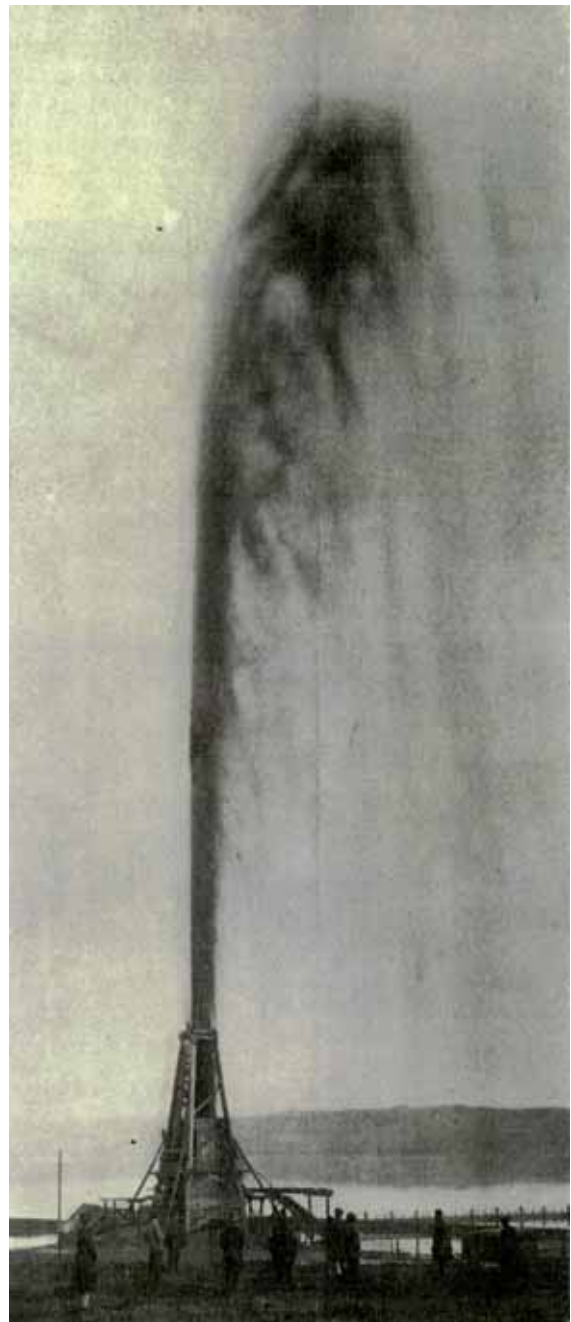
Dutch into a global rival of Rockefeller's until then all-powerful Standard Oil, and to maximise market power by persuading oil companies to collaborate rather than compete. Lane was so impressed by Deterding's vision and determination that he helped him materially by doing all he could to align Shell Transport and Bnito with his long-term strategy.

The crucial importance of the archive of de Rothschild frères at Roubaix for Royal Dutch Shell's history derives from Lane's pivotal position in London. Lane kept the two managers of Rothschild's oil business, Maurice Baer and Jules Aron, fully up-to-date with regular and detailed reports about the industry's deals, talks, projects, prices, and prospects. This voluminous correspondence proved a mine of first-hand information, all the more important since Royal Dutch Shell's archive for this period showed large gaps, notably on the London side. Hardly any records of Samuel & Co. have survived. For Shell Transport accounts, board minutes, and supporting documents are available, but no general correspondence or records of discussions. The large volume of Deterding correspondence in the Royal Dutch archives offers only part of the story, and neither The Hague nor London have preserved comprehensive records of the Asiatic Petroleum Company, the joint venture of Shell Transport, Royal Dutch, and Bnito. Consequently, the Roubaix archive proved of great value since it enabled us to piece together the events leading up to the merger of Royal Dutch and Shell Transport in 1907 and also the management and performance of Asiatic, the central and by far the most profitable part of the business. As it turned out, Rothschilds had a decisive influence in shaping Royal Dutch Shell, more so than anyone had previously imagined.

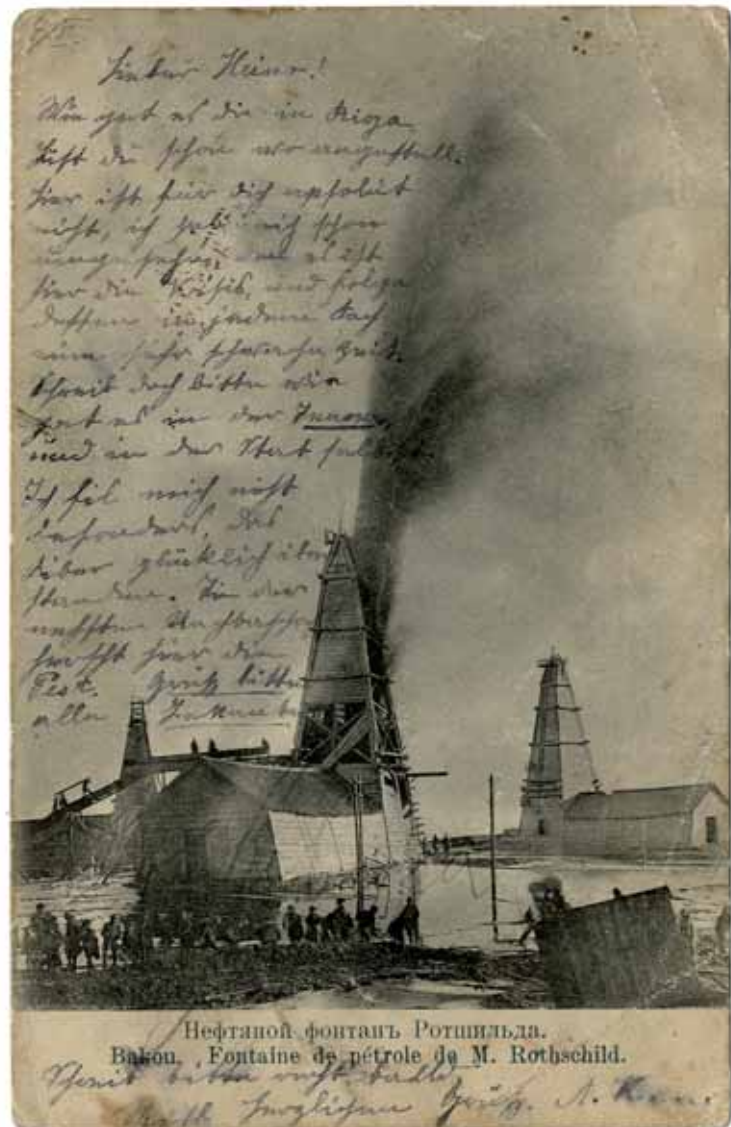
The opening moves in the formation of the Royal Dutch/Shell Group took place in the autumn of 1901 when Lane, in his capacity as Shell Transport director, and Deterding began drafting plans for a marketing joint venture between the main European oil companies active in Asia, in addition to Royal Dutch and Shell Transport, Bnito and the various Dutch companies producing oil in Indonesia. Having secured an agreement between Royal Dutch and Shell Transport in May 1902, the two men had little difficulty in persuading Rothschilds to join the projected alliance on an equal basis. Bnito was considerably bigger than either Royal Dutch or Shell Transport, but rather less profitable and heavily reliant on Asian export revenues. In September 1902 the joint-venture started trading as the Asiatic Petroleum Company.

Set up for a duration of twenty-one years, Asiatic was to all intents and purposes a merger of the participants' most important business. Under Deterding's energetic leadership the company performed spectacularly well despite constant and furious rows about the interpretation of the terms agreed between the shareholders. Fortunately for us the Roubaix files yielded not only the Asiatic accounts, no longer available in the Royal Dutch Shell archives, but also gloriously detailed descriptions of the boardroom battles, in which Rothschilds usually sided with Royal Dutch against Shell Transport. There was little love lost between the Paris house and Samuel & Co. The latter blamed the under-performance of Shell Transport on the sharp fluctuations in

Baku oil well pictured in *Kraftübertragungsanlage der Apscheroner Elektrizitätsgesellschaft Baku.*

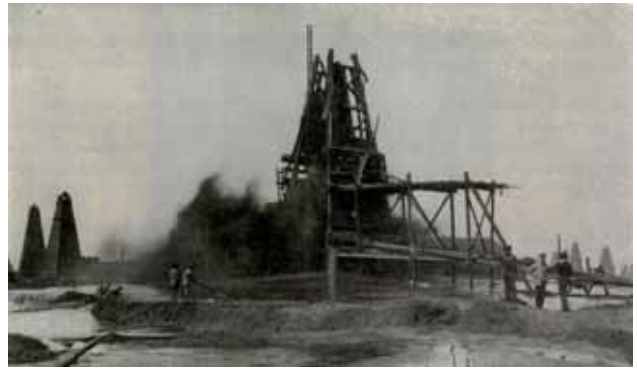


Postcard depicting a Rothschild oil well in Baku, n.d.



Bnito's kerosene supply which rose and fell with the vagaries of the Russian oil industry. For their part, Rothschilds nursed suspicions about the probity of the brothers Marcus and Sam Samuel who ran Samuel & Co. and Shell Transport. In addition, Lane despaired of the Samuels' mismanagement at Shell Transport, which led to his angry resignation from the board in December 1902. Impetuous expansion and imprudent financial policies rendered Shell Transport's position increasingly precarious, despite large dividends from Asiatic. By 1905 the company was virtually bankrupt, forcing Samuel & Co. to seek a merger with Royal Dutch.

To his frustration, Lane found himself casting around for information during the 1906 merger talks between Royal Dutch and Shell Transport. Though meeting frequently in the executive committee of Asiatic, Deterding and Marcus Samuel kept Lane at arm's length because they wished to exclude Bnito. In the original plan Royal Dutch and Shell Transport were to become holding companies by transferring their assets to a single, integrated operating company. This plan foundered, however, on the twenty-one year term set by the Asiatic agreement with the intention, according to Lane, of leading to a merger between the three main shareholders. Deterding and Samuel then considered alternatives such as buying the Rothschilds' share in Asiatic or taking over Bnito, before giving up such ideas because neither Royal Dutch nor Shell Transport had the money for them. In the end they settled for a very complicated structure,



forming what became known as the Royal Dutch/Shell Group, in which the two holdings owned three operating companies: Bataafsche Petroleum Maatschappij for exploration, production and manufacturing, Asiatic for marketing, and Anglo-Saxon Petroleum Company for storage and transport. Royal Dutch and Shell Transport owned the Group in the famous 60–40 proportion, but Rothschilds continued to hold 33 per cent of Asiatic shares. From an equal partner in a tripartite agreement, Rothschilds had become a minority party entirely dependent on the good will of the majority, all the more important since successive amendments and readjustments had made Asiatic's accounting so fearfully complicated that even Lane admitted to no longer fully understanding them.

The differences between the partners in Asiatic widened when, following its formation in 1907, the Group embarked on a tremendous expansion into all major oil producing areas then known: Romania, Russia, Egypt, the United States, Mexico, and Venezuela. The Group's expansion in Russia was partly effected by the acquisition, in 1912, of Rothschilds' oil interests in Baku. From being a fellow oil producer, the Paris firm had now become a mere shareholder, rendering Lane's supervisory task all the more difficult. His close relationship with Deterding and his active role on the Royal Dutch board ensured that Rothschilds and Royal Dutch/Shell remained on very good terms. At the same time his letters to Paris yield matchless insights concerning Royal Dutch/Shell and Deterding. In October 1913, for instance, Lane commented on:

the peculiar character of Mr Deterding. His mind is so active, so suspicious and so ready to take offence, that it is always advisable if possible to keep him outside the sphere of action until the last moment, and persuade him to leave himself into the hands of someone in whom he has the utmost confidence and knows his weaknesses, and is able to lead him on sound and equitable lines and prevent his bursting away in some petulant mood and out of pique adopting a regrettable course.²

However, the First World War drove a deep wedge between the Group and Rothschilds by overturning the conditions underlying the successive agreements between them. At the same time Royal Dutch/Shell's operations in the Western hemisphere rapidly outpaced those in the Asian market, undermining Asiatic's original conception and purpose. Lane put up a courageous battle to defend Rothschilds' interests, accepting the fairness of adjusting conditions while fighting to obtain the best terms, but as the war progressed selling out became an increasingly attractive option. The two sides reached agreement in January 1918, five years before the Asiatic agreement was due to expire.

By selling its share in Asiatic – the purchase price paid for in Royal Dutch shares – de Rothschild frères' relationship with Royal Dutch/Shell entered a new phase: first Bnito had acted as a supplier to Shell Transport, then came the partnership in Asiatic, this in turn became a minority position following the Royal Dutch and Shell merger, and now the sale of Asiatic meant that at a stroke Rothschilds became Royal Dutch's single biggest shareholder. With the

end of his active involvement with Asiatic, Lane's correspondence in the Roubaix files inevitably loses some of its importance for Royal Dutch/Shell history although Rothschilds remained a highly esteemed business partner, treated to singular privileges such as confidential updates on the Group's trading and likely profits, and attendance at board meetings by representatives visiting London.

At the same time, the mutual ties perceptibly slackened. In 1921 Deterding's somewhat rude insistence on support from Rothschilds in a tax dispute with the Dutch government raised eyebrows in Paris. Subsequently the correspondence declined in frequency and assumed a more factual tone. Lane's death in 1926 marked a further stage in the gradual distancing between Rothschilds and Royal Dutch/Shell. By 1933 little remained of the formerly close relations. That year Deterding picked a sorry quarrel with Rothschilds when the firm declined to support one of his hobby horses, the fight against Communism and the Soviet Union. Though not overtly anti-Semitic, Deterding's letters in the matter show the insidious effects of the Nazi propaganda absorbed during his sojourns in Germany following his purchase of a Mecklenburg hunting estate. The fact that his colleagues on the Royal Dutch board failed to stop his disastrous action underlines just how far the Group and Rothschilds had drifted apart.

Joost Jonker is Lecturer and Research Fellow in Economic History at Utrecht University, with financial history and business history as special interests. Jan Luiten van Zanden is Professor of Economic History at Utrecht University and Senior Researcher at the International Institute for Social History (Amsterdam). He has published widely on the economic history of Western Europe and Indonesia from the Middle Ages to the present. The authors collaborated with Stephen Howarth and Keetie Sluyterman on the four-volume A History of Royal Dutch Shell (Oxford: Oxford University Press; Amsterdam: Boom Publishers, 2007).

NOTES

¹ Joost Jonker and Jan Luiten van Zanden, *A History of Royal Dutch Shell. Volume 1: From Challenger to Joint Industry Leader, 1890–1939* (Oxford: Oxford University Press; Amsterdam: Boom Publishers, 2007).

² Archives nationales du monde du travail (Roubaix), 132 AQ 199, correspondence 1913, Lane to Baron Edouard de Rothschild, 21 October 1913.

The Baku oil terminal and oil derricks (above) pictured in *Kraftübertragungsanlage der Apscheroner Elektrizitäts-Gesellschaft Baku*.

