

Future Today

HOW INNOVATION CAN CHALLENGE MONOPOLIES

It was spring 2019 as Peter Schmidt and Klaus Hansbauer sat together in a restaurant in Berlin, Germany. Peter was a journalist, Klaus worked in a governmental department. They had been friends for a long time and regularly discussed the global political and economic topics of the day over a good dinner and an even better glass of wine. Today's discussion revolved around **Nord Stream II**, a natural gas pipeline from Russia to Western Europe through the Baltic Sea which, due to various conflicting interests, had led to considerable political disputes between the countries concerned.

"I don't understand these fierce reactions at all especially from various unaffected governments," Klaus said. "Pipelines have been built for decades and now suddenly they are becoming a bone of contention?". "Well, that's not entirely true," Peter replied, while leaning back in his chair. "One of my ancestors, who emigrated to the United States in the 19th century, experienced the great oil boom in Pennsylvania. He worked for a small newspaper in Titusville, where the first successful oil well was drilled by Colonel Drake in 1859. By coincidence, last week I looked through his old records which are still in the possession of our family. The story around **Tidewater Pipeline** is particularly interesting and could help us to understand the strong resistance from governments, both near and far, which we are seeing today." And so, Peter began to tell.

Titusville 1879: Georg Schmidt sat in his small, rawly timbered office at the local newspaper. The city had grown strongly over the past 20 years, and a veritable

forest of drilling rigs had formed along Oil Creek. Countless oil companies had pumped the valuable raw material out of the soil. Despite the boom, it was a tough business. The oil still needed to be transported in barrels to the refineries, first by horse-drawn carriage and later by train.

In the oil refining market, John D. Rockefeller's **Standard Oil** Company, which focused on the downstream business of refining and selling the end products, was already close to a monopoly due to its domination of the transport routes. Guaranteeing certain quantities of cargo had enabled them to realise enormous discounts from the railway companies. In addition, there were clauses in Rockefeller's contracts requiring the railway companies to pay up to 25% of the freight rate as a "penalty" to Standard Oil when transporting oil from a third party – in the battle for freight, the railway companies were willing to agree to almost anything.

Analyzing the oil business was a passion of Georg. By controlling transport routes, Standard Oil not only managed to control the demand for crude oil and put pressure on the producers, but it also cut off the competing refineries from supplies enabling it to buy the refineries cheaply afterwards – a brilliant strategy and one reason for Mr. Rockefeller's wealth.

It was late evening during February 1879 when the door to Georg's office opened and a man in oil-smudged clothing stepped in. He recognized him immediately. It was Bruce Green, an oil worker, who occasionally earned a few extra dollars by informing him about news from the oil fields. Normally they were trivial matters, which at most found their way into the newspaper as a small note. But that evening he was very excited.

"The smaller companies have started to build an iron pipeline from the Bradford oil field to Williamsport to break Rockefeller's transport monopoly and to stay independent," he said. Georg looked surprised "To Williamsport? That's about 180 kilometres! Who wants to build this? So far there have only been short wooden pipelines!". "As far as I have heard, Byron Benson and a few others have started a company for it - they are likely to call it the **Tidewater Pipeline**. There are rumours circulating but they are trying to keep it top-secret". "But that is mad", Georg replied. "They would have to cross the Allegheny Mountains. That is a total of at least 3,000 metres of altitude to overcome!" Georg doubted, but he began to investigate.

And what Georg found out was really incredible: Byron Benson, an independent oilman, whose team had specially commissioned a factory to develop an oil pump strong enough to pump the oil over the Allegheny Mountains, but designed in such a way that the pump pressure did not burst the iron pipes. It was the most exciting story in Georg's entire journalistic career, to see how Standard Oil and the railway companies tried to hinder the supply of materials for the pipeline project and by refusing access rights, which were only granted after an exhausting litigation. In a desperate last ditch attempt to stop the pipeline going into service, efforts were

made to sabotage the pipeline by clogging it with stones and rags – but it didn't work: the **Tidewater Pipeline** started to operate on May 28, 1879.

Klaus Hansbauer had listened carefully to what his friend Peter Schmidt told him. "So the battle for pipelines is not new at all...", he said thoughtfully.

"That's true" Peter replied, "and what was once meant to break monopolies has led to the creation of **new instruments of power through innovations** in the transport of oil, gas and other natural and strategic resources. Since then nothing has changed: **those who have the better structures have a clear advantage to their competitors.**"

In setting up a tailor-made structure and to gain the necessary advantage for your business you can count on the experienced and devoted team of Carey Zurich.

We are here for you today, tomorrow or whenever you call us.



CAREY ZÜRICH

Carey – your trusted partner in incorporating, administering and managing functional structures, and professional provider of Private Equity Funds and Consolidation/IFRS Services. Our clients can count on Swiss quality and standards, efficiency and trust. The Company, established in 2003, has highly experienced staff, providing services to a high-class customer base who require independence and freedom to select from all of the opportunities available in the market. Committed only to our clients, we always choose the best available options without incurring any risk of potential conflicts of interest.

We are a member of the Self Regulatory Organization (SRO) for anti-money laundering purposes in Switzerland.

Carey AG

Alderstrasse 49

8008 Zürich

T: + 41 (0)43 499 11 44

www.carey.ch or www.becausewecare.ch