Standard Oil, Rubber And the Cartel Question

By Joseph A. Fox.

Standard Oil is back on the front pages again and a highly interested American public is called upon to decide whether the sprawling industrial giant is cast in the role of betrayer of the public trust or public benefactor.

This question was posed 10 days ago when the Justice Department went into Federal District Court in Newark and filed a consent decree ending a 13-year alliance between the New Jersey corporation, holding company for the vast Standard Oil enterprises, and I. G. Farbenindustrie, the German dye trust, which, it was charged, had stifled the production of synthetic rubber in this country, put control of the output of this vital material in the hands of the Hitler government and is "the principal cause of our present shortage."

To a Nation accustomed to ride and now facing long walks, the issue assumed even more importance a few hours after the court action—in which Standard paid fines totaling $50,000—when Thurman Arnold, Assistant Attorney General in charge of the anti-trust division of the Justice Department who was responsible for the dissolution proceedings, appeared before the Senate Defense Committee to amplify the rubber charges and enlarge upon "Standard's participation in the German autarchy program." Citing examples, he said that as late as February and March of last year Standard was selling gasoline that enabled Axis airlines operating out of South America to defeat the British blockade.

"I think this approaches treason," said Senator Truman, Democrat, of Missouri, as the Government's story was unfolded.

Standard See Benefits.

Then Standard took the stand. For three days this past week, officials sat before the Defense Committee, categorically denying the rubber charges and countering with the declaration that it was due to the Standard tie-up with Farben that the United States today is able to push ahead with the production of synthetic rubber, and has a superior brand of gasoline for airplanes, and of explosives to drop from them.

Collateral charges likewise were explained away.

Then the committee dug a little deeper. W. S. Farish, Standard Oil president, had told the committee that the gasoline deliveries in Latin America had been made "in conformity with the policy" of the State Department. Later testimony by Assistant Secretary of State Berle was that this Government had forced discontinuance of the deliveries by taking steps to put the Standard subsidiary in Brazil on a blacklist that was being applied to curb Axis trade before this country entered the war.

There that matter rested over the week end.

The Standard-Farben alliance was one of nearly a dozen cartels involving great American and European industries against which the Government has moved in the last three years. Invariably they have concerned materials which now are indispensable for this country's war effort, and to several, Farben has been a party, the trail of the dye trust previously having been encountered in combinations dealing with magnesium, pharmaceutical products, dyes and photo supplies. Military optical glass, tungsten carbide for machine tools, and sex-hormones, a product used for aviators flying at high altitudes, are some of the other fields where foreign activity has been in evidence. Allocation to the participants of world trade areas has been part and parcel of these agreements, according to the Government.

Claims U. S. Production Stifled.

These world cartels, Mr. Arnold told the Senate Committee, have made the United States dependent on foreign nations for many of our most vital supplies by preventing production at home. Sometimes, he said, the combinations are justified by the participants on the grounds that they enable this country to have the advantage of foreign inventions. That, he continued, is equivalent to saying that by keeping American enterprise out of the field and stifling American experimentation, foreign coun-

at war. The parties to such contracts must therefore find some way of getting along with their own business while the contracts are so suspended."

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Monopoly Move Denied.

As to rubber, Vice President Frank A. Howard denied that the Farben agreement was a move toward a production monopoly. At one stage, he told the committee that "the agreement was a co-operative arrangement * * * to share in research and patents." At another he said that "the interest of Standard Oil in patents is primarily to benefit its own operations; licensing is secondary."

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Germany, no doubt looking forward to a day when it might have to depend on synthetic rubber, while at the same time being shut off from oil imports, developed a process for making rubber from coal. This is buna, which reputedly today is supplying Germany's military and industrial needs. Buna also can be produced from oil, and it is this type that now is in production over here.

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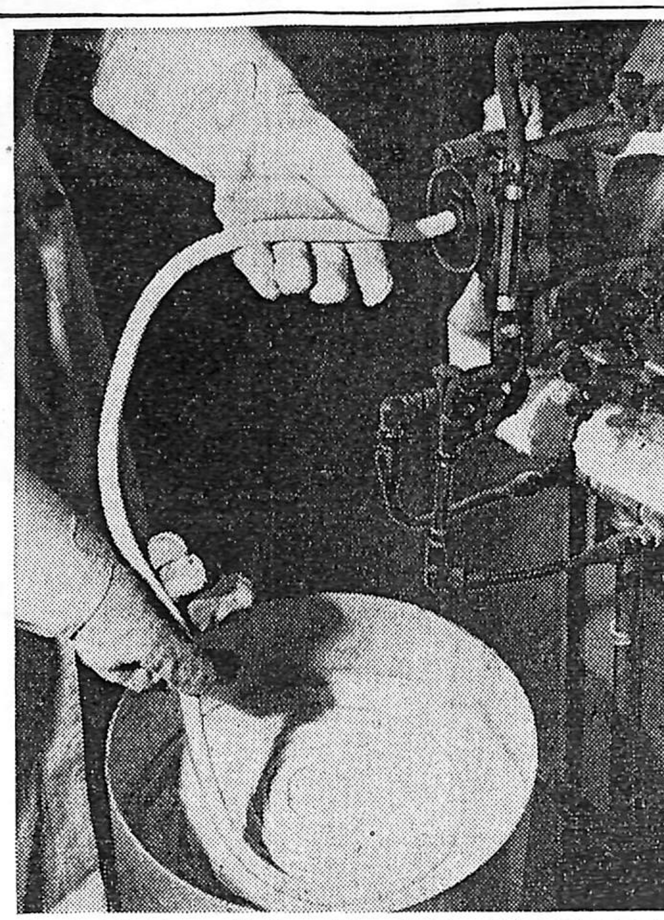

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Experimentation Held Hampered.

Another of the Government allegations dealt with the stumbling blocks reputedly put in the way of experimentation in this country by the patent-licensing restrictions imposed by Standard, and the further refusal of the company to furnish samples of butyl to other companies. No license has been issued under butyl patents, according to the Government, and Standard's own statement shows only five companies as having received samples for exploratory work—Firestone Tire & Rubber, United States Rubber, Acushnet Process Co., General Electric and United Carbon—before the Rubber Reserve Corp. took over the allocation. The Army and Navy, Bureau of Standards and two university professors working on defense products likewise had received samples.

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"The drastic shortage of critical materials today is proof of how fallacious that justification is," he concluded.

Describing the Standard-Farben agreement, which was set up in 1929, Mr. Arnold gave this picture: Standard, he said, desired a world monopoly in oil and synthetic gasoline. Farben was interested in chemicals. It was arranged that in the chemical field, which included synthetic rubber, Farben would have control, with Standard turning over to its German associate information or patents covering any chemical processes it discovered not directly connected with oil production. This included even the right to sell in this country. In return, he said, Farben agreed to give Standard any patents or discoveries directly concerning oil production, including synthetic gasoline, but at the same time reserved its own market in synthetic gasoline.

The deal was effected through patent pools, Mr. Arnold explained, and it was by this means, he added, that the restrictions were applied to American industry.

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Mr. Arnold also startled the committee with the information that the 1929 agreement was revised in 1939, after Germany was at war, to provide for "a modus vivendi which would operate through the term of the war, whether or not the United States came in."

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One of the Arnold charges was that Farben was refusing to turn over its buna process to Standard, but that the latter was giving the Germans all the information needed on butyl. This was denied, despite efforts of members of the Senate committee to wring such an admission from the two Standard witnesses. Mr. Farish said that as late as 1935, Farben was so dissatisfied with the results of the buna experimentation that consideration was being given to the purchase of a synthetic rubber developed by Du Pont. Mr. Howard said that even in 1937 the buna outlook was poor.

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Questioning of Mr. Howard by Senator Kilgore, Democrat, of West Virginia developed that Farben had held off in giving Standard the go-ahead to exploit buna—presumably on instructions from higher up—and as late as April, 1938, according to a memorandum put into the record, Mr. Howard was seeking to have this policy reversed. As that official explained to the committee, "No matter how strong your position may be, unless you make some use of a patent, some one will take it away from you," and Standard, he continued, had an investment in the buna patent that it wanted to protect by development if possible. As he explained it, however, control over what to do with the patent reposed in Farben until the trade in 1939, Standard being only a minority owner.

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Standard officials also have pointed out that, as a practical matter, butyl is of no help to Germany, for the country lacks oil to make it.

Another charge by Mr. Arnold was that a Standard representative at the Bayway (N. J.) plant had withheld information on the manufacture of butyl from a Navy man in 1939. Mr. Howard admitted that the technical details of manufacture had not been disclosed to this visitor—a civilian. The Standard official said he understood that the Government was interested only in the use of butyl, not the experimentation work that was being conducted on it. Industries do not ordinarily bare their research operations, he said, and he

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In the case of buna, company officials acknowledged that an effort was made in 1939-40 to prevent individual companies from undertaking development of the product for use in tires, but insisted that this policy was due to the belief that production on a large scale could be achieved only by co-operative action of the large companies.

Two Types of Buna.

There are two types of buna, one known as perbunan, a specialty rubber, and the other, buna-s, the tire rubber. Rubber companies agreed, Standard officials said, that the high-priced perbunan was the only product that had commercial possibilities at that time, and that the tire rubber could not be produced "without a considerable Government subsidy."

The first thought was to organize a concern owned jointly by all participating companies, but on advice of counsel that the project would run afoul of the anti-trust laws, the idea was dropped. Three rubber companies, however, according to Mr. Farish, were interested in producing perbunan, and licenses were offered to these with the proviso that the manufacturer would use his plant to turn out tires if the Government so asked.

The licenses permitted the companies to manufacture only for their own needs. Any surplus produced was required to be sold to Standard for resale to producers of rubber goods generally, the company contending that it had a right under its patents to occupy this field. These licenses were described by Mr. Farish as a stop-gap device until an industry-wide, unified venture could be undertaken. The Army and Navy Munitions Board believed the best results could be obtained by a joint venture, rather than individual experimentation, Mr. Farish said in this connection. The consent decree ends licensing restrictions, and does away with patent royalties until after the war.

Federal Attitude Cited.

Expanding on the efforts of Standard to interest the Government in synthetic rubber, Mr. Farish told of interchanges in 1939-40, and recalled that the program of the Government itself was reduced from 100,000 to 40,000 tons in December, 1940. Coming eventually to July, 1941, Mr. Farish said that in conformity with an arrangement by the Reconstruction Finance Corp., details were submitted covering a 10,000-ton butadiene (the raw material for butyl) project, and one of 15,000 tons. A few days later, the company was instructed to drop plans for the smaller plant and go ahead with the larger. Two months later, work on this was ordered suspended for a year. Standard, however,

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As to the relative merits of butyl and buna for tires, the committee was told that butyl is about 50 per cent as good as natural rubber at 40 miles per hour, while buna is practically as good as the natural product at that speed. Butyl, not yet in commercial production, can be made cheaper than buna.

Further answering Mr. Arnold's charge that Standard had received "nothing in return" in the deal with Farben, Mr. Farish said that among the processes acquired was one which had in it the "germ" of synthetic toluol, which is used in T. N. T. High octane gasoline for airplanes is another development from the German patents, he said.

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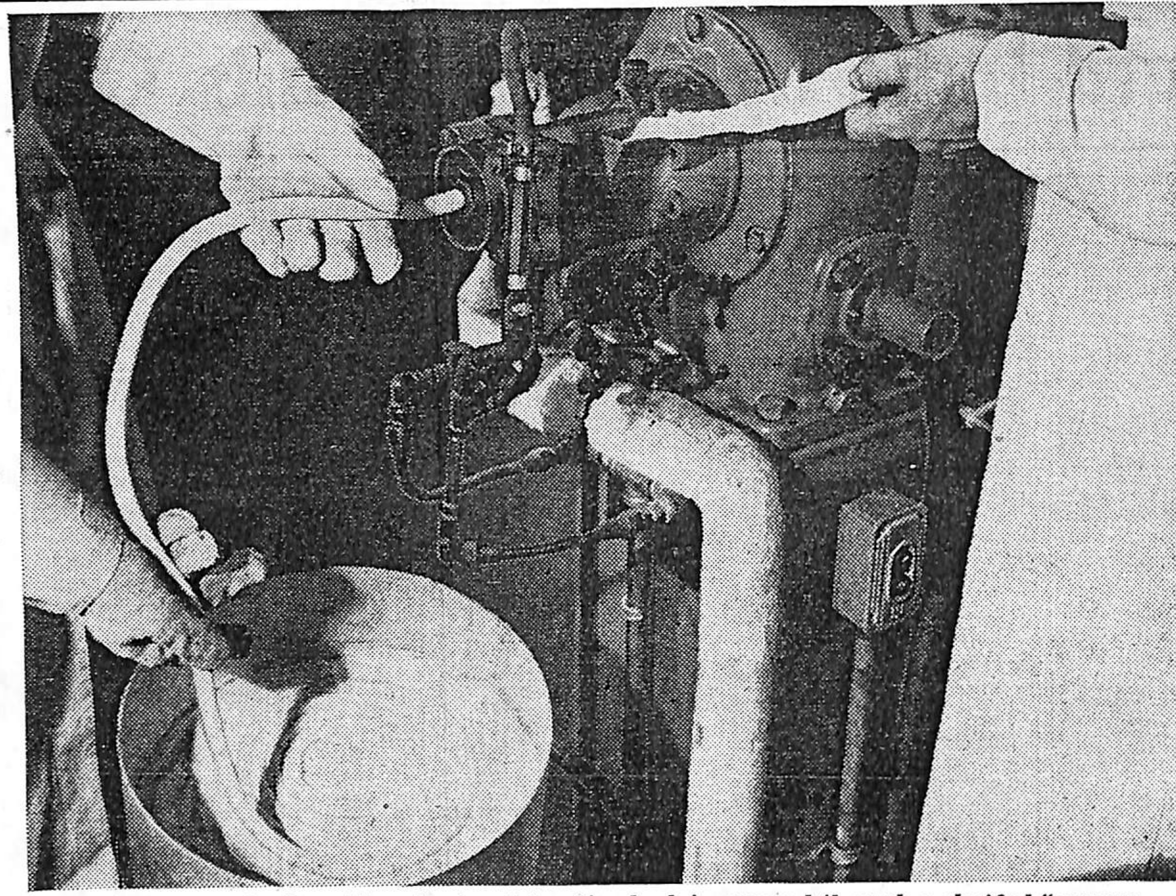

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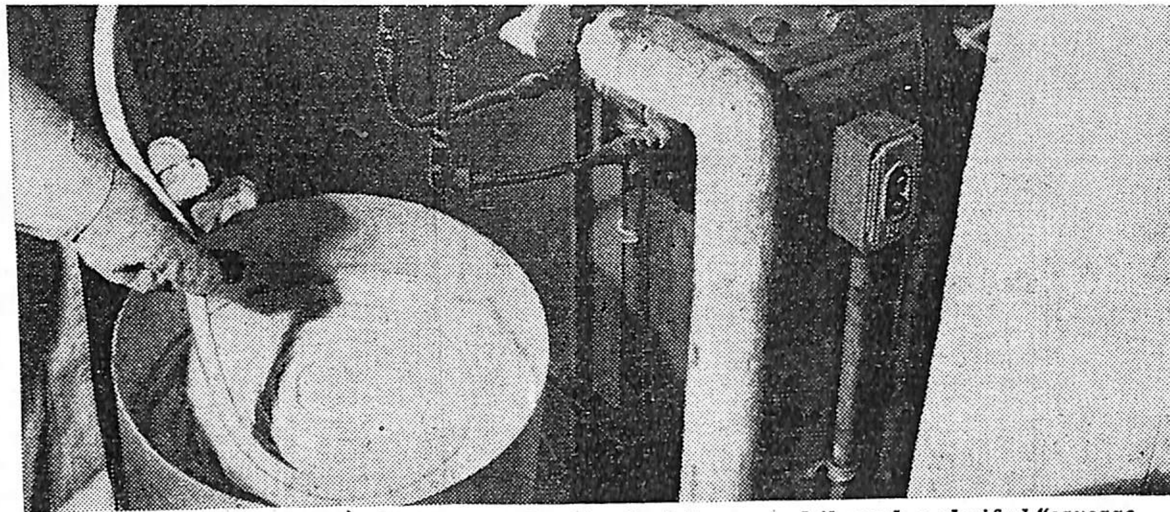

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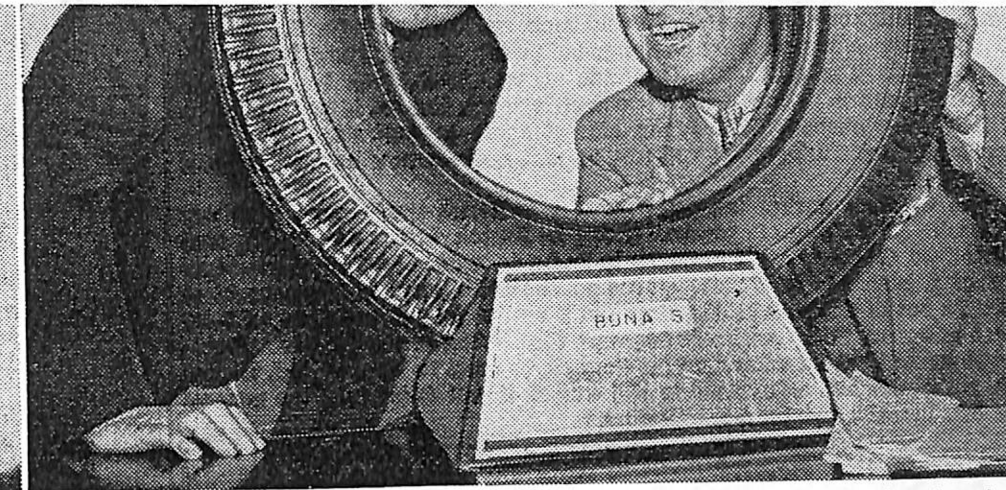

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In January, 1939—"eight months before even the European war started and nearly three years before Pearl Harbor," Mr. Farish told the committee—Standard "sought out" the Army and Navy Munitions Board and furnished full information on synthetic rubber development, both buna and butyl. From that time forward, he said, there has been the closest co-operation. At the very outset, according to the Standard president, the "Government was urged to act promptly if there was any possibility that rubber supplies might be cut off in the event of war." All the information on butyl was being obtained from laboratory pilot units until the middle of March, 1941, when engineers were ready to say they could design a commercial unit that would operate satisfactorily. At the time of Pearl Harbor, according to the witness, Standard had a $4,500,000 investment in butyl and was on a productive basis of 7,300 tons annually.

Experimentation Held Hampered.

Another of the Government allegations dealt with the stumbling blocks reputedly put in the way of experimentation in this country by the patent-licensing restrictions imposed by Standard, and the further refusal of the company to furnish samples of butyl to other companies. No license has been issued under butyl patents, according to the Government, and Standard's own state-

W. S. Farish, president of Standard Oil, defends the wartime "modus vivendi" between his company and I. G. Farben as "not a way to live together, but a way to live apart," before the Senate Defense Committee. —*Harris-Ewing Photo.*

Assistant Attorney General Thurman Arnold (right) tells the committee that the Standard-Farben cartel "is the principal cause of our shortage" of synthetic rubber. With Mr. Arnold is Special Assistant Joseph Borkin. —*Harris-Ewing Photo.*