THE BEGINNING OF THE ROYAL DUTCH/SHELL AND STANDARD OIL COMPANY RIVALRY IN THE DUTCH INDIES
1865-1910

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Abstract

This paper describes the beginning of the oil rivalry in the Dutch Indies. It begins with an overview of the political and economic relationship between the United States, The Netherlands and the Dutch Indies since the mid-19th century, namely the period when the oil industries in the United States and the Dutch Indies were still at an early stage of development. Since the independence of the United States of America, the two countries had very good relations which were evident from their various co-operations, including the Treaty of Alliance which was ratified in 1782. However, the Dutch colonial government’s policies which sought to restrict the American oil companies’ investment in the Dutch Indies caused discontent amongst the American government and American oil companies, straining their relationship with the Dutch Indies.

Keywords: Dutch Indies, United States, Netherlands, oil, industries

Introduction

The world political constellation at the end of the 19th century was marked by the increased competition among European economic, political and military powers, in particular among the German, British, Russian and French. In addition to the European powers, the United States of America and Japan also emerged as serious new competitors that had to be taken into account, along with the development of industrial and trade sectors in those countries. Competition among world colonial powers centered on the need for new colonies from which they could obtain raw materials for their industries, the colonies also provided markets for their industrial goods. Capitalism, which developed rapidly, also stirred up the international competition and further implemented the desire of the colonial powers to implement a more favorable imperialism.

Struggling for new colonies also meant that a country had to improve their military capabilities to be able to defeat other forces or local authorities. The control over other areas, especially those areas that were rich in natural resources would increase industrialization efforts to improve the economic prosperity of a country. In the midst of the competitive world,
The Netherlands was trying to maintain its existence as well as trying to maintain the integrity of their colonies.

The Netherlands was one of the European countries that were late to industrialize. The country only started the process of their industrialization in the middle of 19th century when other European industrialized countries and the United States had already recognized the importance of raw materials and energy sources for large-scale industries. Although the process of industrialization in The Netherlands was rather late, the Dutch were able to take advantage of the Dutch Indies, which ensured success in industrialization, due to the availability of natural and human resources in the Dutch Indies. The importance of natural and human resources in the Dutch Indies for industrialization in The Netherlands encouraged the mother country to perpetuate their control over the Dutch Indies. The subordinate nature of the relationship between the mother country and her colonies made the mother country economically wealthy, while at the same time the standard of native life in the colonies decreased. Globally, colonies contributed significantly to the rapid industrialization that took place in Europe and in the United States.

The availability of raw materials and energy sources was the key to power the industrial machines. If the domestic sources of raw materials were inadequate, then acquiring raw materials overseas became a necessity and military solutions often became a choice. It became a concern that generally the Dutch military forces were limited in capability either to maintain their sovereignty in Europe or to keep her colonies, in particular the Dutch Indies. The Dutch Indies was increasingly sought after by industrialized countries as several mineral sources were found in large quantity.

The Netherlands could maintain their existence in Europe and in the Dutch Indies until the arrival of Japanese forces in the Pacific War because of internal and external factors. The external factor was the Dutch ability to position themselves within the framework of international relations among other competitive world powers. The internal factor was the Dutch success in maximizing their military capabilities and diplomatic efforts to subdue local rulers or bound them through political agreements. These two factors allowed The Netherlands to focus on their industrial development and improved the country's infrastructures thanks to the financial benefits gained through their colony management, especially in the Dutch Indies.

The Dutch government was aware of some threats that potentially could seize their colonies in the Dutch Indies, in particular the German interest in Papua New Guinea and the fear of Japanese expansion to Southeast Asia. Japanese success in defeating Russia in Manchuria in 1905 made the country a military power in Asia that had to be taken seriously by the Dutch colonial government. However the fear of Japanese expansion evaporated after the United States defeated Spain in the Philippines and colonized the country in 1898.
The presence of the U.S. military in the Philippines was not a threat to the Dutch in the Dutch Indies particularly because the two countries had had good relations in the past. Dutch traders on the island of St. Eustatius in the Caribbean had supported the American freedom fighters attempting to gain their independence from the British and provided loans to the country in the early years after American independence. Diplomatic relations between the United States and The Netherlands is one of the best examples of a strong bilateral relationship between any two states in the world. The two countries not only formally bound themselves in the form of diplomatic relations and other forms of cooperation but also were bound by strong historical ties. The Netherlands was one of the European powers that managed to establish a colony on the east coast of North America, in areas that are now part of the state of New York. New York City itself was founded by Dutch immigrants who initially named the city New Amsterdam. Historical ties between the United States and The Netherlands are still evident today through the influence of Dutch culture in American society.

Apart from the political relationship, The Netherlands had maintained exceptional economic relations with the United States since U.S. independence. The Netherlands provided loans to the U.S. Federal Government for economic development purposes of the young republic. A Dutch company, the Amsterdam House of Hope and Company, was even involved in raising fifteen million dollars President Thomas Jefferson needed to purchase the French North American colonies, known as the Louisiana Purchase.

The economic relationship between The Netherlands and the United States increased after the end of the Civil War in 1865. The reconstruction process in the United States was accompanied by infrastructure improvements that supported economic activities including the continuation of road and railway construction that was abandoned due to the Civil War. The production of agricultural products, especially grain and cotton, rose sharply. The situation in the United States after the Civil War improved the economic activities and trade with other countries, including The Netherlands. Dutch imports from the United States included wheat, corn, flour, meat products, animal fats, vegetable oil and relatively small quantities of timber, iron and cotton. United States imports from The Netherlands were mostly food stuffs, like cheese and herring. The quantity of U.S. exports to The Netherlands increased from 4 million guilders in 1850 to 284 million guilders in 1900, an increase of 600%.

The Beginning of Oil Competition in Asia

The discovery of oil in large quantities in Titusville and the establishment of the Standard Oil Company was the beginning of the tension that developed in the American-Dutch relationship and which later culminated when the U.S. Government issued the Land Lease Act in 1920. It can be said that the American-Dutch political relationship was strained because of the competition of private companies that actually gave priority to profits. However in a broader perspective, the struggle for natural resources and the expansion of marketing areas can also be a
national interest in which the role of the state is to promote the economic sector, which also depends on relations with other countries in regards to imports and exports. Thus any foreign policy should consider not only the political factors but also the economic ones because of the existence of a reciprocal relationship between the two factors.

The relationship between the Dutch Indies and the United States relating to oil issues had started not long after the discovery of oil in Titusville. The success of Drake oil drilling on August 27, 1859 produced an oil product which was later demanded by people all over the world including in Southeast Asia- kerosene. The discovery of oil in large quantities attracted many businessmen to invest their capital for profit. However there were too many oil companies in the oil drilling business which led to too many products flooding the American oil market. The oil price dropped sharply. The surplus of kerosene on the American oil market allowed the oil product to be exported to other countries to achieve a better price. In the same year of the Drake oil drilling success, American kerosene began to ship to Australia and in 1861 it had entered the European market. Calcutta became the first American kerosene market in Asia with a successful delivery on September 30, 1863. Exports of American kerosene to the Dutch Indies began in June 1864.

On April 30, 1865, Captain Horace Freeman arrived in Batavia from Boston aboard the clipper Memnon. In just twelve months since kerosene was first exported to the Dutch Indies, the United States had exported 20,000 gallons of crude oil, 4,000 gallons of kerosene and as much as 3,000 gallons of benzene, altogether worth $ 25,000. Kerosene was the first oil product which was introduced for sale at auctions in various ports. It was purchased by wealthy Chinese men who distributed it to small dealers in the interior. It was possible that American kerosene went from Batavia to Sumatra after being introduced in Java in 1864. It is also possible that the ship that carried American kerosene to Sumatra was the same ship that carried the kerosene to Batavia. Subsequently the ship went to Padang in the west coast of Sumatra for coffee.

The Dutch Indies appeared to become a promising market for American kerosene since the amount of kerosene exports increased ten times within three years. In 1866 – 1867 the export of American kerosene reached 42,230 gallons and during the next three years the number tripled each year, to 138,000 gallons in 1867 and 457,792 gallons in 1868 – 1869. By the 1880's the Dutch Indies became an important market for American kerosene. In 1882 – 1883 the export of American kerosene to the Dutch Indies reached 800,000 gallons. The number increased drastically in 1884–1885 when it reached 4.85 million gallons. At the end of the decade the Dutch Indies imported as much as 22,34 million gallons of American kerosene. However the United States was not the only country that supplied kerosene to the Dutch Indies as there were several other countries, the Dutch Indies also produced kerosene so at that time there were some kerosene products on the Dutch Indies market. One of the keys to the success of American kerosene in the Dutch Indies market was the better packaging compared with the other kerosene
products. The excellence of the American packaging ensured the quality of the kerosene remained good during the journey to the Dutch Indies.

The discovery of oil in the Dutch Indies was only about a decade after the discovery of oil in Titusville and immediately attracted the attention of the world including the United States. Oil was one of the key energy sources and until now, people have not found another energy source that can actually replace it. Instead, oil gradually replaced the role of coal in almost all sectors, including the use of energy to power ships for both commercial and military purposes. In the early 20th century, oil had become the most important energy source for the world powers, that all fought to ensure that they had access to this essential commodity.

Several American newspapers reported the existence of oil fields in the Dutch Indies in the early 1890's when the oil wells in North Sumatra began to produce oil in large quantities. The area of Pangkalan Brandan actually had been producing oil since Aeilko Janz Zijlker got oil concessions from Sultan of Langkat in 1883; however the amount of oil that was produced at that time was not much. The United States government began to pay serious attention when oil production in the area rose sharply in 1892, two years after the Royal Dutch Company was established. This concern was followed with American government vigilance because the amount of oil production in Pangkalan Brandan could disrupt the oil price in the oil market especially in the Asian market that at that time was controlled by the Standard Oil Company.

If one follows the initial competition between the Royal Dutch Company and Standard Oil, then it initially looked unlikely that Royal Dutch would be able to compete with Standard Oil outside the United States. Until the early 20th century Standard Oil was the company that dominated oil production and distribution in the United States. Moreover, almost all banks, steamship companies and railway companies were interested in cooperating with Standard Oil. With more capital from the cooperation with those various companies, Standard Oil dominated and monopolized the domestic oil market. Not only the domestic oil market but the company then also managed to control the overseas oil market. At that time it was difficult to predict that there would be other company that would be able to break Standard Oil’s domination, especially in the United States.

Standard Oil overseas domination slowly started to be challenged with the rise of Royal Dutch in the early 20th century. In 1900 Royal Dutch was still a small company when compared with Standard Oil although at that time the company had control of the oil fields of British India and large holdings in Rumania, Persia and Russia. Hereinafter, the existence of oil in the Dutch Indies became a decisive factor in oil competition between Royal Dutch and Standard Oil. Indeed Royal Dutch had production areas outside the Dutch Indies, however up until 1913 one half of the amount of the company production came from oil fields that existed in Sumatra, Java and Borneo. According to Emile Deen who met with a Standard Oil representative, Chauncey Lufkin, in Surabaya in 1890, Standard Oil had made a mistake. The
mistake, according to him, was the main factor in allowing Royal Dutch’s development from a small company to the primary competitor of Standard Oil. In 1890 Lufkin, who later became the head of the Texas Company, sent some reports to the Standard Oil office in New York. He urged the company to attempt to gain several areas in Java, Sumatra, Borneo and British India that were expected to contain oil. He worried if the company did not try to take over those areas, there would be another competitor that would move in which had potential to present difficulties for Standard Oil in the world oil market. At that time Lufkin’s warnings were disregarded, however they were proved correct 20 years later. The rise of Royal Dutch that later dominated the areas that were reported by Lufkin became the important factor of Royal Dutch development that not only managed to compete with Standard Oil in Asia but also later expanded its business into United States.

Among the many oil sources that had been found in the Dutch Indies, the existence of oil fields in Pangkalan Brandan, Langkat, was the most important to the Royal Dutch Company. In addition to the high quality oil and the large amount of oil production that increased sharply, the ease of transporting oil products from Langkat was one of the Dutch company’s advantages. The company could reduce their oil price due to the lower transportation costs. If the Royal Dutch could increase their production capacity and could reduce their oil prices because of lower transportation costs, thus the Standard Oil Company would find it difficult to compete with the Dutch company with their oil products from Sumatra.

Apart from producing oil in large quantities, geographically companies that got oil supplies from Russia, the Dutch Indies, Galicia, Rumania and Burma had an advantage because they were closer to the oil markets in Europe, Asia and Africa. Conversely, American oil companies that carried oil from the USA had higher transportation costs when transporting their oil to other countries. Apart from covering further distances, they also had to take into account the time it took to get the oil to the market. Another benefit that non-US oil producers had was the cheaper wage costs compared to the higher U.S. wages and salaries. According to the head of Standard Oil’s foreign department, William H. Libby, the other factor that made it difficult for Standard Oil to compete with other companies abroad was the absence of government support. Indeed, Standard Oil was frequently negatively impacted by local government policies, such as those in the Dutch Indies.

Initially the competition between American and Dutch oil companies was an unequal competition. However, after Royal Dutch merged with the Shell Transport and Trading Company in 1907, competition between the two companies intensified. The abundance of Dutch Indies oil sources and the support of oil delivery with big tankers and the solid Shell business network made Standard Oil face a serious challenger. The support of the Dutch government to block Standard Oil investment in the Dutch Indies through the application of the Indische Mijnwet worked well. Outside the United States, oil production in the Dutch Indies itself was second in the world in 1905.
The oil monopoly of the Standard Oil Company began by dominating the American domestic oil market. The company could dominate the domestic market despite higher costs due to the relative remoteness of their oil wells. The expensive transportation costs made the price of oil which was sold by the company more expensive. However with Standard Oil’s greater production capacity and a wider network than any other company, the greater cost was balanced by their wider network, which meant other companies could not compete with Standard Oil. With a greater level of production, Standard Oil could sell oil at a cheaper price to force other companies into bankruptcy. Having no competitors that could threaten the monopoly of Standard Oil, the company was able to control the price of oil in accordance with the company’s demands and manage their profits.

The success that Standard Oil had in monopolizing the American domestic market continued with their successful monopolization of the Asian oil market with the same strategy as used in the US. By controlling 25% of the production area and 85% of oil refining in the United States and Asia, the company managed to dominate and control the Asian oil market in a relatively short time. With large capital, Standard Oil could afford to buy oil in other parts of Asia which had high prices and then sell it at a cheaper price than other companies could afford to, resulting in Standard Oil’s competitors going bankrupt. If it was possible, Standard Oil would buy those companies and then dominate their markets.

The first country in Asia that became Standard Oil’s oil production export place was China. The Chinese market was a familiar one for American traders because in the past many American commercial fleets had regularly visited Canton via Batavia. Standard Oil began to sell their kerosene in China in 1876 and managed to form a marketing and distribution system. However, Standard Oil’s export of large quantities of goods to Asia began only in 1891. Asian oil markets became American oil targets since the discovery of oil in large quantities in California and Texas were not supported by adequate transport to transport oil from the two regions to the eastern parts of the United States.

During 1891-1894 Standard Oil managed to control Asian kerosene markets, especially in China. However the American kerosene trade in China began to decline in 1894. The decline of American kerosene sales was not due to a decrease of kerosene demand in China but because of changes in the distribution system by agents of Russian oil companies in China, namely the tank distribution system. The oil produced from the Baku region was supplied by Russian oil agents to a system of tanks, supplied by steamers that brought the raw product in bulk, thus enabling its sale at a price slightly lower than the usual charge for American oil. The most dangerous thing for American kerosene trade of this system was that the Chinese dealers bought American old tins and then they filled them with Russian oil and shipped them in large quantities to the interior. The embezzlement and the ease of the distribution system contributed to make the Russian oil imports exceed American oil imports for the first time in 1895.
The American oil trade business increased in competitiveness due to the growing number of companies that were operating in the Chinese oil market, a market that was attractive to all the major global oil players. The oil from Batum, Russia, which was imported in large quantities penetrated the Chinese market and threatened the market which previously had been dominated by American oil. Most of the oil trade between Batum and China until the beginning of 1898 was controlled by a number of different companies. Since February 1, 1898, the oil trade had been consolidated into a single company, known as Transport Shell and Trading Company Limited. Since February 1, 1898, the trade was consolidated into one corporation, known as the Shell Transport and Trading Company, Limited.

In addition to Russian oil from Batum, a Dutch oil company, The Royal Dutch Company, also began to enliven the competition in the Chinese market. Royal Dutch produced oil from Langkat, Sumatra, and became a new player in the Asian oil competition. Oil dealers in China considered oil from Langkat as lower grade oil. However, the price of the oil was much cheaper and so the oil was very popular in China. Both Langkat oil and Russian oil agents actively encouraged the sale of their oil products in trading centers that were densely populated, such as Canton. In addition to the amount of Russian and Langkat oils that were imported in large quantities at low prices, the decline of American oil sales was also due to American oil companies who did not have active agents to sell their products. On the other hand, British and German oil agents were very active in selling Russian and Langkat oils especially in Kwangtung, Kwangsi, Kweichou and in Province of Yunnan.

Standard Oil’s first attempt to obtain a foothold in the Dutch Indies was to conduct negotiations to create a partnership with the Moeara Enim Petroleum Company in 1898. The company was selected to be a business partner of Standard Oil in the Dutch Indies because the company had received oil concessions in the south Sumatra region. The region was one of a number of potential areas which were believed to contain the largest oil in the Dutch Indies. A tentative agreement was reached in 1898 providing for the formation of a new corporation. Standard Oil had not completed their negotiations with Moeara Enim Petroleum Company when The Netherlands States-General considered issuing a mining law that would regulate mining activities in the Dutch Indies by the end of 1898. The Indisch Mijnwet itself was issued on May 23, 1899. According to the act, one of the requirements for foreign companies that would undertake mining activities in the Dutch Indies was that the company's director was a Dutch citizen and the company was registered in The Netherlands or in the Dutch Indies. This requirement, which made it difficult for Standard Oil to operate in the Dutch Indies, actually could be solved by forming a new Dutch company and the negotiation process of establishing the new company was still ongoing at that stage.

Another obstacle that Standard Oil faced was the oil lobbying groups who wanted Royal Dutch to be the sole company, and to monopolize, the oil industry in the Dutch Indies. The existence of several officers who had worked for the Dutch colonial government and who later
became high ranking officers at Royal Dutch showed, with the rapid development of Royal Dutch which in a short time was able to reincarnate as a large company not only in the Dutch Indies but also in the world, the strong relationship among the Dutch Indies government and their policies.

Standard Oil failed to form a new company with Moeara. Negotiations between the directors of both companies did not reach an agreement on which company would have more authority in regards to strategic decision making. In the same year, the Dutch Minister of Colonial Affairs, Jacob Theodoor Cremer, sent a letter to Moeara Enim's board of directors and offered a the renewal of the company concession for 5 years. Cremer’s offer to extend oil concessions to the Moeara Enim Petroleum Company can be interpreted as an attempt to prevent the amalgamation of the company with the Standard Oil Company. The offer of further concessions contributed to the termination of discussion regarding the sharing of shares in the merger talks of Standard Oil and the Moeara Enim Petroleum Company to form a new company that would operate in the Dutch Indies.

The failure of Standard Oil and Moeara Enim to form a new company closed the possibility for Standard Oil to compete directly with other oil companies in the Dutch Indies. According to the U.S. consul in Batavia, the Dutch Minister of Colonial Affairs, Jacob Theodoor Cremer, played an important role in thwarting the merger efforts of the two companies, due his belief that foreign oil companies were not desirable in the Dutch colony. The merger of the two companies itself was aimed at controlling the eastern markets, and of course, the new company would strengthen the position of Standard Oil as a legitimate competitor to the Royal Dutch Company. The failure of the merger was followed by the decrease of oil imports to the Dutch Indies from the United States and Russia in 1898. The decline shows that the Dutch oil companies, with the support of the Dutch colonial government, were ready to take over the oil market in the Dutch Indies, especially in Java, as well as remove the influence of Standard Oil and the Russian companies.

Until 1900 Standard Oil faced problems in entering the Dutch Indies oil market. The two failures of Rockefeller to halt the Dutch Company oil monopoly in the Dutch Indies forced Standard Oil to sell their oil at a low price on the Far East and Asian markets. The price war against Royal Dutch nearly put the company out of business. Royal Dutch only survived and competed with Standard Oil thanks to financial support from the Rothschilds. Financially, the Rothschilds also supported the formation of the Asiatic Petroleum Company in 1902 who together with Royal Dutch and the Shell Trading and Transport Company were the main stockholders. If the Rothschilds’ shares supported Royal Dutch against Standard Oil in the oil market in Asia, the Dutch Indies mining act helped Royal Dutch in keeping up with the competition with Standard Oil and other foreign oil companies in the Dutch Indies.
The difficulties faced by Standard Oil did not stop the company's efforts in trying to maintain their monopoly over the oil trade in the Dutch Indies. The company efforts found a little way when Shell was forced to sell their shares to Standard Oil. Shell was a big company and a powerful competitor for Standard Oil. However, at the same time, Shell was also a strong competitor for Royal Dutch in the Dutch Indies. Unlike Standard Oil that had difficulties in getting potential oil concessions in the Dutch Indies, Shell obtained oil concessions in the region that contained potential oil reserves in Balikpapan, Borneo. Thus Shell had more access to the Dutch Indies market than Standard Oil did.

Just like Standard Oil, Shell had a strong network and assets which were desired by all oil companies to develop their business. The Shell oil-tankers which could transport oil quickly were very useful for the oil companies that needed to transport oil in large quantities. Shorter shipment times to destination ports, along with the larger capacity of the tankers were an important factor to the success of oil marketing. Thus both Standard Oil and Royal Dutch would be able to improve their product marketing capabilities if one of them could control Shell’s shares. When Shell had to resolve their financial problems and sell their shares, Standard Oil, which had more capital than Royal Dutch, bought many shares from Shell. In addition to trying to reduce competition with Shell, Standard Oil through the purchase of Shell shares, at the same time, tried to strengthen their position to compete with Royal Dutch in the Dutch Indies.

The most difficult time during Shell’s poor financial situation was in 1902. Shell approved an agreement with the Rothschilds to supply oil to Europe. To meet the oil volume needed by the Rothschilds, Shell cooperated with an American oil company, Gulf Oil. To fulfill the contract with the Rothschilds, the company relied on Gulf Oil’s wells at Spindletop. However in 1902 the oil wells run dry and Marcus Samuel could not meet the demand for oil supplies to Europe under his agreement with the Rothschilds. He eventually chose to cooperate with Royal Dutch. In 1907 the two companies agreed to merge into one company with 40% shares belonging to Shell and 60% owned by Royal Dutch. The new company then soon became the most serious challenger to Standard Oil.

In the United States itself, Standard Oil began to face challenges from other American oil companies although its domination had previously been unwavering. Even the total oil sales of Standard Oil abroad were higher than its domestic total. The diversion of oil sales to other countries had been Standard Oil policy since the oil price in the United States decreased because of over production. Although facing challenges from Royal Dutch/Shell, Standard Oil still managed to sell 63% of the total amount of illuminating oil refined abroad since 1906.

On the other hand, the amalgamation of Royal Dutch and Shell made the two companies more solid. After the amalgamation, the two companies established two operating companies namely the Anglo-Saxon Petroleum Company in London and BPM in The Hague. Both of them
were owned in the agreed 60:40 ratio by Royal Dutch and Shell. Each subsidiary focused on a certain business based on their holding company respective previous experiences. Shell owned all tanker and ships besides marketing installations. The company also provided shipping and storage services to Asiatic. On the other hand, BPM would own and managed all exploration and production. It also dealt with refining operations and consigned the products to the Asiatic Company. With a greater share ownership ratio, Royal Dutch had rights that Shell did not have. Royal Dutch had 25% of Shell’s share and therefore the company had a right to appoint two directors to the Shell board. One of directors whom were appointed by Royal Dutch was Henri Deterding. He managed to develop Royal Dutch and solved some of the company’s problems in the early part of the 20th century. On the board of Shell, he acted as the manager so he also could play a key role and participate in all the decisive decisions regarding Shell’s policies. Conversely, Shell did not have the right to appoint directors to the Royal Dutch board. Thus generally Royal Dutch dominated with their managerial presence although Shell actually had more assets than Royal Dutch did.

For the two companies, the domination of Royal Dutch officers in the joint company actually benefited Royal Dutch/Shell when one considers their competition with Standard Oil, especially in the Dutch Indies. More Royal Dutch officers who could take part in making decisions for the group and had a good relationship with the Dutch colonial government meant that the colonial government would support administrative things and lobby activities of the company in the Dutch Indies. Besides providing opportunities to obtain better oil concessions, the Royal Dutch officers, at the same time, could lobby the Dutch colonial government in order to prevent their competitors especially Standard Oil from getting oil concessions. They also managed to solve many problems which were faced by including the problems with developing the operational area in Borneo.

One of Royal Dutch’s key successes was to approach Shell and beat Standard Oil in the oil company competition in the Dutch Indies until 1913, namely due to the role of Henri Deteding. Managerial revamping that was conducted by Deterding in Royal Dutch and Shell was very effective and right on target. He also frequently visited the company’s oil installation and gave direct solutions to the problems that the company faced. At this point it seems that besides the existence of the oil lobby that heavily influenced the Dutch colonial government’s decision to give Royal Dutch benefits, internally the company simply were better prepared to face competition with other companies especially Standard Oil.

The merger between Royal Dutch and Shell and the new management structure led by Henri Deterding allowed the group to develop rapidly. Besides in the Dutch Indies, the group also conducted oil exploration and production in Rumania, Russia, Venezuela and the United States. With more oil exploitation areas owned by Royal Dutch/Shell, the company also produced more oil. The increase in Royal Dutch/Shell oil production meant that the company could compete for the markets that had previously been dominated by Standard Oil. To take over
or to maintain their market share, both Royal Dutch and Standard Oil decreased their oil price to attract new clients for their oil products.

Conclusion

U.S. concerns about the shortage of oil resources can be seen from various aspects. Economically, oil became the most important source of energy in the early 20th century. Oil replaced coal as the most desired energy source. Coal itself was the trigger of the industrial revolution in Europe and the United States a century earlier. Thus oil as an energy source was essential for the continuance of industrialization. The United States itself had huge oil reserves however for their industrial perpetuity in the long term the country needed a steady supply of and access to oil reserves abroad.

To be able to dominate oil resources overseas, a country needs to have a political power in order to secure the access of oil resources controlled by other parties or countries. Thus competition to gain oil resources access requires political power and, in some cases, it requires a strong fleet to secure the tanker shipping lanes. At this point, it shows the relationship between economic and political interests related to oil industry. World oil resources competition in early 20th century had become increasingly complicated because almost all of the world’s oil resources were in the colonies of industrial countries, including the oil resources in the Middle East which were in the mandated areas. The competition was getting harder because most of the industrialized countries that needed oil as their energy source did not have enough domestic oil resources to run their industries, conversely those countries had political and military powers to obtain access to oil resources.

Competition to gain access to oil resources became a political compromise when the United States had to compete with countries that had diplomatic relations and those that became American allies during World War I. To get political compromises and results that were acceptable to all parties, there should be a give and take from all parties. In some cases they had to provide opportunity to their opponent negotiator. Political compromise is one of diplomatic efforts to solve bilateral or multilateral problems that can provide satisfaction to all parties. Nevertheless the success rate to achieve each party’s goal in political compromises depends on each party’s ability to apply political pressure.

In the interest of national interests, the United States government undertook diplomatic efforts along with Standard Oil, a commercial company, to force the Dutch government to take notice of their interests, something which happened only in 1920 when both of them had the same intentions though they had different interests. Standard Oil had started their investments in Southeast Asia including in the Dutch Indies in the late 19th century. The Standard Oil journey as a commercial oil company that provided more priority to profit had not had the support of the U.S. Government when the American national interests had not been threatened in regards to
energy shortages and political hegemony interests. Between 1890-1899 Standard Oil was trying to obtain oil concessions in the Dutch Indies without the support of the U.S. Government, as American national interests were not as stake and thus the company received no diplomatic support from Washington.

On the other hand, the Dutch colonial government restricted foreign oil company investment by utilizing various political issues to achieve economic goals. The issue of Japanese expansion peril through Japanese company investments to justify the restrictions on all foreign companies was initially very effective. The Dutch government considered that the United States would accept the reason. However, the reason could not be accepted by the U.S. Government and American oil companies. For the U.S. Government, the reason was contrary to the open door policy that the Dutch government and the Dutch colonial government introduced. Moreover, Dutch companies got the same treatment as other companies operating in the United States. For American oil companies, the reason was more intended to provide more opportunities to Dutch oil companies to develop their business without strong competitors. With some requirements that made it difficult for foreign oil companies to operate in the Dutch Indies, Dutch oil companies especially the Royal Dutch Company did not face strong competitors for potential oil concessions in the Dutch Indies.

In 1907 Royal Dutch/Shell formed a subsidiary named the Bataafsche Petroleum Maatstchappij (BPM) to run their operation in the Dutch Indies. The amalgamation saved these Dutch and British concerns from going under financially but they could not keep Standard Oil out of the Dutch Indies much longer. It seemed that Rockefeller was sure that the Dutch Indies would be a promising oil exploration area in the future and so the American company kept being involved to ensure they received oil exploration concessions. However it was only after political and economic pressure from the U.S. Government that the Dutch Indies gave the go-ahead for Standard Oil to start drilling for oil in the Dutch Indies.

For Standard Oil, prospecting oil concessions in the Dutch Indies that were ultimately obtained was a long and winding road, moreover under the Dutch Indies Mining Act 1899, the concession was only granted to the Dutch, the Dutch people who live in The Netherlands and the Dutch Indies and a company based in The Netherlands and the Dutch Indies. Standard Oil’s big efforts to get a foothold in the Dutch Indies failed due to their own mistakes. Standard Oil also never had the political leverage to be able to change some articles of the Indisch Mijnwet that made it difficult for foreign companies to get oil concessions. Standard Oil’s powerlessness to penetrate the Dutch Indies oil industry shows that large capital and extensive networks could not guarantee that a company could operate in a country. In fact the Dutch colonial government only needed a single law to stop the expansion of a foreign company. It also shows that the strength of the economy should be supported by political power when the state has started to play a political role in the domestic and international competition.
Competition among major oil companies were also extremely influenced by political situation in the world. When there was a conflict in a vast region that included world oil sources, the effect of the conflict would automatically disrupt the amount of oil production and distribution to the market areas. This made the Royal Dutch/Shell lost profit of their business more than the Standard Oil did because the company had oil sources in the areas that were directly affected by the war especially their oil fields in Romania in the early years of war and their oil sources in Russia in the last years of the war. The Infrastructure of Royal Dutch/Shell oil fields suffered severe damage in Romania as a result of war and would take much time and huge cost to restore the condition as it was before the war. Conversely the infrastructures of the company oil field in Russia were relatively safe. There was no significant damage however the company had difficulties to maintain their properties because the authority of the oil region was taken over by the communist government. The company had to negotiate with the new ruler to continue their business or just to get back their properties.

Standard Oil sought to take advantage from the production and distribution difficulties faced by Royal Dutch/Shell by increasing their production and distribution to take over the market that could not be supplied by the Royal Dutch/Shell. However, their oil production was ultimately more focused on the interests of the Allies so that Royal Dutch oil markets relatively did not switch to Standard Oil products in addition to high oil demand in United States. Standard Oil had not been able to get potential oil concessions in the Dutch Indies either since the colonial government suspended to grant oil concessions to private companies to establish government reserved areas that would be exploited later.

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