SUMMARY OF FEDERAL TRADE COMMISSION

REPORT ON ITS INVESTIGATION OF PIPE LINE PETROLEUM TRANSPORTATION AS ORDERED BY LAST CONGRESS.

Washington, Feb. 27.—A charge that petroleum pipe line companies of the mid-continent field, through high tariffs and unreasonable shipping requirements, have excluded independent shippers from their lines, was made today by the federal trade commission in its report to the senate on a special investigation of the business.

If the five systems that control the mid-continent pipe lines charged their own refineries for carrying oil at the rate they offer to carry it for the independents, the report declares, their annual net earnings would show a 41.5 per cent profit on their pipe line investments. As it is, they are declared to earn more than 19 per cent.

The investigation was ordered by the last congress, which later directed an interstate commerce commission inquiry. To avoid duplication, the trade commission confined its work to the mid-continent field, while the commerce commission turned its attention to systems operating in the east.

The commission summarizes its findings in this language:

"The dominant position of the mid-continent field makes the facts developed in this report of vital importance to the entire country.

"The fixed investment in pipe lines is extensive and corresponds closely with the actual cost of such property.

"Pipe line construction in the mid-continent field has followed, instead of preceded, crude oil production, and such investment is comparatively secure.

"There is a large difference between the cost of pipe line transportation, which is very low, and pipe line tariff rates, while the independent shippers cannot use railroads because their rates are still higher.

"The pipe line companies require large minimum shipments, which makes it impracticable for small producers or refiners to ship crude oil by pipe line.

"The price of crude oil delivered at the refineries is to a large extent made up of the transportation charge.

"The cost of pipe line construction is so great that small concerns can not build lines from the mid-continent field to the large consuming and distributing markets.

"Lower pipe line rates and smaller minimum shipments are necessary to enable the small concerns to compete with large refineries affiliated with pipe line companies.

"Reasonable and equitable conditions of shipment by pipe line would tend to a greater equality in the prices of mid-continent and Appalachian crude oil and in the prices of refined products in different markets."

Of the five large systems operating in the field the commission found that two belong to the Standard Oil company and that a third is controlled by Standard Oil capitalists. The Standard Oil lines are given as the Prairie, running northeast to Illinois and Indiana, the Oklahoma-Louisiana, running southeast to Baton Rouge, and the Magnolia, running south to Texas points. The others are the Gulf and Texas systems.

Of Standard Oil methods, the report said:

"The advantage which the Standard Oil group derives from the exclusive use of the only trunk line from the mid-continent field to the east would be largely removed if this pipe line system became a common carrier in fact as well as in name."

It is explained that though congress has declared pipe lines common carriers, little use has been made of them as such, as the small refiners almost without exception buy their crude petroleum locally. The interstate commerce commission has not yet passed on tariffs and requirements submitted by the pipe lines, because it has not completed its own investigation into pipe line conditions.

"While the Standard Oil interests have in this field some lines which show relative high costs," the report adds, "nevertheless their chief line running northeast to Chicago excels all others in capacity and in the extent to which that capacity is used. This line shows the lowest cost. This favorable situation is partly due to the fact that there is no other line running to points east of the Mississippi. As all the connecting trunk lines between this river and the Appalachian mountains are controlled by the Standard Oil group, and independent refineries are small and scattered, other pipe line concerns in the mid-continent field have not attempted to run their lines to the east, but have built them to the gulf of Mexico. For this reason the Standard refineries are able to obtain mid-continent oil at a great advantage over competing refineries located in the principal consuming districts."

The report has this to say of pipe line profits:

"The net earnings, before deducting bond interest, of the companies which operate the five pipe line systems in the mid-continent field, have been 19.33 pr cent on the net investment for the three-year period, 1911 to 1913. These net earnings, however, do not show what they earned from pipe line operations, because in most cases these companies are engaged in other branches of the oil business, such as producing, refining and marketing, and their pipe lines are operated merely as departments of this integrated form of business. These companies generally treat their earnings as though they arose entirely from merchandising oil, because they as yet have not to any significant extent performed the duty of common carriers.

"The signifiance of pipe line rates is best appreciated by showing the rate of return on investment which would be obtained if all the oil shipped by the interests owning the pipe lines were charged the tariff rates at which the pipe line offers to take the oil of other shippers. Taking all these five pipe lines together, the net investment aggregated in 1913 $43,857,000; the cost of transportation by pipe line, including depreciation on investment, $10,624,000; and the gross receipts which would have been obtained if tariff rates had been charged on all the oil carried, $28,837,000. On this basis the earnings would have been $18,213,000 and the rate of return on the net investment 41.5 per cent. "The variation in net earnings for the five different systems would have been considerable, ranging from fourteen to 62 per cent."

The report goes into minimum quantity requirements of the pipe lines, which, it charges, excludes smaller concerns.

"Conditions made regarding the minimum quantity of oil which will be accepted for shipment," it says, "are such that the small oil producer or refiner is virtually precluded from using this method of transportation. The Prairie Pipe Line company makes the minimum requirement 100,000 barrels; certain others require at least 25,000. It is evident, therefore, that a minimum requirement of 100,000 barrels is not necessary. But a minimum requirement of 25,000 would appear to be excessive.

"The really difficult problem, for pipe lines acting as common carriers would appear to arise when the shipments offered exceed the capacity of the line, and in that case some equitable rule would have to be determined for apportioning shipments. * * * Furthermore, there is no opportunity to get cheaper transportation by other means, because the rail rates are higher still."

The report concludes:

"The conclusion is evident that lower rates and equitable shipping requirements by pipe line are necessary in order to make pipe lines common carriers in fact as well as in law, and that the prosperity and even the existence of many small concerns are dependent upon reasonable and equitable shipping conditions.

"Lower pipe line rates and reasonable pipe line shipping requirements would enable many small producers and refiners to transport crude oil from the Mid-Continent field by pipe line who are now unable to do so, and would, therefore, tend to equalize competition in the sale of crude oil by increasing it in some markets where it is slight or non-existent and by reducing it in others where it is extraordinarily keen. While the natural disadvantage of location of the Mid-Continent field with respect to the largest consuming markets can not be removed, the artificial disadvantage due to high pipe line rates and shipping requirements can be eliminated.

"The removal of these artificial disadvantages would tend to a greater equality in the prices of Mid-Continent and Appalachian crude oil, and consequently the prices of the refined products which are made from them would tend to be more equal in different markets of the United States. Whether the general level of prices of refined products would be thereby reduced or kept at a lower level, would depend chiefly upon the movement of the prices of crude oil. Such prices, under conditions of free comeptition in purchase and sale, would be determined by supply and demand. Competition would be promoted, however, and more equitable conditions established by the removal of these artificial disadvantages imposed on the Mid-Continent field.'

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A great deal of interesting tobacco history has been made since the Durham bull first made his appearance. Years ago he stood for the most popular pipe tobacco in the world, but the vast army of "roll your own" cigarette smokers sprang up, apparently over night, and claimed the bull for their own. The famous old tobacco with which he is identified has gained in popularity very fast in recent years, but those who smoke it, seem now to prefer it in the little paper cubes. "Rolling your own" at the "sign of the Bull" seems like a well-nigh universal custom.

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