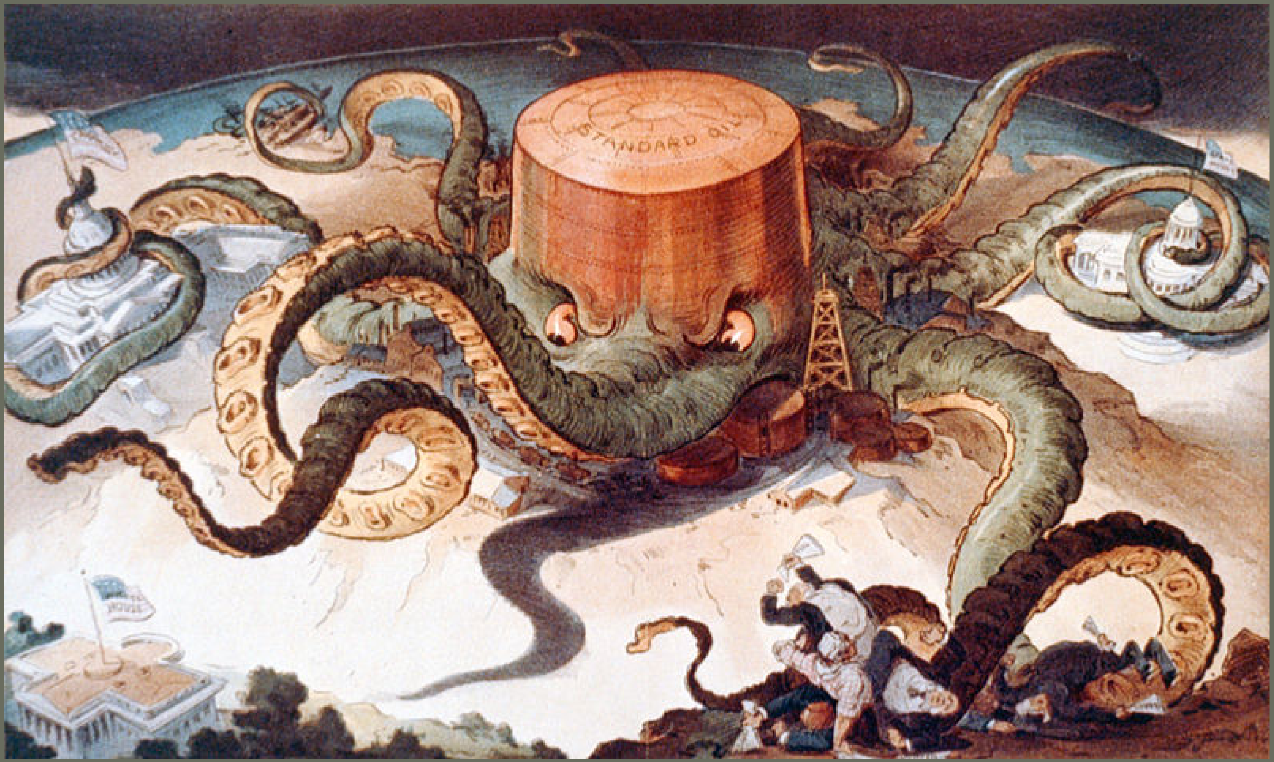
STANDARD OIL



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

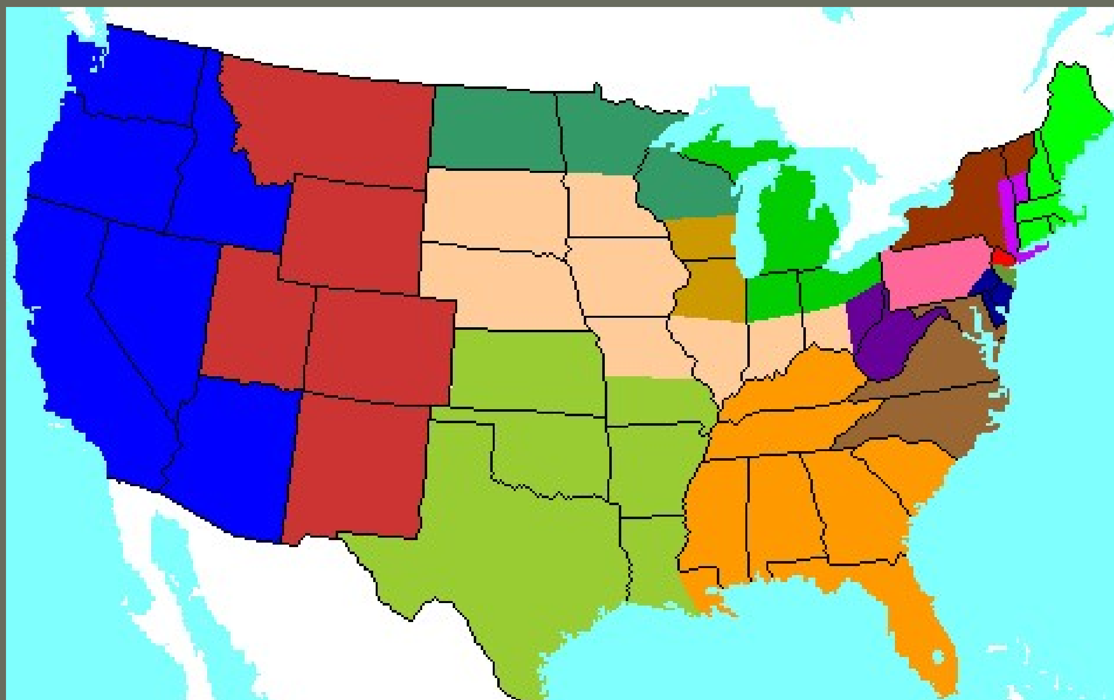
Standard employed a variety of cut-throat strategies and tactics to undermine (and eventually acquire) its competitors. These included:

- 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



	SO New Jersey		Maverick Oil
	SO Iowa		Acme Oil (NY)
	SO Ohio		McKirgan Oil
	Chess-Carley		Acme Oil (PA)
	SO New York		Baltimore United Oil
	Conoco		Camden Consolidated
	Atlantic		Globe Oil
	Waters-Pierce		Consolidated Tank
COLOR CODES FOR STANDARD OIL MAP			P.C. Hanford

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)