STANDARD OIL

A Model Monopoly
The Origins of Standard Oil

• 1870: John D. Rockefeller and partners incorporate the Standard Oil Co. in Ohio
• Soon began a systematic program of acquiring competitors.
• By 1873, Standard had eliminated most competition within Ohio (1/3 of total US production), and began to spread into the Northeast.
Standard’s Methods

Standard employed a variety of cut-throat strategies and tactics to undermine (and eventually acquire) its competitors. These included:

- Undercutting prices
- Buying oil barrel components
- Railroad rebates
- Corporate espionage and violence
- Technical innovation (use of petroleum in operations)
Standard expands

• Taking advantage of the financial panic of 1873, Standard was able to consolidate control of refineries in PA and NY
• By 1878, Standard controlled 90% of all oil refined in the US.
• Soon controlled most US marketing as well.
Standard’s Marketing Division - 1886
Vertical Integration

• Standard began to expand its control of the oil industry by expanding beyond its traditional refining business into all stages of oil and gas production.
• Acquired pipelines, railroad tank cars, terminal facilities and barrel manufacturing factories.
The Standard Oil Trust

• 1882: An attorney for Standard suggests a new corporate arrangement where the stockholders Standard’s group of companies transferred their shares to a single set of trustees who controlled all of the companies.

• In exchange, the stockholders received certificates entitling them to a specified share of the consolidated earnings of the jointly managed companies.
The Standard Oil Trust’s advantage

- Whereas refineries had earlier tried to control output through informal agreements, incentives to cheat prevented these attempts from succeeding.
- The trust model allowed Standard to function as a “highly disciplined monopoly.”
Effects of monopoly

The Standard Trust was soon realizing massive profits due to:

1. Effective control over prices.
2. Increased economies of scale.
3. The ability to further pressure suppliers and railroads into giving discounts and rebates.
Standard’s success

- Standard used its massive profits to expand its operations into W. Europe and Asia.
- Standard’s success at monopolizing the oil industry led to the establishment of trusts in over 200 other industries—including coal, steel, sugar, and tobacco.
The end of the Standard Oil Trust

- 1890: Sherman Anti-Trust Act
- In order to circumvent Federal law, Standard reincorporates as Standard re-incorporates as “Standard of NJ.”
- 1911: The Supreme Court finds Standard of NJ in violation of the Sherman Anti-Trust Act, orders the dissolution of the trust. “Rule of reason.”
The aftermath

• Standard was broken up into 33 separate vertically integrated oil companies.

• Standard’s breakup came during a period of transition in the oil industry: new supply (Texas), new demand (petroleum v. kerosene)
Where they are today

• Standard’s former companies continue to make up a significant portion of major oil companies.
• Exxon, Mobil (2), Chevron (7), Conoco (9), Amoco, and ARCO are all former Standard successors. (rank on Fortune 500)