

McClure's Magazine
April, 1903

The History of the Standard Oil Company

Chapter VI—The Defeat of the Pennsylvania

AS has been pointed out several times in the course of this history, Mr. John D. Rockefeller adopted, as early as 1872, the theory that he could control the oil business if he could control the refineries of the United States. Briefly stated, his argument was this: "Controlling all refineries, I shall be the only shipper of oil. Being the only shipper, I can obtain special rates of transportation which will drive out and keep out competitors; controlling all refineries, I shall be the only buyer, and can regulate the price of crude as I can the price of refined." It was a very pretty theorem, and by the end of 1878 Mr. Rockefeller had demonstrated it in a masterful fashion.

A New Problem for Mr. Rockefeller

The demonstration, however, had demanded the introduction of one factor which seems to have been quite unforeseen. Mr. Rockefeller had found before the end of the third year of his third campaign that the lasting control of oil refining could not be achieved without the conquest of one of the great departments of transportation—the pipe lines which gathered the oil from the wells and carried it to the railroads. Now the pipe line system was in itself an intricate and extensive business, demanding constant fresh investments of capital and for its management a high order of executive and diplomatic ability. Nevertheless, when Mr. Rockefeller saw that to obtain absolute control of the oil refining interest he must control the entire pipe line system, he did not hesitate at the bigness of the undertaking. Nor should we expect him to have done so. Nothing essential to his purpose has ever been too big for Mr. Rockefeller—just as nothing has ever been too small.

The Standard's First Pipe Line

He was not, however, inexperienced in pipe lines in 1877, when he concluded to take over the entire system. For four years he had been interested in them, and his holdings had been gradually increasing, more from the necessity of the moment, it seems to the writer, than for any definite purpose to monopolize the pipes. His first venture was in 1873. In that year the oil shipping firm of J. A. Bostwick & Company laid a short pipe in the Lower Field, as the oil country along the Allegheny River was called. Now J. A. Bostwick was one of the charter members of the South Improvement Company, and when Mr. Rockefeller enlarged his business in 1872 because of the power that enterprise gave him, he took Mr. Bostwick into the Standard. This alliance, like all the operations of that venture, was secret. The bitterness of the Oil Regions

against the members of the South Improvement Company was so great for many months after the oil war that Mr. Bostwick and Mr. Rockefeller seem to have concluded in 1873 that it would be a wise precautionary measure for them to lay a pipe line upon which they could rely for a supply of oil in case the oil men attempted again to cut them off from crude, as they had succeeded in doing in 1872. Accordingly, a line was built and put in the charge of a man who has since become known as one of the "strongmen" of the Standard Oil Company.

This man, Daniel O'Day, was a young Irishman who had first appeared in the oil country in 1867, and had at once made so good a record for himself as a transporting agent, that in 1869, when the oil shipping firm of J. A. Bostwick needed a man to look after its shipments, he was employed.

The record he made in the next two years was such that it reached the ear of Jay Gould himself, the president of the Erie, over which Mr. Bostwick was doing most of his shipping. Now the Erie at this time was making a hard fight to meet the growth of a lusty rival, the Empire Transportation Company, which was handling oil for the Pennsylvania. So important did Jay Gould think this struggle that in 1871 he himself came to the Oil Regions to look after it. One of the first men summoned to his private car as it lay in Titusville was the young Irishman, O'Day. He came as he was, begrimed with the oil of the yards, but Mr. Gould was looking for men who could do things, and was big enough to see through the grime. When the interview was concluded, Daniel O'Day had convinced Jay Gould that he was the man to divert the oil traffic from the Pennsylvania to the Erie road, and he walked out with an order in his pocket which lifted him over the head of everybody on the road as far as that particular freight was concerned, for it gave him the right to seize cars wherever he found them. For weeks after this he practically lived on the road, turning from the Pennsylvania in this time a large volume of freight and making it certain that it would have to look to its laurels as it never had before.

O'Day's Oil War Record

The next year after this episode came the Oil War. The anger of the oil men was poured out on everyone connected in any way with the stockholders of the South Improvement Company, and among others on Mr. O'Day. He knew no more of the South Improvement Company at the start than the rest of the region, but he did know that it was his business to take care of certain property entrusted to him. Resolutions calling on him to resign were passed by oil exchanges and producers' unions. Mobs threatened his cars, his stations, his person, but with the grit of his race he hung to his post. There was, perhaps, but one other man in the employ of the South Improvement Company who showed the same courage, and that was Mr. Joseph Seep of Titusville. Almost every other employee fled, the principals in the miserable business took care to stay out of the country, but Mr. O'Day and Mr. Seep polished their shillalabs and stood over their property night and day until the war was over. Their courage did not go unrewarded. They were made the chief executive representatives, in the region, of the consolidated Standard interests which followed the war, though neither of them knew at the time that they were in the Standard employ. They supposed that the shipper Bostwick was an independent concern.

It was a man of grit and force and energy then who took hold of the Standard's pipe line in 1873. Rapid growth went on. The little line with which they started became the American Transfer Company, gradually extending its pipes to seventy or eighty miles in Clarion County, and in 1875 building lines in the Bradford field.

The American Transfer Company was soon working in harmony with the United Pipe Lines, of which Captain J. J. Vandergrift was the president. This system had its nucleus, like all the others of the country, in a short private line, built in 1869 by Captain Vandergrift. It had grown until in 1874 it handled thirty percent of the oil of the region. Now in 1872, after the oil war. Captain Vandergrift had become a convert to Mr. Rockefeller's theory of the "good of the oil business," and as we have seen, had gone into the National Refiners' Association as vice-president. Later he became a director in the Standard Oil Company. In 1874 he sold a one-third interest of his great pipe line system to Standard men, and the line was reorganized in the interests of that company. That is, the Standard Oil combination in 1877, when Mr. Rockefeller decided that he must control the pipe lines as well as the refineries, was a large transporter of oil, for the directors and leading stockholders owned and operated fully forty percent of the pipe lines of the Oil Regions, owned all but a very few of the tank cars on both the Central and Erie roads and controlled under leases two great oil terminals, those of the Erie and Central. That up to 1877 the Standard people had aimed at controlling the other sixty percent of the pipe line business the writer has no evidence.

The Great Rival Pipe Line

The Standard pipes had but one large rival—the Empire Transportation Company, handling a little over twenty-five percent of the oil of the region. This was the first organization which had gone into the pipeline business on a large scale, and its history had been interesting and creditable. The Empire was first organized in 1865 to build up a freight traffic via the Philadelphia and Erie Railroad, a new line which had just been leased by the Pennsylvania. Some ten railroads connected in one way or another with the Philadelphia and Erie, forming a direct route east and west. In spite of their evident community of interest these various roads were kept apart by their jealous fears of one another. Each insisted on its own timetable, its own rates, its own way of doing things. The Empire Transportation Company undertook to act mediator between the roads and the shipper, and to make the route cheap, fast, and reliable. It proposed to solicit freight, furnish its own cars and terminal facilities, and collect money due. It did not make rates, however; it only harmonized those made by the various branches in the system. It was to receive a commission on the business secured, and a rental for the cars and other facilities it furnished.

Colonel Potts of the Empire

It was a difficult task the new company undertook, but it had at its head a remarkable man to cope with difficulties. This man, Joseph D. Potts, was in 1865 thirty-six years old. He had come of a long and honorable line of ironmasters of the Schuylkill region of Pennsylvania, but had left the great forge towns with which his ancestors had been associated—Pottstown, Glasgow Forge, Valley Forge—to become a civil engineer. His profession had led him to the service of the Pennsylvania Railroad, where he had held important positions, and it was in connection with that road that he now undertook the organization of the Empire Transportation Company. Colonel Potts—the title came from his service in the Civil War—possessed a clear and vigorous mind; he was farseeing, forceful in execution, fair in his dealings. To marked ability and integrity he joined a gentle and courteous nature.

The first freight which the Empire Transportation Company attacked was oil. The year was a great one for the Oil Regions, the year of Pithole. The handling of the great output of oil

pouring from that field was a serious question. There seemed not enough cars in the country to carry it, and shippers resorted to every imaginable trick to get accommodations. When the agent of the Empire Transportation Company opened his office in June, 1865, and demonstrated his ability to furnish cars regularly and in large numbers, trade rapidly flowed to him. Now the Empire agency had hardly been established when the Van Syckle pipe line, the first successful line, began to carry oil from Pithole to the railroad. This line of two-inch pipe was five and one-half miles long. It was worked by relay pumps and carried eighty barrels of oil an hour. The ease and cheapness with which it did its work revolutionized transportation, and one line after another was laid from the big oil fields to the railroads. The railroads saw at once that pipes were destined speedily to do all the gathering, and hastened to ally themselves with them. It was even reported that Gould and Fiske of the Erie were preparing to buy up all the lines laying, in order to cut off the oil supply of the Empire Transportation Company. Colonel Potts, to forestall any such movement, took a hand himself, and in the spring of 1866 bought a new line, nine miles long, running from Pithole to Titusville, which as yet had not been wet.

When the Empire Transportation Company took over this pipe line nothing had been demonstrated but that oil could be driven, by relay pumps, five miles through a two-inch pipe. Methods of handling and accounting for the oil, of insuring against fraud, fire, and waste, an entire new business system had to be devised for the new carrier. In less than three years the Empire had worked out a system of the efficiency of which it is enough to say that in all essentials it is the one in operation today. And as it developed ways of doing things, the Empire grew steadily and vigorously. Indeed, by 1876 the company was the most perfectly developed oil transporter in the country. It operated five hundred miles of pipe, owned a thousand oil-tank cars, controlled large oil yards at Communipaw, New Jersey, was in every respect indeed a model business organization, and it had the satisfaction of knowing that what it was it had made itself from raw material, that its methods were its own, and that the practices it had developed were those followed by all its rivals.

Mr. Rockefeller Demands More Rebates

The pipe lines of the oil region were all rapidly coming under the control of one or the other of the great systems described above, when, in the spring of 1875, Mr. Rockefeller announced to the railroads that as he controlled practically the entire refining interests of the country they must give him a rebate if they expected him to allow to each what it claimed was its percentage of the oil traffic. Now, as we have seen, the Central road had long before the days of the South Improvement Company accepted Mr. Rockefeller's idea that one shipper handling the entire oil business and giving the railroads an agreed percentage of his business was much more profitable and convenient than many shippers, and it, of course, conceded the ten per cent rebate without parley. The Erie, under the presidency of Mr. Watson, the former president of the South Improvement Company, naturally agreed to Mr. Rockefeller's demand. The Pennsylvania held out for some time against the notion. A new constitution was adopted in Pennsylvania in 1874, which took a very decided stand against discrimination of all descriptions, and Mr. Scott, knowing full well that the Convention had him in mind when it framed the articles forbidding rebates, evidently was trying to keep himself within the danger line. Mr. B.B. Campbell, an aggressive oil producer, who could hardly be suspected of a any sort of charity where a railroad was concerned, said in his testimony in 1879, when the Pennsylvania was under investigation, that he believed the road had strictly adhered to the contract of March, 1872, with the oil men,

and that the enforcement of the letter of that contract was the ruin of its customers. It was certain that at least one of the largest shippers of crude oil the Pennsylvania had ever had, W. T. Scheide, left the road at this period, because they had “a peculiar idea,” he said, “that all shippers should be placed upon the same basis.”

Colonel Potts Protests

Colonel Potts, as the head of the Empire Line, had great influence in the Pennsylvania conferences, and always fought rebates to a single shipper on the ground of policy. “In the first place it concentrates great power in the hands of one party over the trade of the road,” he told an investigating committee of Congress in 1888. “They can remove it at pleasure. In the second place I think a large number of parties engaged in the same trade are very apt to divide themselves into two different classes as to the way of viewing markets; one class will be hopeful, and the other the reverse. The result will be there will be always one or the other class engaged in shipping some of the traffic. . . . The whole question seems to me to resolve itself into determining what policy will bring the largest volume in the most regular way to the carrier; and it is my opinion, based upon such experience as I have had, that a hundred shippers of a carload a day would be sure to give to a carrier a more regular volume of business, and I think, probably, a larger total volume of business in a year’s time than one shipper of a hundred cars a day.” Holding this theory. Colonel Potts opposed strenuously the rebate of ten percent, which the Pennsylvania allowed Mr. Rockefeller in 1875, in return for a percentage of the oil business. Three years later, in a paper discussing the Standard Oil Company’s career from its beginning, he said of this rebate and its consequences:

Colonel Potts Opinion of the Standard

The rebate was a modest one, as was its recipient. Yet the railway Cassandras prophesied from it a multitude of evils—a gradual destruction of all other refiners, and a gradual absorption of their property by the favorite, who, with this additional armament, would rapidly progress towards a control of all cars, all pipes, all production, and finally of the roads themselves. Their prophecies met but little faith or consideration. The Standard leaders themselves were especially active in discouraging any such radical purpose. Their little rebate was enough for them. Everybody else should prosper, as would be shortly seen. They needed no more refineries; they had already more than they could employ—why should they hunger after greater burdens? It was the railroads they chiefly cared for, and next in their affections stood the one hundred rival refineries. Such beneficent longings as still remained (and their bosoms overflowed with them) spread out in steady waves toward the “poor producers” whom, not to be impious, they had always been ready to gather under their wings, yet they would not.

This unselfish language soothed all alarm into quiet slumbering. It resembles the gentle fanning of the vampire’s wings, and it had the same end in view—the undisturbed abstraction of the victim’s blood.

The final agreement with the railways was scarcely blotter dried ere stealthy movements toward the whole line of outside refiners were evident, although rather felt than seen. As long as practicable, they were denied as mere rumors, but as they gradually became accomplished victories, as one refiner after another, through terror, through lack of skill in ventures, through financial weakness, fell shivering with dislike into the embrace of this commercial Octopus, a

sense of dread grew rapidly among those independent interests which yet lived, and notably among a portion of the railroad transporters.

The chief “railroad transporter” who shared with the independents the sense of dread which Mr. Rockefeller’s absorption of refineries awakened was Mr. Potts himself. As he saw the independents of Pittsburg, Philadelphia, New York, and the Creek shutting down, selling out, going into bankruptcy, while the Standard and its allies grew bigger day by day, he concluded to prevent, if possible, the one shipper in the oil business.

The Empire Retaliates

“We reached the conclusion,” said Colonel Potts in 1888, “that there were three great divisions in the petroleum business—the production, the carriage of it, and the preparation of it for market. If any one party controlled absolutely any one of those three divisions, they practically would have a very fair show of controlling the others. We were particularly solicitous about the transportation, and we were a little afraid that the refiners might combine in a single institution, and some of them expressed a strong desire to associate themselves permanently with us. We therefore suggested to the Pennsylvania road that we should do what we did not wish to do—associate ourselves. That is, our business was transportation and nothing else; but, in order that we might reserve a nucleus of refining capacity to our lines, we suggested we should become interested in one or more refineries, and we became interested in two, one in Philadelphia and one in New York. It was incidental merely to our transportation. The extreme limit was four thousand barrels a day only.”

The Standard Calls a Halt

It was in the spring of 1876 that the Empire began to interest itself in refineries. No sooner did Mr. Rockefeller discover this than he sought Mr. Scott and Mr. Cassatt, then the third vice president of the Pennsylvania, in charge of transportation. It was not *fair!* Mr. Rockefeller urged. The Empire was a transportation company. If it went into the refining business it was not to be expected that it would deal as generously with rivals as with its own factories; besides, it would disturb the one shipper who, they all had agreed, was such a benefit to the railroads. Mr. Scott and Mr. Cassatt might have reminded Mr. Rockefeller that he was as truly a transporter as the Empire, but if they did they were met with a prompt denial of this now well-known fact. He was an oil refiner—only that and nothing more. “They tell us that they do not control the United Pipe Lines,” Mr. Cassatt said in his testimony in 1879. Mr. Vanderbilt and Mr. Jewett soon joined their protests to Mr. Rockefeller’s. “The steps it (the Empire) was then taking,” said Mr. Jewett, “unless checked would result in a diversion largely of the transportation of oil from our roads; the New York Central road and our own determined that we ought not to stand by and permit those improvements and arrangements to be made which, when completed, would be beyond our control.”

These protests increased in vehemence, until finally the Pennsylvania officials remonstrated with Mr. Potts. “We endeavored,” says Mr. Cassatt, “to try to get those difficulties harmonized, talked of getting the Empire Transportation Company to lease its refineries to the Standard Oil Company, or put them into other hands, but we did not succeed in doing that.” “Rather than do that,” Colonel Potts told Mr. Cassatt, when he proposed that the Empire sell its refineries, “we had rather you would buy us out and close our contract with you.”

When the Standard Oil Company and Central found its allies, the Erie and Central, found that the Pennsylvania would not or could not drive the Empire from its position, they determined on war. Mr. Jewett, the Erie president, in his testimony of 1879, before the Hepburn Commission, takes the burden of starting the fight. "Whether the Standard Oil Company was afraid of the Empire Line as a refiner," he said, "I have no means of knowing. I never propounded the question. We were opposed to permitting the Empire Line, a creature of the Pennsylvania Railroad, to be building refineries, to become the owners of pipe lines leading into the oil field and leading to the coast, without a contest, and we made it without regard to the Standard Oil Company or anybody else; but when we did determine to make it I have no doubt we demanded of the Standard Oil Company during the contest to withdraw its shipments from the Pennsylvania."

The Pennsylvania Stands by the Empire

Backed by the Erie and Central, Mr. Rockefeller, in the spring of 1877, finally told Mr. Cassatt that he would no longer send any of his freight over the Pennsylvania unless the Empire gave up its refineries. The Pennsylvania refused to compel the Empire to this course. According to Mr. Potts's own story the road was partially goaded to its decision by a demand for more rebates, which came from Mr. Rockefeller at about the time he pronounced his ultimatum on the Empire. "They swooped upon the railways," says Colonel Potts, "with a demand for a vast increase in their rebate. They threatened, they pleaded, it has been said they purchased—however that may be— they conquered. Minor officials entrusted with the vast power of according secret rates conceded all they were asked to do, even to concealing from their superiors for months the real nature of their illegal agreements." Probably it was at this time that there took place the little scene between Mr. Vanderbilt and Mr. Rockefeller and his colleagues, of which the former told the Hepburn Commission in 1879. The Standard people were after more rebates. They affirmed other roads were giving larger rebates than Mr. Vanderbilt, and that their contract with him obliged him to give as much as anybody else did.

"Gentlemen," he told them, "you cannot walk into this office and say we are bound by any contract to do business with you at any price that any other road does that is in competition with us; it is only on a fair competitive basis, a fair competition for business at a price that I consider will pay the company to do it."

Soon after this interview, so rumor says, Mr. Vanderbilt sold the Standard stock he had acquired as a result of the deals made through the South Improvement Company. "I think they are smarter fellows than I am, a good deal," he told the commission, somewhat ruefully. "And if you come in contact with them I guess you will come to the same conclusion."

The Standard Attacks the Pennsylvania

Spurred on then by resentment at the demands for new rebates, as well as by the injustice of Mr. Rockefeller's demand that the Empire give up its refineries, the Pennsylvania accepted the Standard's challenge, resolved to stand by the Empire, and henceforth to treat all its shippers alike. No sooner was its resolution announced in March, 1877, than all the freight of the Standard, amounting to fully sixty-five per cent. of the road's oil traffic, was taken away. An exciting situation, one of out-and-out war, developed, for the Empire at once entered on an energetic campaign to make good its loss by developing its own refineries and by forming a loyal support among the independent oil men. Day and night the officers worked on their problem, and

with growing success. When Mr. Rockefeller saw this he summoned his backers to action. The Erie and Central began to cut rates to entice away the independents. It is a sad reflection on both the honor and the foresight of the body of oil men who had been crying so loudly for help, that as soon as the rates were cut on the Standard lines many of them began to attempt to force the Pennsylvania to follow. "They found the opportunity for immediate profits by playing one belligerent against the other too tempting to resist," says Colonel Potts. "We paid them large rebates," said Mr. Cassatt; "in fact, we took anything we could get for transporting their oil. In some cases we paid out in rebates more than the whole freight. I recollect one instance where we carried oil to New York for Mr. Ohlen, or someone he represented, I think at eight cents less than nothing. I do not say any large quantities, but oil was carried at that rate.

Rate Cutting: But One Outcome Possible

While the railroads were waging this costly war, the Standard was carrying the fight into the refined market. The Empire had gone systematically to work to develop markets for the output of its own and of the independent refineries. Mr. Rockefeller's business was to prevent any such development. He was well equipped for the task by his system of "predatory competition," for in spite of the fact that Mr. Rockefeller claimed that underselling to drive a rival from a market was one of the evils he was called to cure, he did not hesitate to employ it himself. Indeed, he had long used his freedom to sell at any price he wished for the sake of driving a competitor out of the market with calculation and infinite patience. Other refiners burst into the market and undersold for a day; but when Mr. Rockefeller began to undersell, he kept it up day in and day out, week in and week out, month in and month out, until there was literally nothing left of his competitor. A former official of the Empire Transportation Company, who in 1877 took an active part in the war his company was waging against the Standard, once told the writer that in every town, north or south, east or west, in which they already had a market for their refined oil, or attempted to make one, they found a Standard agent on hand ready to undersell. The Empire was not slow in underselling. It is very probable that in many cases they began it, for, as Mr. Cassatt says, "They endeavored to injure us and our shippers all they could in that fight, and we did the same thing."

In spite of the growing bitterness and cost of the contest, the Empire had no thought of yielding. Mr. Potts's hope was in a firm alliance with the independent oil men, many of the strongest of whom were rallying to his side. At the beginning of the fight he had very shrewdly enlisted in his plan one of the largest independent producers of the day, Mr. B. B. Campbell, of Butler, "Being a pleasure and a duty to me," says Mr. Campbell, "I entered into the service with all the zeal and power that I have. I made a contract with the Empire Line wherein I bound myself to give all my business to this line." At the same time Mr. Potts sought the help of the man who was generally accepted as the coolest, most intelligent, and trustworthy adviser in matters of transportation the Oil Regions had, Mr. E. G. Patterson, of Titusville. Mr. Patterson was a practical railroad man, and an able and logical opponent of the rebate and "one shipper" systems. He had been prominent in the fight against the South Improvement Company, and since that time he had persistently urged the independents to wage war only on the practice of rebates—to refuse them themselves and to hold the railroads strictly to their duty in the matter. Several conferences were held, and finally, in the early summer, Mr. Potts read the two gentlemen a paper he had drawn up as a contract between the producers and the Empire. It speaks well for the fair-mindedness of Mr. Potts that when he read this document to Mr.

Campbell and Mr. Patterson, both of whom were skilled in the ways of the transporter, they “accepted it in a moment.”

The Pennsylvania Passes a Dividend

“It was made the duty of Mr. Patterson and myself to get signatures of producers to this agreement,” says Mr. Campbell, “in a sufficient amount to warrant the Pennsylvania road entering into a permanent agreement. The contract, I think, was for three years.” The attempt to enlist a solid body of oil men in the scheme was at once set on foot, but hardly was it under way before troubles of most serious import came upon the Pennsylvania road. A great and general strike on all its branches tied up its traffic for weeks. In Pittsburg hundreds of thousands of dollars’ worth of property were destroyed by a mob of railroad employees. It is not too much to say that in these troubles the Pennsylvania lost millions of dollars; it is certain that as a result of them the company that fall and the coming spring had to pass its dividends for the first time since it commenced paying them, and that its stock fell to twenty-seven dollars a share (par being fifty dollars). Overwhelmed by the disasters, Mr. Scott and Mr. Cassatt felt that they could not afford any longer to sustain the Empire in its fight for the right to refine as well as transport oil.

The Standard Pays Fifty Percent

While the coffers of the Pennsylvania were empty, those of the Standard were literally bursting with profits; for the Standard, the winter before this fight came on, had carried to completion for the first time the work which it had been organized to accomplish, that is, it had put up the price of refined oil, in defiance of all laws of supply and demand, and held it up for nearly six months. The story of this dramatic commercial hold up cannot be told in this chapter; it is enough for present purposes to say that in the winter of 1876-77 millions of gallons of oil were sold by Mr. Rockefeller and his partners at a profit of from fifteen to twenty-five cents a gallon. The curious can compute the profits; it certainly ran into the multimillions. A dividend of fifty per cent, was paid for the year following the scoop, and “there was plenty of money made to throw that dividend out twice over and make a profit,” Samuel Andrews, one of the Standard’s stockholders, told an Ohio investigating committee in 1879. The Standard then had a war budget big enough for any opposition, and it is not to be wondered at that the Pennsylvania, knowing this and finding its own treasury depleted, was ready to quit.

The Pennsylvania Surrenders

It was August when Mr. Scott and Mr. Cassatt decided to give up the fight. Peace negotiations were at once instituted, Mr. Cassatt going to Cleveland to see Messrs. Rockefeller, Flagler, and Warden, who was visiting them there. Later, the same gentlemen met Mr. Scott and Mr. Cassatt at the St. George Hotel, in Philadelphia. “The subject of discussion at these meetings,” said Mr. Cassatt in 1879, when under examination, “was whether we could not make some contract or agreement with the Standard Oil Company by which this contest would cease. They insisted that the first condition of their coming back on our line to ship over our road must be that the Empire Transportation Company, which company represented us in the oil business, must cease the refining of oil in competition with them.” The Empire Transportation Company objected to going out of the refining business. The result of this objection Colonel Potts stated in 1888. “Our contract with the Pennsylvania Road gave to them the option, at any time they saw

proper, upon reasonable notice, of buying our entire plant; they exercised that option.” “Was that at your request or desire?” the chairman asked the colonel. “No, sir. It was at the request of the Pennsylvania Road through their officials.” The question then came up as to who should buy the plant of the Empire Transportation Company.” The Standard wanted us to do so,” says Mr. Cassatt. “They wanted us to buy the pipe lines and cars; we objected to buying the pipe lines, and it resulted in their buying them and the refining plant.

“The negotiations were carried on in Philadelphia, Mr. Rockefeller and Mr. Flagler mainly representing the Standard. A substantial agreement was reached about the 1st of October. The agreement would have been probably perfected about that time except that the counsel for the Empire line thought it was necessary that they should advertise the fact that they were going to sell their property, and have a meeting of their stockholders and get their assent to the sale before the papers were finally signed.” This meeting of which Mr. Cassatt speaks was held on October 17th.

Funeral Oration of the Empire

Colonel Potts made a statement to the stockholders which he began by a brief review of the growth of the company from the point when twelve years before it had started as a new route charged with the duty of meeting formidable competitors. He pointed out that at the close of the twelfth year the company was the owner of a large fleet of lake vessels, of elevators and docks at the city of Erie, of improved piers in New York, of nearly five thousand cars, of over five hundred miles of pipe lines, of valuable interests in refineries, of all the appliances of a great business. In these twelve years, Colonel Potts told his stockholders, the organization had collected more than one hundred million dollars, and in the last year their cars had moved over thirty thousand miles of railway. He explained to the stockholders the condition of the oil business, which had made it necessary, in his judgment, for the Empire Transportation Company to go into the refining business. It was done with the greatest reluctance, Colonel Potts declared, but it was done because he and his colleagues believed that there was no other way for them to save to the Pennsylvania Road permanently the proportion of the oil traffic which they had acquired in the twelve years in which they had been in business. He reviewed, dispassionately, the circumstances which had led the Pennsylvania Road to ask the company to give up its refineries. He stated his reasons for deciding that it was wiser for the Empire to resign its contracts with the Pennsylvania and go into liquidation than to submit to the demands of the Standard interests.

Colonel Potts followed his statement by an abstract of the agreements which had been made between the Standard people and the Empire. By these agreements the Standard Oil Company bought of the Empire Transportation Company their pipe line interest for the sum of \$1,094,805.56, their refining interests in New York and Philadelphia for the sum of \$501,652.78, \$900,000 worth of Oil Tank Car Trust, and they also settled with outside refiners and paid for personal property to the extent of \$900,000 more, making a total cash payment of \$3,400,000. Two millions and a half of this money, Colonel Potts told the stockholders, would be paid that evening by certified checks if the agreements were ratified.

“Not knowing what your action might be at this meeting,” he concluded, “we are still in active business. We could not venture to do anything that would check our trade, that would repel customers, that would drive any of them away from us. We must be prepared if you said no to go right along with our full machinery under our contract, or under such modification of that

as we could fight through. We could not stop moving a barrel of oil. We must be ready to take any offered to us; we must supply parties taking oil. There was nothing we could do but what was done; nothing was stopped, nothing is stopped, everything is going on just as vigorously at this moment through as wide an extent of country as ever it did, and it will continue to do so until after you take action, until after we get these securities or the money. That, we suppose, will be about six o'clock today, if you act favorably, and at that time we shall, if everything goes through, telegraph to every man in our service, and to the heads of departments what has been done, and at twelve o'clock tonight we shall cease to operate anything in the Empire Transportation Company." The stockholders accepted the proposition, and that night at Colonel Potts's office on Girard Street, Philadelphia, Mr. Scott and Mr. Cassatt, of the Pennsylvania Railroad, Colonel Potts and two of his colleagues in the Empire, and two of the refiners with whom he was affiliated, met Mr. Wm. Rockefeller, Mr. Flagler, Mr. Warden, Mr. Lockhart, Mr. Charles Pratt, Mr. J. A. Bostwick, Mr. Daniel O'Day, and Mr. J. J. Vandergrift, and their counsel, and the papers and checks were signed and passed which wiped out of existence a great business to which a body of the best transportation men the State of Pennsylvania has produced had given twelve years of their lives.

Absorption of the Pipe Lines Complete

The pipe lines thus acquired were at once consolidated with the other Standard lines. Only a few independent lines, and only one of these of importance—the Columbia Conduit—now remained in the Oil Regions. The downfall of the Empire was quickly followed by their collapse, and early in 1878 they were all consolidated with the United Pipe Lines and the American Transfer Company. Mr. Rockefeller was now master of the entire pipe line business. The Pennsylvania Railroad, in return for its subjection to the Standard's demands in regard to the Empire, was insured forty-seven per cent, of all the oil shipped eastward. From the Standard alone it was to receive not less than two million barrels a year. The Pennsylvania was to allow the Standard such rates as might be fixed from time to time by the four trunk lines, care being taken to provide that these rates should be dropped to meet lower rates which might be offered by the opening of competing lines. On these fixed rates Mr. Rockefeller was to have a rebate of ten per cent. The agreement with the Pennsylvania stipulated also that no other shipper should be allowed any rebate unless he guaranteed the Pennsylvania the same profit it realized from the Standard trade.

Meek Obedience of the Pennsylvania

The Pennsylvania fulfilled its new agreements meekly and faithfully. In February, 1878, the American Transfer Company, a part of the Standard Oil Company, it will be remembered, asked for a rebate of at least twenty cents on each barrel of crude oil received and shipped over the road. The Central and Erie were granting it, Mr. O'Day told Mr. Cassatt. The rebate was promptly granted. In the summer an advance of the ten percent, rebate was asked, on the ground that the independents were opening a new route which might injure Mr. Rockefeller's supremacy. The rebates were increased until oil on which the open rate to seaboard was \$1.90 was shipped for the Standard at eighty cents. In November, 1879, the Acme Oil Company shipped oil from Titusville to New York for 66-1/2 cents, that company alone receiving a rebate of sixty-three cents.

The Pennsylvania lived up as faithfully to its agreement in regard to rival shippers as it did to those concerning rebates. The independents, who in the summer of 1877 were preparing to ally themselves permanently with the road, were dropped immediately when peace negotiations were begun, and a letter of remonstrance they sent Mr. Scott at the time was never answered. The experiences of several of these independents have been recorded in court testimony. One or two will suffice here. For instance, among the Eastern refiners was the firm of Denslow & Bush; their works were located in South Brooklyn. They had begun in a very small way in 1870, and by 1879 were doing a business of nearly a thousand barrels of crude a day. They had transported nearly all their oil by the Empire line. After that line went out of business in October, 1877, the contract with Denslow & Bush was transferred to the Pennsylvania Railroad Company. This contract terminated on the first day of May, 1878. Some time in March they received formal notice of its expiration, and solicited an interview with the officers of the Pennsylvania Railroad in order to make some arrangements for the further transportation of their oil. Mr. Cassatt named New York. The meeting was held at Mr. Denslow's office, 123 Pearl Street. Besides Mr. Bush, there were present to meet Mr. Cassatt, Messrs. Lombard, Gregory, King, H. C. Ohlen, and C. G. Burke, all independents. When Mr. Bush was under examination in the suit against the Pennsylvania he gave an account of what happened at this interview:

Mr. Cassatt's Frank Language to Independents

We asked Mr. Cassatt what rate of freight we should have after the expiration of these contracts, whether we should have as low a rate of freight as the Standard Oil Company or any other shipper? He said, "No." We asked why. "Well, in the first place, you can't ship as much oil as the Standard Oil Company." "Well, if we could ship as much oil"—I think Mr. Lombard put this question—"would we then have the same rate?" He said, "No." "Why?" "Why you could not keep the road satisfied; it would make trouble." And he remarked in connection with that, that the Standard Oil Company was the only party that could keep the roads harmonized or satisfied. He intimated, I believe, that each road had a certain percentage of the oil business, and they could divide that up and give each road its proportion, and in that way keep harmony, which we could not do. Right after that he made the remark that he thought that we ought to fix it up with the Standard; we ought to do something so as to all go on and make some money, and I think we gave him very distinctly to understand that we didn't propose to enter into any "fix up" where we would lose our identity, or sell out, or be under anybody else's thumb. I believe that he went so far as to say that he would see the Standard, and do everything he could to bring that thing about. We told him very clearly that we didn't want any interference in that direction, and if there was anything to be done, we thought we were quite capable of doing it. The interview perhaps lasted an hour. There was a great deal of talk of one kind and another, but this is, I think, the substance. This interview was in March, 1878, I think.

Another interview at which I was present was either in June or July. Mr. Scott was present.

Mr. Scott Corroborates Mr. Cassatt

This interview was brought about because we had been deprived, as we believed, of getting a sufficient number of cars we were entitled to. We had telegraphed or written to Mr. Cassatt—at least Mr. Ohlen, our agent, had, on several occasions, and tried to get an interview, and finally this one was appointed, at which Mr. Scott would be present. When we arrived there

we found Mr. Brundred, from Oil City; and Mr. Scott went on to state that he thought that we were receiving our fair proportion of cars. They tried to make us believe and feel, I suppose, that we were getting our due proportion, when for some considerable time previous to this we had not been able to do any business in advance; we could only do business from hand to mouth. We could not sell any refined oil unless we absolutely had the crude oil in our possession in New York, and Mr. Lombard, one of our number, had sold a cargo of crude oil, I think, of 9,000 barrels, and Denslow & Bush absolutely stopped their refinery for three weeks consequently, in order to let their oil go to Lombard & Ayers to finish their vessel, because they would only get three or four cars a day; and we stopped our place for three weeks to give them our crude oil, all we could give—our proportion—in order to lift them out and get their vessel cleared. After trying to impress upon us that we were getting our proportion of cars, we asked Mr. Scott substantially the same question we asked Mr. Cassatt in New York, whether we could have, if there was any means by which we could have, the same rate of freight as other shippers got, and he said flatly, “No”; and we asked him then if we shipped the same amount of oil as the Standard, and he said, “No,” and gave the same reasons Mr. Cassatt had in New York, that the Standard Oil Company were the only parties that could keep peace among the roads. We stated to Mr. Scott that we would like to know to what extent we would be discriminated against, because we wanted to know what disadvantage we would have to work under. And we went away very much dissatisfied. All the information we got on that point was from Mr. Cassatt in New York, when he stated that the discrimination would be larger on a high rate of freight than on a low rate of freight, which led us to infer that it was a percentage discrimination. That is all the point that I recollect we ever got as to the amount of the commission. We told Mr. Scott that if they hadn’t sufficient cars on their road we would like to put some on, and he told us flatly that they had just bought out one line and they would not allow another one to be put on; that if they hadn’t cars enough they would build them. He seemed to show considerable feeling that afternoon, and he said: “Well, you have cost us in fighting for you now a million dollars” (or a million and a half, something like that—a very large sum), “and we don’t propose to go into another fight.”

An Independent Who Tried Again

Not only were there men in the refining business who were willing to fight under these conditions, there were men among the very ones who had succumbed at the opening of the Standard’s onslaught who were ready to try the business again. Among these was Mr. William Harkness, whose experience up to 1876 was related in the preceding chapter of this history. Mr. Harkness’s next experience in the oil business was related to the same committee as that already quoted:

“When I was compelled to succumb,” he said, “I thought it was only temporarily; that the time would come when I could go into the business I was devoted to. We systematized all our accounts and knew where the weak points were. I was in love with the business. I selected a site near three railroads and the river. I took a run across the water—I was tired and discouraged and used up in 1876, and was gone three or four months. I came back refreshed and ready for work, and had the plans and specifications and estimates made for a refinery that would handle 10,000 barrels of oil a day, right on this hundred acres of land. I believed the time had arrived when the Pennsylvania Railroad would see their true interest as common carriers, and the interest of their stockholders and the business interest of the city of Philadelphia, and I took those plans,

specifications and estimates and I called on Mr. Roberts, president of the Pennsylvania Railroad Company. I had consulted one or two other gentlemen, whose advice was worth having, whether it would be worth my while to go to see President Roberts. I went there and laid the plans before him, and told him I wanted to build a refinery of 10,000 barrels capacity a day. I was almost on my knees begging him to allow me to do that. He said, 'What is it you want?' I said, 'I simply ask to be put upon an equality with everybody else, and especially the Standard Oil Company.' I said, 'I want you to agree with me that you will give me transportation of crude oil as low as you give it to the Standard Oil Company or anybody else for ten years, and then I will give you a written assurance that I will do this refining of 10,000 barrels of oil a day for ten years.' I asked him if that was not an honest position for us to be in; I, as a manufacturer, and he, the president of a railroad. Mr. Roberts said there was a great deal of force in what I said, but he could not go into any written assurance. He said he would not go into any such agreement, and I saw Mr. Cassatt. He said in his frank way, 'That is not practicable, and you know the reason why.'

"The Good of the Oil Business"

Controlling fully ninety per cent, of the refining interests of the country, controlling the entire pipe line, or oil-gathering system, recognized by the four great trunk lines as the autocrat of the business, and able to bring them to his wishes by merely expressing them, able to raise the oil market to an unnatural figure and hold it there for six months, Mr. John D. Rockefeller, by the end of 1878, certainly had reason to be proud of his four years' work. The "good of the oil business" was in his judgment worked out. There were people, however, who claimed that it was the good of Mr. Rockefeller, not that of the oil business, that had been achieved, and these people—"people with a private grievance," "mossbanks naturally left in the lurch by the progress of this rapidly developing trade," as the Standard officials described them—at the news of the collapse of the Empire Transportation Company began an onslaught on his creation through the press, through commercial combinations, through the courts and legislatures, which in its vigor and bitterness rivaled the Oil War of 1872. It was now to be seen whether Mr. Rockefeller was as great in defensive as he was in offensive operations.