

The Oil Interests of the Rothschild of Paris. Between world competition and the Russian Government (1883-1912)

The reasons of the commitment of the Rothschild in oil business resulted mainly from the difficulties encountered by the House in the field of public finances (the placement of Government loans). Competition had indeed become harder in the 1860s. From the 1830s onwards, the Rothschild had started to trade and produce a series of commodities, including copper, mercury, and afterwards lead and nickel. This industry and trade experience gave the House an expertise in such complex businesses and markets. From 1860 onwards, in partnership with their associates, Deutsch de la Meurthe, an involvement in oil became increasingly prominent, resulting in the House becoming at the same time a large retailer and producer. In Russia, BNITO and MAZOUT were the more important companies of the group. The oil business ended up accounting for 83% of the entire Rothschild's industrial investment at the beginning of the 20th century.

The strategy was common to that adopted for commodities. At best, the House aimed at a monopoly. At least, it tried to divide the market with the most reduced number of corporations. To achieve this, it was initially necessary to acquire a critical size.

From 1884 onwards, one year after the successful financing of the Transcaucasian railroad, Jules Aron, rue Laffitte's "Mr Oil", thus discussed the division of the world exports with Standard Oil: 25% for the House, the remainder for the powerful American company. This was in vain, however, since the House never waged a price war nor sought to grow by merger and acquisition. Its most important strategy was to achieve an agreement with other firms, on all markets. This is a leitmotiv from all the correspondence of Jules Aron. Agreements finally took place, after many difficulties. In the East, Asiatic (Shell, Royal Dutch) was set up in 1902. In Europe, the Europäische Petroleum Union (Deutsche Bank and Nobel) was launched in 1907. The European markets were shared with Standard Oil with 20% for the Rothschild and 80% for Rockefeller. In Russia, the House shared the significant Russian market (fuel and, to a lesser extent, kerosene) with Nobel (40% of the market).

The eventual withdrawal from the oil business was due to the fact that Rothschild did not succeed in achieving the goal of their strategy and abandoned. The results obtained (6% of the European market, a third of the East) were well below those

hoped for (25% of the world exports). Moreover, the Russian production started to drop from 1901 onwards: it was then impossible to achieve the goal with a narrowing production. If the domestic prices rose, the share of oil decreased, and exports became difficult since Russian oil became expensive.

In 1905, Alphonse de Rothschild died, an event marking a turning point. Edmond became the new head. The same year, he offered BNITO and MAZOUT to Nobel, the following year to Deutsche Bank. Nobel and Deutsche Bank gave way. When a resolute purchaser appeared, the House did not wait! The interests of Groznyï (in 1911) and those of Baku (in 1912) were sold to Henri Deterding, director of Royal Dutch Shell, which pursued an expansionist policy with outstanding skill and will.

The Rothschild faced the ill will of the Russian Government even more than their competitors, notably the malevolence of Russian conservatives who were staunchly antisemitic. A part of the state was hostile to foreign assets and especially to Jewish investments.

BNITO was charged for benefiting from the fragile situation of most Russian producers. In lending them the capital they always needed, the small producers and refiners became dependent on the House and had the feeling to work only to refund their loans. However, without the loans of the Rothschild, they would have gone bankrupt and their situation would then have been even worse. By saving them from going bankrupt, the Rothschild prevented Nobel absorbing them, and from constituting a monopoly¹.

The Rothschild must have had powerful relations within the apparatus of government to overcome all the difficulties inherent in their religious membership, i.e. the preventions which their religion raised, but also and simply with a slow and corrupted, antisemitic xenophobic bureaucracy.

They tried to follow the Nobel's way, which was rather in favour. Never the Rothschild could take advantage of good relations with the government. Instead of locating his head office in Baku, Nobel fixed it at Saint Petersburg, to be near to the Court. In this respect, Nobel took part in many ministerial meetings, when the subject was related to his business. These meetings were even sometimes held at their request. The government needed Nobel to prevent Standard Oil from penetrating on the Russian market. He could wave solid connections with the Tsar's family, like the powerful

¹ Gerretson, F.C., *History of the Royal Dutch*, Leiden, E.J. Brill, 1953-57II, p. 213.

duke Michel, who was the governor of the Caucasus. Nobel successfully practiced a bribes' policy, as all did. He never had to wait a long time for necessary authorizations, and benefited from the support of the government within the scope of fierce competition that was usual between industrialists².

The oil business was complicated by the Russian loans, in the placement of which the Rothschild bank was often involved. The Russian government played its support in the relations with the Russian producers or an unspecified authorization¹ with the participation of the Rothschilds in the loans placed at Paris. On the other hand, favourable decisions of the Russian government improved the relations with the House, always greedy for new capital³.

Their principal connection was K.A. Skal'Kovskii, a powerful tsarist civil servant. Sub-manager (from June 1885 till April 1891), then head (until May 1896) of the department in charge of mining (part of the ministry of the State properties), Skal'Kovskii was directly responsible for the operations relating to oil. To obtain information and his support, the Rothschild had to give him gifts and a great deal of money. Jules Aron and Maurice Baer (manager of BNITO in Baku) requested many things from him: fares and regulations of the Transcaucasian railway, sales of the oil fields. He was asked to gain the authorization from the government to increase the capital of B.N.I.T.O from 1,5 to 6 million roubles. As long as one followed the classic way, this authorization did not come (Russian red tape and bribery). With Skal'Kovskii, all went smoothly and Baer thanked him cordially⁴. In Paris, the Rothschild lent him their box at the opera and even asked the *Légion d'Honneur* for him!

When Skal'Kovskii left office in 1896, the House was anxious to know if his successor was as accommodating. The important fact was that in 1892 Sergeï Witte became Finance Minister. The Mines Minister, S. Ermolov, was as favourable to foreign investments as Witte. Baer and the House could only be pleased with this.

To please the Russian aristocracy the Rothschild designated Prince Melikoff, prince Eristoff and Despot-Zenevich, the mayor of Baku, as managers. The aristocrats

² Fursenko, A. A., *The Battle for Oil: The Economics and Politics of International Corporate Conflict over Petroleum, 1860–1930*. Greenwich, Conn. Jai Press, 1990, p. 18 et 44-45.

³ Giraut, René, *Emprunts russes et investissements français en Russie, 1887-1914*, Paris, Armand Colin, 1973p. 183-184 , 341.

⁴ Fursenko, *op. cit.*, p. 20.

coveted these positions and B.N.I.T.O received many letters each time a position was vacant or was going to become vacant⁵.

Compared to Nobel, the Rothschild benefited from more and stronger international connections. Their financial resources were considerable. Nevertheless, they were not unlimited and, in his correspondence, Aron often testified to an inferior position compared to Standard Oil, this “powerful company”, as he wrote on several occasions.

All their activities, holdings and negotiations on a global scale, expressed the multinational character of the Rothschild group. Indeed, Rothschild’s holdings in many production and refining companies, in Russia and Europe, as well as in mining firms (copper and lead), show that the *rue Laffitte* was nothing else than the head office of a multinational group. In the case of the Rothschild, the particularity came from it being a family firm and its internationalisation was born from the singular history of this family. Of the five banks installed by the Rothschild brothers in Frankfurt, London, Vienna, Naples and Paris, the latter was the most active and important in terms of capital. In 1877, out of the capital of 30,2 million pounds of the four branches (Naples had been liquidated in 1863), 16,2 million was in Paris thanks to the investments of the Houses of Vienna and Frankfurt. In the list of the shareholders of the companies created by the House of Paris in the oil business, the name of Solomon Mayer de Rothschild, of Vienna, appears frequently. This oil business, which was one of the two industrial cores of the Rothschild group, and which was always carried out with Deutsch de la Meurthe, accounted to 35 million francs in 1900, according to John McKay. Taking the loans to several oil companies into account, the total amounted to 58 million. Considering that the assets of Peñarroya, Le Nickel and Boléo were worth 11,5 million francs, the oil business was consequently even more important accounting for 83% of all the industrial investment of the House. One must compare this 58 million with the 625 million francs of the capital of the House of Paris and the 375 million which were the share of the barons

⁵ Centre des Archives du Monde du Travail (CAMT), 132 AQ 240. Administrateurs.

Alphonse, Gustave and Edmond⁶. According to our calculations, the amount of capital invested in the oil companies was worth 61,7 million francs in 1906:

Assets in connection with the Russian oil business⁷

BNITO	26.000.000
Asiatic	7.500.000
Caucasian	1.350.000
Consolidated	6.250.000
Mazout	10.200.000
Naphta	1.760.000
SAIC	1.650.000
Belgo-hollandaise	2.000.000
Société commerciale et minière	5.000.000
	61.710.000

These calculations do not take into account the 6000 shares held by the group in the Moesi-Illir Company, from the Dutch East Indies, the Royal Dutch shares⁸, nor, still, interests in the refineries of Seville and Fiume. Are not retained either, to avoid double accounts, the shares of B.N.I.T.O in the Caspian Company (32%) and in the Kolchida company (25%, that is to say 120,000 roubles⁹).

Nobel had about a similar amount of money placed in production and trade of oil companies¹⁰ (53 million francs). Let us not forget that the capital of Standard Oil rose to 150 million dollars, that is to say 750 million francs. Having in mind this unequal power, the Rothschild sought conciliation rather than confrontation with the powerful American company. At the same time, Royal Dutch had invested 130 million francs¹¹ in oil business in 1907.

The multinational character of the House was beyond doubt, contrary to Nobel which was resolutely a Russian group mainly turned towards the Russian domestic market and which had become purchaser of interests abroad only timidly, involved reluctantly in the deals of years 1890 and 1900.

⁶ McKay, John P., "The House of Rothschild (Paris) as a Multinational Industrial Enterprise, 1875-1913," in Alice Teichova, Maurice Lévy- Leboyer, and Helga Nussbaum, ed, *Multinational Enterprise in Historical Perspective*, Cambridge University Press, Cambridge, England, 1986, p. 74 et 82.

⁷ CAMT 132 AQ 12H9.

⁸ CAMT 132 AQ 196. Confidential letter to Deterding, 2nd march 1906.

⁹ CAMT 132 AQ 882.

¹⁰ ¹⁰ Taking account of Nobel Brothers, Caucasian, Consolidated, Naphta, Emba, see O', Pavel Vasil'evich, *Foreign Capital in Russia*, Petrograd, 1922, trad., New York & London, Garland Publishing Inc., 1983, p. 65, and the SAIC.

¹¹ CAMT 132 AQ 196. 31th December 1907.

The investments were done with much cautiousness: the House only considered, for example, among the multiple proposals that reached *rue Laffitte*, sure and serious businesses¹². With an always-polished short letter, Aron answered that “these Sirs” were not interested. As to the oil business in Texas or in Kertch, in the Crimea, the Rothschild did not a priori reject such enterprises but always judged on the basis of a meticulous examination of the data and after sending specialists, mainly geologists, on the spot. The good sense of the House contrasts with the ardour of Samuel or Deterding, this Napoleon of oil.

In the industrial field, the investments were carried out according to the possibility of exerting a dominant position. Their know-how as regards trade being a solid asset, they only dealt with the markets where they could exert a great role. This always was the minimum objective. In the field of oil, the Rothschild wanted more: they tried to weigh rather heavy in order to obtain from other firms which they put at the table negotiations to organize a market division and to put an end to a competition considered to be always ruinous. The investments were then directed towards companies of which the House judged that they had the potential to influence the market, even if this could be very expensive (as in the case of B.N.I.T.O and the Russian Standard). Aron did not stop speaking about it: it was necessary to get along, to reach agreements to distribute the market shares, set up organisations or trusts in order to maximize profits for everyone. The efforts made by Aron during three decades are a strong testimony to this. The tenacity with which he sought alliance with Standard Oil, the refusal to give up when all seemed lost, showed that the agreement was a strategic leitmotiv. Compared to the great hopes of the years 1880, to arrive at a division of the world between Rothschild, Nobel and Standard Oil, which was actually carried out in years 1900, the results may appear disappointing. Several factors intervened to ruin this great idea. Initially, two large competitors appeared which amalgamated: Shell and Royal Dutch, a group in which the House had a serious share at the beginning. The House rather played out the second against the first. In 1907, in a letter of Baer to Lane, five years after the creation of the British Dutch, the director of BNITO confessed that Royal Dutch would have completely fallen in the hands from Samuel without the intervention of the

¹² CAMT 132 AQ 832. Aron to his uncle, 26th November 1879.

Rothschild¹³. When Royal Dutch/Shell was created at this date, the opposite occurred. Deterding was more favourable to this kind of agreements than the intractable Marcus Samuel, who had disappointed.

The strategy of the House was completely different from that of Standard Oil. Indeed, Rockefeller always sought to purchase or amalgamate competitors in order to create a trust. The refusal to amalgamate Le Nickel with North-American interests is a good example where the mining industry is concerned. Baron Alphonse preferred a more modest, but at the same time more adequate agreement which would take into consideration the interest of the House¹⁴. In the oil business, it consistently considered unspecified merger. It did not want to take part in a business where it did not have a sufficient share to take part in the decision-making process, notably where SAIC is concerned. The refusal of the House to be an ordinary shareholder of Nobel, in 1884, attests to it. The Rothschild wanted to have a financial control of the businesses in which they took part, control ensured by its employees or its associates. The financial orthodoxy of the House was strict, which explained why the initial investments were limited, that dividends remained moderate and that profits were systematically reinvested to guarantee a long-term growth. It refused to be part of an adventure.

During the first decade of the 20th century, the Rothschild did no longer evolve in favourable conditions. The reduction in the production of the oilfields of Balakhani, Romani and Sabunchi started in 1901. At the beginning, the decline was hardly perceptible, but then it accelerated. The contemporaries did not acknowledge it and allotted the fall only to the disorders of 1904 and 1905. The oilfields of Bibi-Eibat, which were richer, counted for a third of the production, with only one tenth of the wells. However, there too, the decline had started.

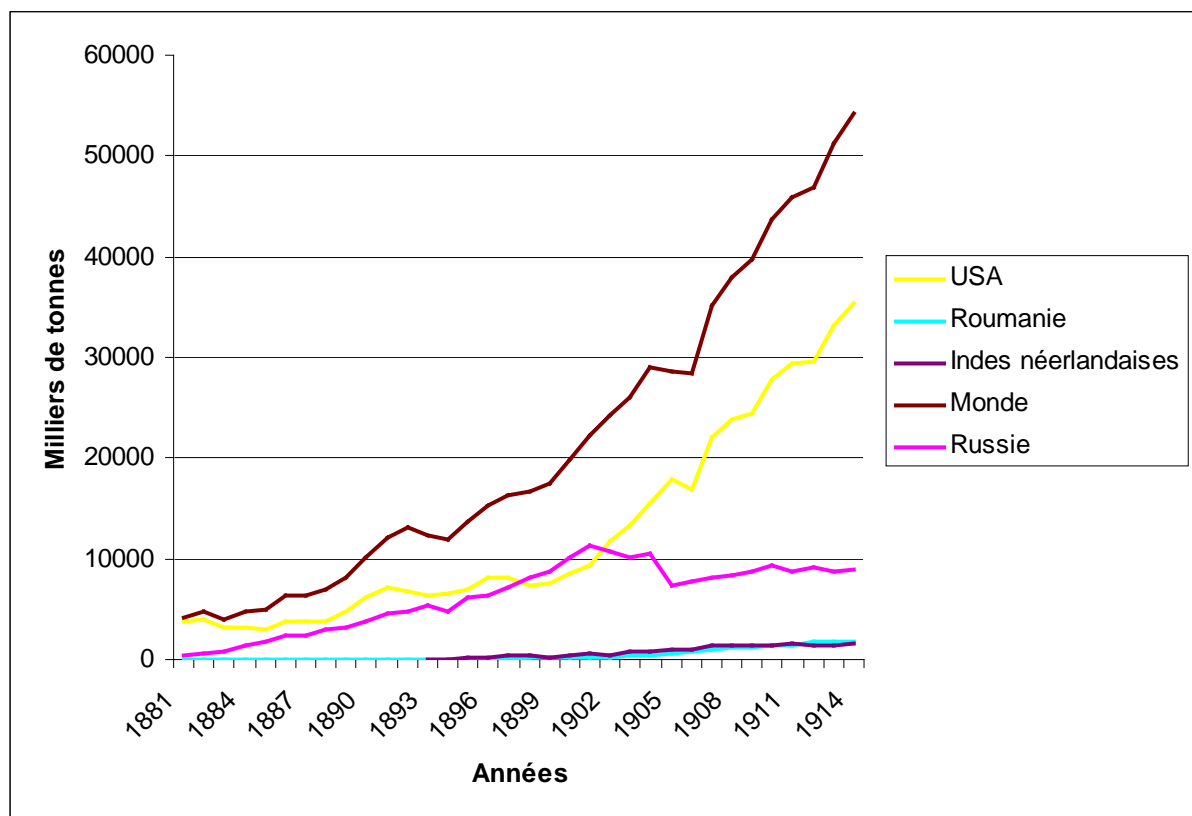
The producers, but perhaps not the Rothschild, believed that it was possible to return to a golden age by using similar methods as before. Great hopes were put on areas that had not yet been drilled. Was Lake Romani full of naphtha? It was also believed that the capacity could be improved by raising dams in the Caspian. Rumours were circulating on the existence of fabulous oilfields in the Caucasus.

¹³ CAMT 132 AQ 277. Baer.

¹⁴ CAMT 132 AQ 832. Aron to Ruef, 25th October 1895.

The rise in the prices had disastrous consequences on exports. It was not by its quality that Russian oil had acquired market shares in Europe and the East, but well by its price. Thanks to the increase in the production in the peninsula, faster than the increase in the worldwide production, the oil of Baku had become more abundant and available for export. In 1901, the year during which the production of Baku reached its summit, Russia provided 11,8 million tons of oil, the United States 9,2 million and the rest of the world, 1,7 million¹⁵. A major change intervened thereafter, not only because of a decline of production, but also because of the emergence of other producing areas in the world. The share of Russia afterwards did not cease declining. Russia did no longer take part in the increase of the worldwide production.

Production of Russia, the United States, the East Indies and the world, from 1881 to 1914¹⁶



¹⁵ Gerretson, *op. cit.*, III, p. 144.

¹⁶ Fursenko, *op. cit.*, p. 228-229.

Except growing by acquiring oilfields abroad, it was not possible any more for a firm, that gained its oil from Russia, to become a great group at world level, because the productive base decreased as well in absolute value as in share.

Moreover, the Russian oil price gradually lost its competitiveness. In 1898, the FOB price of Batoum was only of 3 kopecks lower than the New York's one. Exports from the United States then amounted to 156,1 million poods, from Russia to 53,6 million. In 1903, the advantage was of 25 kopecks in favour of Batoum: exports flew away, to 84,5 million poods, while those of the United States decreased, to 132,5 million. From there, the price difference crumbled, and Russian exports decreased to 43 million in 1905 and to 27 million in 1906. Only the largest Russian producers, BNITO, having contracts with the Asiatic and the EPU, continued to export. The others were folded back more than ever on the Russian domestic market. Moreover, the government, which controlled the price of transport through the Caucasus, and which needed money in its war against Japan, increased the tariffs in 1904. In 1908, BNITO closed its establishments of Batoum. The kerosene exports were then no longer profitable, and exports of oil boxes decreased unceasingly because of the competition of the oil of the East Indies¹⁷. BNITO had enough with its contracts with the Asiatic and the EPU where the international market was concerned. It was a fatal blow carried to the port of Batoum, whose rise came very directly from the investments of the Rothschild. The tanks were dismantled and shipped to Maikop, the factory of boxes was demolished, the machines sold. According to Gerretson, 10,000 workmen were fired¹⁸, that is to say definitely more than the number of workmen actually employed in the factory of oil boxes (1,400). All the workmen accepted an allowance equivalent to 6 months of wages or a retirement pension.

Moreover, the Russian domestic market, the most important outlet for BNITO, was not as much favourable for fuel. At the beginning of the 20th century, three fuels were jointly used in Russia: beside liquid fuel, there was coal (from the basin of Donetz) and wood. However, the rise in the price of residues from 1903 onwards involved a reduction of fuel in the consumption of energy. In share, fuel accounted for 34,4% of the energy used by the railroads in 1900, but fell to 30,7% in 1905 and 29,6% in 1910. The market had clearly ceased its expansion and contracted even rather

¹⁷ CAMT 132 AQ 882. Aron to Blum Pacha, 6th August 1910.

¹⁸ Gerretson, *op. cit.*, III, p. 154.

significantly. In river transport, we observe the same tendency as in railroads. The consumption of the *astatki* (residues) increased from 17,1 million poods in 1886 to 35,1 million in 1890 and 67 million in 1900. Then it fell to 50 million in 1910 and 40 million in 1913. The reason of this update is due to the fact that coal had become more competitive than formerly. The oil price increased more quickly than that of coal, about 20%¹⁹. It was then rather easy to switch from fuel to coal, and it was certainly what occurred.

All these unfavourable factors, combined with the problem of the infiltrations of water and the increase in the costs of drilling, made the situation difficult. At BNITO, the cost of drilling had been multiplied by 2. A well costed from 120.000 to 150.000 roubles. On the whole, the expenditure for the drilling and the deepening of the wells had gone from 1.238.000 roubles in 1904 to 2 million in 1907. The rising expenditure of BNITO stabilized around 1908, however²⁰.

The House was well aware of the evolution in the economic situation. Incomes stagnated and with it the prospect for profit. In 1907, the production was much lower than in 1904 because of the drying up of the oilfields and the lack of drilling in the richest of the oilfields, Bibi-Eibat. In 1908, engineer Braun, whose analyzes included all producers of Baku, informed the House that profits could no longer be made in exports. In his report, Braun explained why BNITO had not gotten any new productive oilfield since 1901.

On the one hand, the benefit was not always very satisfactory (1 million roubles in 1909 for BNITO²¹), on the other hand, heavy tendencies compromised the future of the oil industry of Bakou and Batoum. Since 1904, Rothschild and Nobel indeed tried to control Rumanian oil to supply their companies which were present in Germany and in the United Kingdom. This meant consequently that since 1904 the House was aware of the problem of the stagnation of the production in the Caucasus.

Other problems harmed the business. English competition in the Caucasus became stronger. The British had not committed quickly to oil industry. Already very present in textile, they then went on to the extraction of coal in the basin of Donetz. Alfred Suart had set the example since he was the first to ship oil from Batoum in his tankers. In

¹⁹ Kelly, W.J., "Crisis Management in the Russian Oil Industry: the 1905 Revolution", *Journal of European Economic History*, 10, 2, 1981, p.291-337, p. 317.

²⁰ CAMT 132 AQ 264. Braun's report, 1908.

²¹ CAMT 132 AQ 282. Accounts.

1892, he had 16 tankers and, since Samuel exported in the East, he sent them elsewhere. To remain independent of Nobel and Rothschild, he bought a Russian producer, Zatourov, in 1896 and founded the European Petroleum Company. It was the very first British establishment in Bakou. Then in 1897, another Englishman, Gladstone, acquired Tagieff in Bibi-Eibat, and set up the Russian Petroleum and Liquid Fuel Company. This firm, with a considerable capital of 12 million roubles, was better known under the name of Oleum. Other firms were launched, e.g. Maximoff and Schibaieff, bought by Samuel and Lane in 1897 (with a capital of 6,5 million roubles). The British investments ended up reaching 65 million roubles in Bakou and Groznyï. In Bakou, the British held two thirds of the capital possessed by foreigners in 1901. In Groznyï, their firms produced a sixth of all the oil produced from 1896 to 1906. The combined production of the firms under British control was higher than that of BNITO. The British investors were attracted by the new oilfields in the north of the Caucasus, in Maikop, and the London Stock Exchange was keen on them. Moreover, they were well accommodated by the Russian government which recognised a way of weakening the position of the Rothschild in order to be able to negotiate more advantageously with them. They were also supported by the Foreign Office. One of the directors of Royal, Waley Cohen, explained one day that it was interesting to found an English company in Russia, since one could profit from the help of English diplomacy²². The bonds between the United Kingdom and Russia had been indeed tightened since 1907. Oil industry represented a third of all the British capital invested in Russia in 1916²³. The Rothschild were feeling somewhat isolated but the British were facing the same difficulties as they were.

From May 1910, Braun accomplished a voyage in Russia and sent his report to *rue Laffitte*. The two main subjects of concern of the House were then the management of BNITO and the supply agreements signed in Bakou. Rothschild suspected the director of Baku and his associates of incompetence. Since 1906, the head office had criticized the management in Baku for clumsy book-keeping. Moreover, it judged that BNITO bought the goods necessary to its production process much too expensive. With the decrease of the oil price, the situation of BNITO was considered even more

²² Gerretson, *op. cit.*, IV, p. 133.

²³ Fursenko, *op. cit.*, p. 51-67; Tolf, *op. cit.*, p. 119; Jones, Geoffrey, Trebilcock, Clive, "Russian industry and British Business 1910-1930 : Oil and armaments", *Journal of European Economic History*, 11, Spring, 1982, p. 63, 67-68.

precarious by Braun. He even foresaw losses in the future. On the oilfields of Balakhani, Sabountchi, Romani and Bibi-Eibat, water infiltrations caused more and more problems. As for the wells, it was necessary to dig increasingly deeper, generating a cost increase. The royalties were such, that the cost remained high. BNITO had bet on the discovery of new oilfields in Sourakhani, but hopes had been disappointed.

In Groznyï, the results were better than in Bakou. Drillings were easier and water did not cause difficulties. Technically, pumpings were easier and the outputs higher. Russian Standard obtained significant benefits, seriously compromised, however, by the contracts which it had signed with its suppliers and customers, with the purpose of becoming the main actor in Groznyï. According to Braun, the losses were compensated by the businesses MAZOUT made in Russia. The same observation can be made in connection with BNITO. The House even planned to build a factory to market the paraffin which the oilfields concealed. In Maikop, where companies with British capital were shown very undertaking, only three wells were active and results very modest.

In August 1910, Aron conceded that BNITO business did not go very well, but still there was no question of selling. Nevertheless, rumors had spread and the fact that Aron explicitly had to deny that a sale was on the agenda proofs the point.

Documents show that from 1905 onwards the House Rothschild sought to sell its assets, in Russia as in Europe. Baron Edmond once tried to sell its interests to Nobel, via Olsen, the director, during the negotiations which had preceded the creation of the EPU. According to the proposal of the baron, the House would have become shareholder of Nobel, increased of BNITO, MAZOUT and the four European trade firms. Emmanuel Nobel refused. This, he argued, would not have brought anything to his firm and already concluded trade agreements by Nobel would have gained nothing nor would an economy of scale been realized, but innumerable duplications would have disorganized the structure, at a moment when the company was somewhat fragile financially and with a political situation which made Emmanuel Nobel pessimistic. Moreover, it was not clear at all that the Russian government would allow the creation of an oil giant - and reactions of Witte, at other moments, would suggest that Emmanuel Nobel was not mistaken. Not only had the House offered to sell its interests to Nobel, it had also sounded the Deutsche Bank out at the

beginning of 1906. Von Gwinner refused. On the contrary, he preferred Nobel to buy the Russian companies of Rothschild. Since von Gwinner did not want to make new investments in Russia, he preferred that the firm in which the Deutsche Bank held shares did the job²⁴.

The fact that baron Alphonse died in 1905 could have changed policy in *rue Laffitte*. Previously, the House had never operated in such a way. Rothschild, and Aron were obsessed by the hope to arrive at an agreement with the Standard Oil. The baron Alphonse had never given up. First, Edmond de Rothschild did not take an active part in the creation of the EPU and the Russian Standard practiced an offensive policy in Groznyĭ. Perhaps this was a way to show the oil business of the House under the best way. Being on the defensive could have harmed positions during the talks - where bluff was important. Nevertheless two events showed the lassitude of Rothschild. BNITO abandoned its logo (an anchor, which was known everywhere in the East) and in 1908, the House closed its boxes factory in Batoum, which, however, rationalized production given the fall of the kerosene export. The dismantling of the Batoum installations profited above all to Maikop and Groznyĭ. The House was geographically to redeploy its interests not to lose money. One of the directors of Nobel, Ernest Grube, so assessed to Olsen that the Rothschild were now to follow Nobel, without dictating their conditions. He thought that they were tired and that the sale of their goods was a possibility²⁵.

The Rothschild could propose their business advantageously. They had the luck to meet a purchaser decided to make his firm a giant, Deterding and the Royal Dutch /Shell, even able to compete with the Standard Oil.

Oil was used more and more in the world. If paraffin oil was no longer the product of the future because of electric lighting, fuel and gasoline had undoubtedly a bright future. In 1910, the British Admiralty, after years of hesitation, was on the point to use oil boilers, whereas the navy was also planning to equip its vessels with diesel engines²⁶. As for cars, their number grew quickly and with this the need for fuel. Russia then took again the way of prosperity, whereas oil prices did not cease

²⁴ CAMT 132 AQ 875. Aron to Olsen, 20th January ; to baron Edmond, 2nd February 1906.

²⁵ Fursenko, *op . cit.*, p. 165. 1909.

²⁶ CAMT 132 AQ 881. Aron to baron Edmond, 26th February 1910.

increasing. Generally, investments flowed to Russia from 1910 onwards. Prices, incomes and dividends took off.

Oil prices in Bakou and oil dividends (100 in 1899²⁷)

	1905	1906	1907	1908	1909	1910	1911	1912	1913
Prix	122	182	197	157	153	110	157	250	305
Dividendes %	8,67	15,6	16,6	12	11,7	9,5	12,2	20,3	

Undoubtedly, the oil trade was promising. Deterding did not have reasons to put an end to his expansionist policy.

Consequently, the sale appeared as a process born from the meeting of the will of the Rothschild to distance themselves from the oil industry and the strategy of Deterding. The latter one, since the amalgamation of the Royal Dutch and Shell (1907), wanted to acquire the interests of the House. He had already strongly strengthened the Anglo-dutch company. In May 1909, Lane wrote to Nobel that Deterding was interested in Russian oil and that he rather preferred to make deals with his “friends of Paris” than to buy Mantasheff, a Russian oil baron. When he was interested in the interests that his friends had in Chechnya, he warned the directors of the *Board* of the Royal Dutch that all the Russian interests of Rothschild were to get caught into their company’s net. Lane did not think this was possible and refused to make a proposal to Rothschild in 1909. Deterding quickly persuaded him of the opposite²⁸.

Aron wrote about Groznyï that Russian Standard was rather the business of Deutsch de la Meurthe. Perhaps this explains why so few letters of Aron dealt with the sale of the company of Groznyï to the Royal Dutch /Shell. At the beginning of 1911, Aron nevertheless tackled the subject. He spoke with Lane on the fate of the Russian Standard saying that it was going to be held by somebody else, a future Dutch company, with a capital of 12 million roubles²⁹. However, documentation in connection with the end of the presence of Rothschild as Chechnya is fragmentary.

The process really started when Deterding undertook to buy the oil interests of the Deutsche Bank. He then was on the brink to control all the exports from Romania, where Deutsche Bank held Steaua Romana, and from Russia, where the German bank had bought Petroleum Produkte, in Bakou, and Kasbek Syndicate, in Groznyï.

²⁷ Giraut, *op. cit.*, p. 460.

²⁸ Fursenko, *op. cit.*, p. 163, Gerretson, *op. cit.*, IV, p. 136.

²⁹ CAMT 132 AQ 882. Aron to Lane, 3rd January 1911.

In Groznyï, the Russian Standard precisely pursued its strategy aiming at monopolizing oil production. Akhwerdoff was accustomed to consigning its gasoline at an independent firm, Oelwerke from Ratisbon. In February 1910, the Russian Standard then signed a procurement agreement with him, which put Oelwerke out. With this operation Russian Standard reinforced its presence on the German market. After some difficult, but speedy negotiations, Deterding signed a contract in March 1910, which stipulated that Standard was to provide 10.000 tons of gasoline a year, at a price of 75 kopecks per pood FOB Novorossisk. The Russian standard was then committed to sell all the surplus oil to the Trust of the Ten, in France. If the French did not buy, the Russian Standard must sell everything to the Asiatic. Deterding so succeeded, via the Asiatic, in draining Groznyï's oil³⁰.

The oilfields and the production of the Kasbek syndicate were then bought in september 1910 for 4 million roubles. To Deterding and Lane, it was only a first step in a broad process. Aron did not seem to have immediately understood the strategy of Deterding. He wondered indeed why the House had not been requested to purchase the Kasbek syndicate³¹. It was because Deterding wanted to purchase the Russian Standard! Deterding, indeed, quickly began talks with the Rothschild to merge their interests in Groznyï with the Royal Dutch /Shell. It only took four months to arrive at an agreement. Indeed, a contract dated January 14th, 1911, between Deutsch and Geconsolideerde, a Deterding's holding, provided that Russian Standard would sell its oilfields, facilities and various contracts to the Dutch company for 6 million roubles. The capital of this company was to be divided into two equal shares between the two parts. After reserves on behalf of the House and because Deutsch did not want to seem the founders of the company, one *agreement*, signed on February 2nd, 1911, changed the project. This time, the Bataafsche and the Geconsolideerde created a Dutch company with a capital of 15,5 million guilders (that is to say 12 million roubles) with Deutsch de la Meurthe. The two Dutch holdings subscribed half of the capital, and Deutsch, the other half. Geconsolideerde was to sell at the new corporation the oilfields of the Kasbek syndicate for 3 million roubles.

³⁰ CAMT 132 AQ 881. Aron to Deterding, 19th February 1910. Gerretson, *op. cit.*, III, p. 276

³¹ CAMT 132 AQ 882. Aron to Lane, 24th September 1910.

Deutsch talked for the Rothschild, just like those did for Deutsch in the other deals. It should also be noticed that what was sold was the oilfields and the facilities³².

In December 1911, the final contract was definitively agreed upon. This time, the directors of Royal hesitated. They wondered whether it was finally necessary to set up a Russian company, Dutch or English. They finally adopted the primitive form of the project. The new Dutch company then took the very French name of *Nouvelle société du Standard Russe de Groznyï*. Thus, Rothschild had given up their interests in Groznyï to Deutsch which had the capital of the “old” Russian Standard and half of the “new”. They had, however, not sold directly to Royal Dutch.

In the English translation of the work of Pavel O', a “Russian Grozno Standard Oil Company” was mentioned like pertaining to Royal Dutch /Shell, with a capital of 12 million roubles, which corresponds to the amount given above for the company created in December 1911. Further, “New S.A., Russian Standard Naphtha Company” was registered like belonging to the French capital present in Russia in 1914. The capital, 1,115 million rubles, matched the capital the company the Rothschild and Deutsch de la Meurthe had before 1911, but not with that of the new company. The very similar terms seems to have misled Pavel O', because the two companies had similar names³³. Gerretson has confirmed this. According to the chart he drew for 1914, Deutsch had interests in a “new company of the Russian standard” (whose links with Geconsolideerde were broken in 1914) and in a “public limit company for the industry of Russian naphtha”. Rothschild did no longer have interests. Deterding undertook to carry out what the Russian Standard had not succeeded in doing, and concluded the contracts with the big producers of Groznyï. Having signed with Maximoff and Akhwerdoff, Royal had a lot of oil and urgently needed a trade firm in Russia. There, however, the oil of the Russian Standard had been sold to Nobel and MAZOUT. The contract which bound these companies was to expire at the end of December 1911, so that Deterding had to act quickly. Since MAZOUT belonged to the Rothschild, at least in majority, and since the Rothschild were for a long time allies of Royal Dutch, Deterding chose the firm which Pollak had founded. From there, Deterding wanted to purchase everything.

³² CAMT 132 AQ 173 6H3.

³³ O', Pavel Vasil'evich, *Foreign Capital in Russia*, Petrograd, 1922, trad., New York & London, Garland Publishing Inc., 1983, p 67-68, 188.

Negotiations had taken place during the winter of 1909-1910, but eventually had been stopped. When they restarted, Rothschild obviously wanted to sell. The decisive factor was the failure of the talks between the Royal Dutch and the Deutsche Bank about the purchase of Steaua Romana. Since the contract of BNITO with the EPU expired on July 1st, 1912, Rothschild had to choose: either they came along with the Deutsche Bank in the EPU, with the risk to challenge the Royal, or they joined the latter even more closely. In any case, a reorganization of the EPU was to be done³⁴. The House chose the Royal, a world company.

Talks were held in 1911. The main point was to agree on the price. The bargaining between Rothschild and Deterding was rough, as letters by Aron attest. Calculations valued BNITO at 6,5 million roubles, and MAZOUT at 21,624 million. Both companies were worth 28,124 million roubles - nearly 75 million francs³⁵. In November, the shares of Royal Dutch /Shell tumbled down following a price war carried out by Standard Oil in the Far East. Deterding then became more compliant. On December 8th, 1911, a "draft convention between Mr Deterding and Misters de Rothschild Frères" was signed.

Deterding fought to cause a drop in the selling price, and the House made concessions at the beginning of 1912. On February 16th, 1912, a telegram of Aron to baron Edouard notified that the deal was definitively concluded³⁶.

³⁴ CAMT 132 AQ 882. Aron to Olsen, 6th August 1910.

³⁵ CAMT 132 AQ 195.

³⁶ CAMT 132 AQ 883. Aron to baron Edmond, 30th January 1912.

Shareholding of BNITO and MAZOUT in 1911³⁷

	Actions Mazout	Actions BNITO	Avance BNITO
De Rothschild Frères	11201	6433	R° 2.566.132
Baron Edmond	425		
Baron Edouard	200		
Baron Robert	50		
Baron Henri	75		
S.M. de Rothschild	750	1400	R° 336.526,31
Tambour	75		
Neuberger	25		
Aron	300		
Braun	20		
Fudalski	25		
Feigl	50		
G. Aron	10		
Alsoufieff	10		
Les Fils de A. Deutsch	4542	2167	R° 767.888,55
Polak	6242		
Total	24000	10000	R° 3.670.546,86

The shares were worth 16 million roubles, for which it was necessary to add the advances made to BNITO. The value then of the whole (capital + advances) was 19,67 million roubles, whereas both negotiators had agreed on a value of both companies of 27,760 million roubles.

On February 21st, 1912, the final sale contract was signed. The Bataafsche bought 80% of Mazout (19.200 shares, 250 roubles each), 80% of BNITO (8.000 shares, 1.000 roubles each), and finally 80% of the advances to BNITO, or 2,936 million roubles. The transfer was evaluated at 22,136 million roubles, that is to say 58,881 million francs. Of this sum, the House received 60% in Royal Dutch shares and 40% in Shell shares. The House thus obtained in the process 3,879 million guilders of Royal Dutch shares and 241.222 pounds of Shell shares. Pollak and Deutsch de la Meurthe each held 10% in each of both sold companies. The House made so that Deterding agreed to maintain Pollak and the management of MAZOUT according to a formal agreement. The sale created sensation. It was the largest business ever concluded in the history of oil industry in Russia.

The sale of BNITO involved the closing of the Paris Agency on May 31st, 1912. In any case, the Rothschild had become one of the prominent shareholders of the Royal Dutch /Shell.

³⁷ CAMT 132 AQ 195.