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The History of the Standard Oil Company

Chapter Seven—The Crisis of 1878

"THE Lord of the Oil Regions" was certainly no inapt title for Mr. John D. Rockefeller at the end of the year 1877 when he completed the union of all the pipelines of Pennsylvania into one company—the United Pipe Lines—for he was now practically the only gatherer, the only storer, and the only refiner of oil. How would he use his power" Would he permit the independent refining interests—a scant ten percent of the whole—to live? What would he do with the "poor producer"? Care for his product—give him what he claimed was his proportion of the profits of the business? What kind of an autocrat would Mr. Rockefeller show himself?

Serious Situation in the Oil Fields

The answer came sooner than was anticipated. It was hurried on by an unforeseen and difficult situation — a great outpouring of oil in a new field—the Bradford of or Northern Field in McKean County, Pennsylvania. About the time that Mr. Rockefeller's lordship was realized it became certain that a deposit of oil had been discovered which was going to lead soon to a production vastly in excess of the consumption, as well as in excess of the then existing facilities for gathering and storing oil. If Mr. Rockefeller wished to keep his monopoly he must, it was evident, enter upon a campaign of expansion calling for an immense expenditure of energy and money. He must lay pipes in a hundred directions to get the output of new wells; he must build tanks holding thousands of barrels to receive the oil. And all of this must be done quickly if rivals were to be kept out of the way.

There was no hesitation on the part of the United Pipe Lines. One of the greatest construction feats the country has ever seen was put through in the years 1878, '79, and '80 in the Bradford oil field by the Standard interests. It was a wonderful illustration of the surpassing intelligence, energy, and courage with which the Standard Oil Company attacks its problems. But while it was putting through this feat, which the writer hopes to take up more in detail in another article, it instituted a policy towards the producers which was regarded by them as tyrannical and unjustifiable.

Standard Takes Immediate Advantage

The first maneuver in this new policy hit the producer in a very tender spot, for it concerned the price he was to receive for oil. The method which prevailed at the time in handling and buying and selling oil was this:

At the request of the well owner connected with a pipe line his oil was run and credited to him in the pipe line office. Here he could hold it as long as he wished by paying a storage charge. If he wished to sell his "credit balance," as oil to his account was called, he simply gave the buyer an order on the line for the oil, and it was transferred to the account of the new buyer. The pipe lines frequently had hundreds of thousands of barrels of oil hand, and they traded with this oil as banks do with their deposits—that is, they issued certificates for each 1,000 barrels of oil on hand, and these certificates were negotiable like any other paper. Now the United Pipe Lines acknowledged itself a common carrier, and so was obliged to discharge the duty of collecting oil on demand, or at least within a reasonable time after the demand of its clients.

Famous ''Immediate Shipment" Order

But in December, 1877, after the monopoly was completed, they refused to discharge their obligations in the customary way. On the plea that they had not sufficient tankage to carry oil in the Bradford field, they issued an order that no oil would be run in that district for anyone unless it was sold for "immediate shipment"—that is, no oil would be taken to hold for storage; it would be taken for shipping only. At the same time the Standard buyer, J. A. Bostwick, decreed that henceforth no Bradford oil would be bought for immediate shipment unless it was offered at less than the market price. No fixed discount was set. The seller was asked what he would take; his offer was, of course, according to his necessities. Even then an answer was not always immediately given. The seller was told to come back in five or ten days and he would be told if his oil would be taken. A feature of the new order, particularly galling to the oil men, was the manner in which it was enforced. Formerly the buyer and seller had met freely in the oil exchanges and their business offices, and transactions had been carried on as among equals. Now the producers were obliged to form in line before the United Pipe Lines' offices, and to enter one at a time to consult the buyer. A line of a hundred men or more often stood during the hours set before the office, waiting their turn to dispose of their oil.

It should be said in justice to Mr. Bostwick that he was not the first buyer to take oil at a discount. The producers themselves frequently offered oil at less than the market price when in need of money, but Mr. Bostwick was the first buyer in a situation to force them to make this discount regularly.

When these orders came few of the producers had sufficient private tankage to take care of any amount of oil. Here was the situation then: to keep oil from running on the ground the producer must sell it; but if he sold it he must take a price from two to twenty-five cents or more below the market.

The immediate shipment order was not an invention of the United Pipe Lines. It had been enforced more than once for brief periods by various lines when they found their capacity overcrowded by some unexpected situation. In 1872 the epizootic among the horses so upset things in the Oil Regions that for a short time an immediate shipment order was enforced. In 1874, when the pipelines were overtaxed by a great outpouring of oil in the Lower Field, immediate shipment had been attempted, but at that time there were still so many independent pipes struggling for business that the movement met no success. Now, however, the United Pipe Lines had things their own way. That they were not ready to meet the growing Bradford production is plain from a study of the figures. There were in the Oil Regions at the close of 1877, according to the Oil City Derrick, 4,000,000 barrels of tankage. There was on hand at this time 3,127,837 barrels of oil, but the empty tankage was in the wrong place. In the Bradford field, where the daily production had suddenly increased from 2,000 barrels in January to 8,451 barrels in December, there was only a little over 200,000 barrels of tankage. In order to take care of the oil the pipelines began to make nearly all their shipments from that field, and oil piled up in the Lower Region to the great dissatisfaction of the producers there.

As soon as the situation of the Bradford field was realized both the United pipes and the producers began a furious campaign of tank building. By the beginning of April, 1878, the tankage there had been increased to 1,152,028 barrels. (*Derrick* Hand-Book, Vol. II.) Between April 1 and November 1 seventy tanks of from 10,000 to 25,000 barrels capacity were built in McKean County. The greater number of these belonged to the producers. According to the United Pipe Lines' statement, there was under their control in the entire Oil Regions in October 5,200,000 barrels of tankage, two-thirds of which belonged to producers, but was held by them under a lease. But oil poured from the ground faster than tanks could be built. In six months — that is, by July, 1878—the daily output of Bradford had become over 18,000 barrels, an increase of 10,000 barrels a day over that of the previous December. That it was a most difficult situation for everybody is evident. There was but one way to prevent loss — shut down the wells and stop the drill; but this the producers refused to consider. Of course the price of oil went down rapidly, so far did tire production exceed consumption. But why, cried the producer, when oil is already so low, take advantage of our necessity and force us into competition with each other; why enforce this immediate shipment? They answered their question themselves, and began then to make a charge against the Standard, which they continue to make today; that is, that they habitually meet the extraordinary expenses to which they are put by depressing the price of crude oil — "taking it out of the producer." The Bradford region demanded great investments, therefore immediate shipment. "The producer pays." The writer has no documentary proof that this is Mr. Rockefeller's policy, but there is no question that the Oil Region believes it is, and this belief must be taken into account if one attempts to explain the long warfare of the oil country on him and his company. It is a common enough thing today, indeed, to hear oil producers in northwestern Pennsylvania remark facetiously when a new endowment to Chicago University is reported: "Yes, I contributed so much on such a day. Don't you remember how the market slumped without a cause? The university needed the money, and so Mr. Rockefeller called on us to stand and deliver."

A few months after "immediate shipment" was begun a new cause for dissatisfaction arose. More or less private tankage leased to the lines had always been in existence. It enabled a producer to carry his oil without paying storage, and, of course, it was the business of the company to empty this storage within a reasonable time after the owner demanded it. But in the spring the lines, under the same plea of under capacity, refused to carry out this duty to the tank owner; that is, they refused to give him his tankage, although he had sold his oil. Thus A owns 5,000 barrels of tankage. It is full. He sells a portion of it to Mr. Bostwick, and asks the United Pipe Lines to run the oil accumulated at his wells. But the United Pipe Lines refuses on the ground that the line is full.

The loss to producers incident upon these orders was terrible. All over the Bradford field men saw their oil running on the ground, though they offered to sell it at ruinous prices, and though they might have thousands of barrels of tankage leased to the United Lines. Yet they did not riot; conscious that their own reckless drilling had brought on the trouble, they cursed the Standard, and put down more wells!

No Cars for Independents

But in the spring of 1878 Mr. Rockefeller and his colleagues instituted a series of maneuvers which shattered the last remnant of confidence the oil men had in the sincerity of their claim that they were doing their utmost to relieve the distressed Oil Region, and that their measures were necessary to hold the producers in check. The Pipe Lines began to refuse to load cars for the shippers who supplied the few independent refiners with oil. The experiences of many of these independent oil men have been told before the courts. For instance, Mr. W. H. Nicholson, the representative of Mr. Ohlen, of New York, a shipper of petroleum, testified that in May, 1878, he began to have difficulty in getting cars. At Olean, one day, Mr. Ohlen telegraphed to the officials of the Erie Road to know if he could get 100 cars to run east. The reply came back yes. About noon, Mr. Nicholson says, he saw Mr. O'Day, the manager of the United Pipe Lines in which his oil was stored, and told him that he was waiting to have his cars loaded. Mr. O'Day at once said he could not load the cars. "But I have an order from the Erie officials, giving me the cars," Mr. Nicholson objected. "That makes no difference," Mr. O'Day replied; "I cannot load cars except upon an order from Pratt." Nor would he do it. The cars were not loaded for Mr. Nicholson, although at that time he had ten thousand barrels of oil in the United Pipe Lines, and an order for a hundred cars from the officials of the Erie Road in his hand.

Mr. B.B. Campbell, at that time president of the Producers' Union, gave his experience at this time in the suit of the Commonwealth against the Pennsylvania Railroad.

Rioting Threatened

"I never heard of a scarcity of cars until the early part of June, 1878; I came to Parker about 5 o'clock in the evening, and found the citizens in a state of terrible excitement; the Pipe Lines would not run oil unless it was sold; the only shippers we had in Parker of any amount, viz., the agents of the Standard Oil Company, would not buy oil, stating that they could not get cars; hundreds of wells were stopped to their great injury; thousands more, whose owners were afraid to stop them for fear of damage by saltwater, were pumping the oil on the ground. I used all the influence I had to prevent an outbreak and destruction of railroad and pipe lines; I at once went over to the Allegheny Valley Railroad office and telegraphed to Mr. John Scott, President of the Allegheny Valley Railroad Company.

" 'The refusal of the United to run oil unless sold upon immediate shipment, and of the railroad to furnish cars, has created such a degree of excitement here that the more conservative part of the citizens will not be able to control the peace, and I fear that the scenes of last July will be repeated on an aggravated scale. That message I left in the office about seven o'clock in the evening. I got up the next morning before seven and received an answer.

" 'What do you advise should be done? John Scott.' I answered: 'Will meet you tomorrow morning,' which would be Saturday early.

"On Saturday morning I came in on an early train and met at the depot Mr. Shinn, then I believe Vice President of the Allegheny Valley Railroad Company; David A. Stewart, one of the directors of the road, and Thomas M. King, Assistant Superintendent. I spoke very plainly to Mr. Shinn, telling him that the idea of a scarcity of cars on daily shipments of less than thirty thousand barrels a day was such an absurd, barefaced pretence that he could not expect men of ordinary intelligence to accept it, as the preceding fall when business required the railroads could carry day after day from fifty to sixty thousand barrels of oil. Mr. Shinn stated clearly that I knew that the Allegheny Valley Railroad Company did not control the oil business over its line, but was governed entirely and exclusively by orders received from the Pennsylvania Railroad Company. I then requested him to be the vehicle of communicating to the Pennsylvania Railroad officials my views on the subject, telling him that I was convinced that unless immediate relief was furnished and cars afforded there would be an outbreak in the Oil Regions. After further conversation we parted. My interview with them was not as officials of the Allegheny Valley Railroad Company, but as representatives of the oil traffic carried and controlled by the Pennsylvania Road. On the next Monday I returned to Parker. After passing Redbank, where the Low Grade Road, the connecting link between the Valley Road and the Philadelphia and Erie Road, meets the Valley Road — between that point and Parker the express train was delayed for over half an hour in passing through *hundreds of empty oil cars*."

Favorite Project of the Independents

In June another exasperating episode occurred, growing out of an attempt of the oil men to secure an independent route to the seaboard. A route of their own, or at least working in their interest, had always been a favorite device of the oil men when they were squeezed. In the early days the excessive charges and the discriminations of the railroads had exasperated them frequently, until they attempted to secure railroad connections which they could control, and a pipeline bill which would allow them to lay a pipe in any direction where relief was promised; but they had always failed in these undertakings. One of the first movements to meet the South Improvement Company conspiracy was an arrangement to secure a new outlet by the lakes and canal, but the surrender of the conspirators had done away with that necessity. The only practical attempt that was made to meet Mr. Rockefeller's third plan of campaign was the union of independents with the Empire Transportation Company which Col. Potts proposed, and which, as was related in the April number of this magazine, was broken up by the long war which the Standard and the New York roads instituted for that purpose against the Pennsylvania Railroad. The news of the sale of the Empire plant to the Standard Oil Company was no sooner known in the Oil Regions than plans for an outlet to the seaboard which they could control began to be discussed.

Independent Pipe Line to Erie Canal

The first of the projects to be realized was that of the Equitable Petroleum Company, an organization made up of 200 oil producers of the Bradford field. This company, started by Lewis Emery, Jr., had concluded that their only hope lay in reaching the Erie Canal. Finding that certain parties in the Oil Regions had bought a right of way from the Pennsylvania state line to Buffalo, they acquired the title, and with their papers in hand sought an interview with representatives of the Buffalo and McKean Road, and told them if they did not consent that the Equitable lay a pipe line to their road, and did not contract to carry the oil from that connection to Buffalo, the pipe line to Buffalo would be laid. After considerable negotiation a contract was made with the railroad, and by June the new company was ready with pipe line, cars, and barges to carry oil to New York. But no sooner did they attempt to begin operations than the railroad, under pressure from the Pennsylvania Railroad, it was claimed, refused to carry out its contracts. The cars the Equitable ordered sent to the loading track were refused, a side track it had laid was torn up, the frog torn out; everything, indeed, was done to prevent the Equitable doing business, though finally a vigorous appeal to the law brought the road to terms, and in July oil began to flow eastward by this indirect route.

No sooner did the Standard find that the Equitable people were really doing business than they appealed to the railroads. A meeting of the representatives of the trunk lines was held at Saratoga in July, and the rates on crude eastward were dropped to eighty cents to meet the new competition.

First Attempt to Build Seaboard Pipe Line

While this fight was going on against the Equitable all sorts of interference was falling in the way of a much more ambitious project; nothing less than a plan for a six-inch pipe line from Clarion County, western Pennsylvania, to Baltimore, Maryland, a distance of 235 miles. This project was the revival of a plan for a seaboard pipe line which had made much noise in the country in 1876, but which had finally failed through the bankruptcy of its backers. At that time a route had been surveyed and estimates published by no less an engineer than General Hermann Haupt. The men interested in the present project engaged General Haupt to survey their route. A strong effort was made to pass a free pipe line bill, but this failed, as it always had before, and General Haupt was instructed to purchase a right of way. But from the first the idea met with opposition of the kind most difficult to combat. It was ridiculed as chimerical to attempt to pump oil over the mountains, and General Haupt was declared to be a visionary engineer with a record of failures. The Hoosac Tunnel scandal was dragged out. He had built a bridge which fell down, etc., etc. The farmers were told that the leakage from the pipe line would ruin their fields and endanger their buildings, and an active campaign to excite prejudice was carried on in the farmers' papers. Philadelphia and Pittsburg both fought the plan, the press and the Chambers of Commerce opposing the free pipe bill and the project generally. In Pittsburg the opposition created almost a riot, for the oil producers of the Lower Field, who had long bought their supplies there, now threatened to boycott the city if the pipe line was fought. So strong was the opposition that capital took fright and the company found it most difficult to secure funds. This opposition to the pipe line was, of course, charged against the Standard and the Pennsylvania Railroad.

Now, while the railroads were refusing cars to independent shippers, or if they gave an order for them, the United Pipe Lines were refusing to load them, while the Standard and the railroads were doing the utmost to prevent the Equitable Line doing business, and were discouraging in every way the seaboard pipe line — new routes which would take care of a proportion, at least, of the oil which they claimed they could not handle — thousands of barrels were running on the ground in Bradford, and two of the independent refineries of New York shut down entirely in order that a third of their number might get oil enough to fill an order.

On the Verge of an Uprising

This interference with the outside interests thus preventing the small degree of relief which they would have afforded, and a growing conviction that the Standard meant to keep up the "immediate shipment" order, at least until it had built the pipes and tanks needed in the Bradford field, finally aroused the region to a point where riot was imminent. The long line of producers who filed into the United Pipe Lines' office day after day to sell their oil at whatever prices they could get for it, and who, having put in an offer which varied according to their necessities, were usually told to come back in ten days, and the buyer would see whether he wanted it or not — this long line of men began to talk of revolution. Crowds gathered about the offices of the Standard threatening and jeering. Mysterious things, cross bones and death heads were found plentifully sprinkled on the buildings owned by the Standard interests. More than once the slumber of the oil towns was disturbed by marching bodies of men. It was certain that a species of Ku Klux had hold of the Bradford region, and that a very little spark was needed to touch off the United Pipe Lines. In the mean time: things were scarcely less exciting in the Lower Fields. The "immediate shipment" order was looked upon there as particularly outrageous, because there was no lack of lines or tanks in that field, and when, in the summer of '78, there was added to this cause an unjustifiable scarcity of cars, excitement rose to fever heat.

"The Spirit of '72"

The only thing which prevented a riot at this time and great destruction of property, if not of life, was the strong hand the Petroleum Producers' Union had on the country. This organization had come into life immediately after the news of the sale of the Empire to the Standard. That news had been really like the sounding of the tocsin in the Oil Regions. It had revived the spirit of '72. But it was the spirit of '72 with new dignity and a discretion such as had never been before seen in the blatant regions. In every town from McKean County southwest to Butler the oil towns hastened to organize themselves into a secret society. Little by little it came out that a Producers' Union had been organized. From all that could be learned it looked very much as if the Petroleum Producers' Union had come into existence for business. On November 21, 1877, the first meeting of the new organization was held, "the Petroleum Parliament" or "Congress" it was called. This Congress, which met in Titusville, was composed of 172 delegates. It was claimed that it represented fully two thousand oil producers, and not less than seventy-five millions in money. It is certain it included the representative men of the Oil Regions, those to whose daring, hard work, and energy the discovery and development of the oil fields, as they were known at that time, were entirely due.

For four days the Congress was in session, and it is a remarkable comment on the seriousness with which it had undertaken its work that, although reporters from all parts of the country interested in oil were present, nothing leaked out. In December a second session of four days was held in Titusville, but no announcement of what was doing was made to the press. Indeed, it was only as lines of action developed that the public became familiar with what the producers had resolved on in the days of secret session which they had held. That the Union was behind the seaboard pipe line scheme, and was doing its utmost to help the Equitable Petroleum Company, soon became evident. It was seen, too, that they had begun a serious campaign in the State Legislature in favor of a free pipe line bill and against discrimination in freights by the railroads, and that they were going to carry the fight against discrimination into the Federal Congress. It soon developed that the Union had a strong Committee on Legal Remedies, which was bent on seeing what existing laws could do to overcome the wrongs the oil men were suffering.

Appeal to the Governor of Pennsylvania

It was the Producers' Union which came to the front in July to prevent an outburst. Fearing that if violence did occur their cause would be much injured in the courts, they sent a committee of twenty-five men to Harrisburg to see Governor Hartranft. They laid before him and the Attorney General of the State the grievance of the oil producers, demanding that the United Pipe Lines be made to perform its duty as a public carrier, and the railroads be made to cease their discrimination against shippers both in the matter of rebates and in furnishing cars. They called the governor's attention to the fact that there were already existing laws touching these matters which, in their judgment, met the case, and if the existing laws did not give them relief, that it was the plain duty of the executive to call a meeting of the legislature and pass such acts as would do so. Governor Hartranft was much stirred by the story of the producers. He went himself to the Oil Regions to see the situation, and in August directed the producers to put their demand into the form of an appeal. This was done, and it was decided to bring proceedings by writ of *quo warranto* against the United Pipe Lines, and by separate bills in equity against the Pennsylvania Railroad and the other lines doing business in the State. It was September before the State authorities began their investigation of the United Pipe Lines, the hearings being held in Titusville. Many witnesses summoned failed to appear, but enough testimony was brought out in this investigation to show that the railroads had refused to furnish cars for independents when they had them empty, and that the United Pipe Lines had clearly violated its duty as a common carrier. In his report on this investigation the Secretary of Internal Affairs, William McCandless rendered a verdict that the charges of the oil producers had not been substantiated in any way that demanded action.

"Buck" McCandless's Report

The indignation which followed this report was intense. It found a vent in the hanging in effigy of McCandless, who was universally known in the State as "Buck." In the Oil Exchange at Parker, on the morning of October 19, the figure of a man was found hanged by the neck to a gallows, and the producers left it hanging there all day, so that they might jeer and curse it. Across the forehead of the effigy in large blood-red letters were the words:

PENNSYLVANIA RAILROAD

Pinned to the gallows there was a card bearing a quotation from Secretary McCandless's report:

> The charges of the oil producers have not been substantiated in any way that demands action.

In Bradford a huge effigy hung in the streets all day, and in the village of Tarport, near by, another swayed on the gallows. They pulled down the effigy at Bradford, and drew from a pocket what purported to be a check signed by John D. Rockefeller, President of the Standard Oil Company, in favor of "Buck" McCandless, for $20,000, and endorsed by the Pennsylvania Railroad Company. That represented the price, they said, that McCandless got for signing the report. Throughout the oil country there was hardly an oil producer to be found not associated with the Standard Oil Company who did not believe that McCandless had sold himself and his office to the Standard Oil combination for $20,000, and used the money to help on his Congressional canvass.

The excitement in the Oil Regions spread all over the country. Something of the importance the press attached to it may be judged from the way the New York *Sun* handled the question. For six weeks it kept one of the ablest members of its staff in the Oil Regions. Six columns of the first page of the issue for November 13 was taken up with the story of the excitement, coupled with the full account of the South Improvement Company, and the development of the Standard Oil Company out of that concern. On November 23 the first page contained four columns more under blazing headings.

The First Suits Brought

Early in 1879 the hearing in the suits in equity brought by the Commonwealth against the various transportation companies of which the producers had been complaining were begun. The witnesses subpoenaed failed at first to appear, and when on the stand they frequently refused to reply; but it soon became apparent to them that the State authorities were in earnest, and that they must “answer or go to Europe.” By March, 1879, an important array of testimony had been brought out. Among the Standard men who had appeared had been Mr. John D. Archbold, William Frew, Charles Lockhart and J. J. Vandergrift. A score or more of producers also appeared. The most important witness from the railroad circles, and, indeed, the most important witness who appeared was Mr. A. J. Cassatt. Mr. Cassatt’s testimony was startling in its candor and its completeness, and substantiated in every particular what the oil men had been claiming: that the Pennsylvania Railroad had become the creature of the Standard Oil Company; that it was not only giving that company rates much lower than to any other organization, but it was using its facilities with a direct view of preventing any outside refiner or dealer in oil from carrying on an independent business.

New York Begins Investigation

The same conditions which led to these suits led to investigations in other states. Towards the end of 1878 the Chamber of Commerce of New York City demanded from the legislature of the state an investigation of the New York railroads. This investigation was carried on from the beginning of 1879. The revelations were amazing. Before the Hepburn Commission, as it was called from the name of the chairman, was through with its work there had appeared before it to give testimony in regard to the conduct of the Standard Oil Company and of the relation of the Erie and the Central roads to it, H. H. Rogers, J. D. Archbold, Jabez A. Bostwick, and W. T. Sheide. A large number of independent oil men had also appeared. William H. Vanderbilt had been examined, and G. H. Blanchard, the Freight Agent of the Erie Road, had given a full account of the relation of the Erie to the Standard, perhaps the most useful piece of testimony, after that of Mr. Cassatt, which was given.

Ohio Takes a Hand

At the same time that the Pennsylvania suits were going on, and the Hepburn Commission was doing its work, the legislature of Ohio instituted an investigation. It was commonly charged that this investigation was smothered, but it was not smothered until H. M. Flagler had appeared before it and given some most interesting facts concerning rebates. A number of gentlemen who were finding it hard to do business also appeared before the Ohio committee and told their stories. Certain private lawsuits against the Standard were also in progress at this time. By April, 1879, there had been brought out in these various suits and investigations a mass of testimony sufficient, in the judgment of certain of the producers, to establish the truth of a charge which they had long been making, and that was that the Standard was simply a revival of the South Improvement Company. Now the verdict of the Congressional Committee had been that the South Improvement Company was a conspiracy. Therefore, said the producers, the Standard Oil Company is a conspiracy. Their hope had been, from the first, to obtain proof to establish this charge. Having this they believed they could obtain judgment from the courts against the officials of the company, and either break it up or put its members in the penitentiary. The more hotheaded of the producers believed that they now had this evidence.

Grounds for the Charge of Conspiracy

If one will examine the testimony which had been given thus far in the course of the various examinations one will see that there was reason for their belief. In the first place, it had been established that all the stockholders of the South Improvement Company, excepting four, were now members of the Standard Oil combination. Indeed, the only persons holding high positions in the new combination at this date who were not South Improvement Company men were Charles Pratt, J. J. Vandergrift, H. H. Rogers, and John D. Archbold. The South Improvement Company had been a secret organization. So was the new Standard alliance; that is, the most strenuous efforts had been made to keep it secret; for instance, the sale of the works of Lockhart, Warden & Pratt to the Standard was kept from the public. Indeed, it was a year after these sales before even the Erie Railroad knew that Mr. Rockefeller had any affiliations besides those with Pratt & Company, and it made its contracts with him on this assumption. When purchases of refineries were made it was the custom to continue the business under the name of the original concern; thus, when Mrs. A., of Cleveland, sold in 1878, as recounted in this magazine for March, the persons selling were obliged to keep the sale secret even from the employees of the concern. “The understanding was with regard to the sale of the property to the Standard Oil Company,” said the shipping clerk in his affidavit, “that it should not be known outside of their own parties, that it was to be kept a profound secret, and that the business was to be carried on as if the --- Oil Company was still a competitor.”

One of Mr. Rockefeller’s Affidavits

To keep the relations of the various Standard concerns secret Mr. Rockefeller went so far, in 1880, as to make an affidavit like the following: ,”It is not true, as stated by Mr. Teagle in his affidavit, that the Standard Oil Company, directly or indirectly through its officers or agents, owns or controls or has control of the works of Warden, Frew & Co., Lockhart, Frew & Co., J. A. Bostwick & Co., C. Pratt & Co., Acme Refining Compan, Imperial Refining Company, Camden Consolidated Company, and the Devoe Manufacturing Company, or any of them; nor is it true that the Standard Oil Company, directly or indirectly through its officers or agents, owns or controls the refinery at Hunter’s Point, New York. It is not true that the Standard Oil Company, directly or indirectly through its officers or agents, purchased or acquired the Empire Transportation Company or furnished the money therefor; nor is it true that the Standard Oil Company inaugurated or began or induced any other person or corporation to inaugurate or begin a war upon the Pennsylvania Railroad Company or the Empire Transportation Company, as stated in the affidavit of Mr. Teagle."

No doubt there is a technical explanation of this affidavit, although abundant testimony is in existence showing that the works of Messrs. Pratt, Lockhart & Warden, at least, had been bought long before this affidavit was made, and paid for in Standard Oil Company stock, and that they were working in alliance with that company. It was shown in the April number of this magazine that on October 17, 1877, the Standard Oil Company paid $2,500,000 in certified checks on the purchasing price of the plant of the Empire Transportation Company.

Standard Officials Reluctant Witnesses

While none of the other members of the Standard Oil Company examined in 1879 were quite so sweeping in their denials, all of them evaded direct answers. The reason they gave for this evasion was that the investigations were an interference with their rights as private citizens, and that the government had no business to inquire into their methods. Consequently, when asked questions, they refused to answer "by advice of counsel." Ultimately the gentlemen did answer a great many questions. But taking the testimony all in all through these years, it certainly is a mild characterization to say that it totally lacks in frankness. The testimony of the Standard officials before the Hepburn Commission was so evasive that the committee in making its report spoke bitterly of the company as "a mysterious organization whose business and transactions are of such a character that its members decline giving a history or description of it lest this testimony be used to convict them of a crime." The producers certainly were right in claiming that secrecy was a characteristic of the Standard as it had been of the South Improvement Company.

The new Standard combination, like the South Improvement Company, aimed at controlling the entire refining interest. "The coal oil business belongs to us," Mr. Rockefeller once told a recalcitrant refiner. His associates were saying the same on all sides; "the object of the Standard Oil Company is to secure the entire refining business of the world," a member of the concern told B. F. Nye, an Ohio producer. The degree of success they had met in carrying out this ambition has been already shown. In 1879, so Mr. Rogers told the Hepburn Commission, they controlled from 90 to 95 per cent, of the refining interests of the country.

Rebates Again — The Old Story

From the days of the collapse of the South Improvement Company the Standard Oil Company had enjoyed rebates. These special rebates had steadily increased, until in 1877 Mr. Rockefeller had been able to make with all the trunk lines contracts which in every particular paralleled the contracts which in January, 1872, Messrs. Scott, Gould, Vanderbilt, and McClellan made with the South Improvement Company. They now had a rebate on every barrel of oil they shipped, and this was given with the understanding that the railroad should allow no rebate to any other shipper unless that shipper could guarantee and furnish a quantity of oil for shipment which would, after deduction of his commission, realize to the road the same amount of profit realized from the Standard trade.

No clause in the South Improvement Company's contract with railroads had given more offence to the oil world than that which called for a drawback to the company on all the oil shipped by outsiders. It will be remembered that the beneficiaries of this contract were to receive drawbacks of $1.06 a barrel on all crude oil that outside parties shipped from the Oil Regions to New York, and a proportionate drawback on that shipped from other points. The rebate system was considered illegal and unjust, but men were more or less accustomed to it. The drawback on other people's shipment was a new device, and it threw the Oil Region into a frenzy of rage. It did not seem possible that the Standard would attempt to revive this practice again, and yet when it had got its hand strongly on the four trunk lines it made a demand tor the drawback. On February 15, 1878, four months after the Pennsylvania succumbed to the Standard's demand, Mr. O'Day wrote to Mr. Cassatt: "I here repeat what I once stated to you, and which I wish you to receive and treat as strictly confidential, that we have been for many months receiving from the New York Central and Erie railroads certain sums of money, in no instance less than twenty cents per barrel *on every barrel of crude oil carried by each of these roads*." Continuing, Mr. O'Day says: "Cooperating as we are doing with the Standard Oil Company and the trunk lines in every effort to secure for the railroads paying rates of freight on the oil they carry, I am constrained to say to you, that in justice to the interests I represent we should receive from your company at least twenty cents on each barrel of crude oil you transport . . . In submitting this proposition I find that I should ask you to let this date from the 1st of November, 1877, but I am willing to accept as a compromise (which is to be regarded as strictly a private one between your company and ours) the payment by you of twenty cents per barrel on all crude oil shipments commencing with February 1, 1878."

Subservience of the Pennsylvania

Mr. Cassatt complied with Mr. O'Day's request. In a letter to the comptroller of the road he said that he had agreed to allow this commission after having seen the receipted bills, showing that the New York Central allowed them a commission of thirty-five cents a barrel, and the Erie Railroad a commission of twenty cents a barrel on Bradford oil and thirty cents on all other oils. Thus the Standard Oil Company, through the American Transfer Company, received, in addition to rebates on its own shipments, from twenty to thirty-five cents drawback a barrel on all crude oil which was sent over the trunk lines by other people as well as by itself. In the suit of the Commonwealth against the Pennsylvania accounts of the road were brought into court for examination. In the course of the examination the following conversation occurred between Mr. Cassatt and the examiner:

"I understand, Mr. Cassatt, that this 22-1/2 cents paid to the American Transfer Company is not restricted to all oil that passed through their lines."

"No, sir; it is paid on all oil received and transported by us, as 1 before stated."

And the following between an assistant auditor of the road and the examiner:

"Upon this paper appears the name of H. C. Ohlen as a consignee of 29,877 barrels of oil upon which the American Transfer Company was allowed a rebate of twenty cents per barrel. Assuming that Mr. Ohlen is an outside refiner (he was an outside shipper), not connected with the Standard Oil Company, can you explain how the Pennsylvania Railroad Company allowed that re-rebate to the American Transfer Company?"

"The character of my duties will not permit me to answer that question, as I have not sufficient personal knowledge of it."

Another offensive clause of the 1872 contracts was that pledging the railroads to lower or raise the gross rates of transportation for such times and to such extent as might be necessary to overcome competition. Now the new contracts of the Standard provided the same arrangement; that is, they stipulated that the rates were to be lowered if necessary so as to place the Standard on a parity with shippers by competing lines. The workings of the clause were illustrated when the producers got the Equitable Line through in 1878, the railroads dropping their charge to eighty cents a barrel, and in some cases even less. Later, in June, 1879, when the Tidewater Pipe Line got through to Williamsport, on the Reading Railroad, the United Pipe Lines dropped their charges from thirty to five cents a barrel, and demanded of the railroads that they ship as low as twenty cents, assuring them that in thirty days they would have the Tidewater dried up.

South Improvement Co. Redivivus

Enough has been said to show that the producers had evidence for their claim that the contracts of the South Improvement Company and the Standard Oil Company with the railroads were similar in every particular as far as principles were concerned — that they differed alone in the amounts of the rebates and drawbacks.

The avowed object of the South Improvement Company was to put up the price of refined oil. With the increase of crude oil and the consequent lower prices refined naturally fell. Both combinations were formed to keep the refined article scarce on the market by controlling all the refineries and by refusing to sell under competition. The officials of the South Improvement Company stated under oath that they hoped to raise the price fifty per cent. The Central Organization hoped to put up the price of refined to twenty-five cents. Now, at that time, March, 1875, crude oil was selling at $1.63 a barrel, a price which called for not over sixteen cents a gallon for refined. Already the country had had a spectacular demonstration of what could be done in keeping up the price of refined, for in the winter of ’76 and ’77 the first fruits of the Standard Oil combination may be said to have been reaped, when for nearly six months refined was kept at or above twenty-six cents. According to the estimate of the period, crude oil should sell for $4 when refined was at twenty-six cents. Yet there was not a month of this period when crude averaged $4. In December, when refined averaged 29-3/8 , crude was down to $3.78-1/8. That is, the Standard had obtained such a control of the market that they sold their product at a price out of all proportion to the price of the raw product. This, of course, had been exactly what the producers had declared the South Improvement Company would do if it got hold of the refining interests as it planned. Even in the case where certain large producers had entered into a partnership with the Standard on condition that they pay them prices for crude commensurate with the price of refined, these producers claimed the agreement had not been kept. One of these cases came to light in a suit instituted in 1878. It seems that some time in December, 1874, the large oil company of H. L. Taylor & Company sold a one-half interest in its property to the Standard Oil Company. The reason for the sale the plaintiffs stated in their complaint to be as follows:

Example of the Standard’s Methods

The extent of their (the Standard’s) business and control over pipe lines and refineries had enabled them to procure, and they had procured from the railways, more favorable terms for transportation than others could obtain. These advantages and facilities placed it within their power to obtain, and they did obtain, far better and more uniform prices for petroleum than could be obtained by the plaintiffs. The said organization and firms, by virtue of their monopoly of the business of refining and transportation of oil, had been at times almost the only buyers in the market, and at such times had been enabled to dictate and establish a price for crude oil far below its actual value, as determined by prices of refined oil at same dates, and they thus obtained a large share of the profits which should have fallen to the plaintiffs and other purchasers. The sale was made, and in consideration of the foregoing premises, and upon the promise and agreement on the part of the defendants that the partnership thus formed should have the benefit of the advantage and facilities of the said defendants, and the organizations and firms managed and controlled by defendants, in marketing its oil; that the firm should have to the extent of its production the advantage of the sales of refined by the defendants or said Standard Oil Company, either for present or future delivery, so that there should be at no time any margin or difference between the ruling price of refined oil, and the price which defendants would pay the partnership for the crude by it produced, beyond the necessary cost of refining. This thing formed the inducement, and the larger part of the consideration for the sale of said property to defendants. The amount actually received for said interest was far beneath its actual value, and without the agreement on the part of the defendants to pay to the partnership for its product prices at all times commensurate with the prices of refined oil, they would not have sold the said interest nor entered into said partnership.

The defendants, although requested to do so, have not only failed, neglected and refused to comply with this agreement, but have, by false and erroneous statements, misled the plaintiffs, and induced them to consent to the sale to them and to the Standard Oil Company of large quantities of crude petroleum, produced by the partnership at prices far below its actual value, to the great loss and damage of the orators. That on or about December 16, 1876, refined was selling at a price equivalent to about $7 for crude oil, at which time plaintiffs called upon defendants for a compliance with their agreement, and asked that they take or purchase 210,000 barrels of the production of the partnership at a price commensurate with the price of refined at the time. This defendants neglected and refused to do, and the partnership was forced to sell the same at prices varying from three to four dollars, making a loss to the partnership upon this one transaction of from $600,000 to $1,000,000, for which said defendants neglect and refuse to account.

That the said defendants for themselves, and for the said Standard Oil Company and other organizations and firms aforesaid, have since the formation of the partnership received from the railways a rebate for drawback in the shape of wheelage, or otherwise at times as high as one dollar per barrel upon all oil shipped by them to the seaboard. That instead of using these advantages which they possess for the benefit and profit of the partnership, as they covenanted to do, they have used them against its interest by restraining trade, preventing competition, and forcing plaintiffs to accept any price which defendants, the said Standard Oil Company, or the other organizations aforesaid, might offer for their production. That the amount of oil produced and sold by the partnership for the three years beginning with the date of its formation, and ending December 1, 1877, was 2,657,830 barrels. That the profits of defendants upon oil refined by them during said period, taking into consideration the rebates and drawbacks received from the railways, have averaged at least one dollar per barrel over and above the cost of refining, and at times as high as four and five dollars. That these profits, under the partnership agreement that no margin should exist between crude and refined prices, should to the extent of the production of the partnership have been paid by defendants to the partnership. That the amount lost by the partnership and realized by the defendants, by reason of the failure and refusal of said defendants to comply with their agreement, is not less than $2,500,000, for one-half of which defendants should account to your orators, but which they neglect and refuse to do.

The Case for Criminal Conspiracy

Naturally enough the producers now pointed out that the case of the H. L. Taylor Company was a demonstration of what they had claimed in 1872, when the South Improvement Company, alarmed at the uprising, offered them a contract, and what they had always claimed since when the Standard offered contracts for oil on a sliding scale, viz., that such contracts were never meant to be kept; that they were a blind to enable the Standard to make scoops such as they had made in the winter of 1876 and 1877.

Taking all these points into consideration:

First: That the Standard Oil Company, like the South Improvement Company, was a secret organization;

Second: That both companies were composed in the main of the same parties;

Third : That it aimed, like its predecessors, at getting entire control of the refining interest;

Fourth: That it used the power the combination gave it to get rebates on its own oil shipments and drawbacks on the shipments of other people;

Fifth : That it arranged contracts which compelled the railroads to run out all competition by lowering their rates;

Sixth: That it aimed to put up the price of refined without allowing the producer a share of the profits; —

Taking all these points into consideration, many of the producers, including the president of the Petroleum Producers' Union, Mr. B. B. Campell, and certain members of his council, came to the conclusion that as they had sufficient evidence against the members of the Standard combination to insure conviction for criminal conspiracy, they should proceed against them. Strenuous opposition to the proceeding as hasty and ill-advised developed in the council and the Legal Committee, but the majority decided that the prosecution should be instituted. Mr. Scott and Mr. Cassatt were omitted from the proposed indictment on the ground that they were already weary of the Standard, and would cease their illegal practices gladly if they could.

The Indictment of Mr. Rockefeller

On the 29th day of April, 1879, the Grand Jury of the County of Clarion found an indictment against John D. Rockefeller, William Rockefeller, Jabez A. Bostwick, Daniel O'Day, William G. Warden, Charles Lockhart, Henry M. Flagler, Jacob J. Vandergrift, and George W. Girty (Girty was the cashier of the Standard Oil Company). There were eight counts in the indictment, and charged, in brief, a conspiracy for the purpose of securing a monopoly of the business of buying and selling crude petroleum, and to prevent others than themselves from buying and selling and making a legitimate profit thereby; a combination to oppress and injure those engaged in producing petroleum; a conspiracy to prevent others than themselves from engaging in the business of refining petroleum, and to secure a monopoly of that business for themselves; a combination to injure the carrying trade of the Allegheny Valley and Pennsylvania Railroad companies by preventing them from receiving the natural petroleum traffic; to divert the traffic naturally belonging to the Pennsylvania carriers to those of other States by unlawful means; and to extort from railroad companies unreasonable rebates and commissions, and by fraudulent means and devices to control the market prices of crude and refined petroleum and acquire unlawful gains thereby.

Four of the persons in the indictment — Messrs. O'Day, Warden, Lockhart, and Vandergrift—all citizens of Pennsylvania, gave bail, and, early in June application was made to Governor Hoyt of Pennsylvania to issue a requisition before the Governor of New York for the extradition of the other five gentlemen.

With damaging testimony piling up day by day in three states, and with an indictment for conspiracy hanging over the heads of himself and seven of his important associates, matters looked gloomy for Mr. John D. Rockefeller in the spring of 1879. "The good of the oil business" certainly seemed in danger. But Mr. Rockefeller is not easily shaken. There is no evidence to show that he was perturbed in the least now, but he certainly was thinking hard, and evidence of this thinking was soon to come before the oil men.