With the Mexican Petroleum Company operating at a steady profit by 1908, Doheny turned his attention once again to the California oil industry. Despite a six-year absence, Doheny's reputation as one of the state's oil pioneers and his intimate knowledge of the region's petroleum fields enabled him to quickly re-establish his position as a powerful independent producer. There were also new legends about his exploits in Mexico which made him seem almost invincible and his success in California the second time around happened so quickly that it was almost as though he had never been gone. The reasons why this was so reflect the elements that transformed Doheny from a good oilman into a masterful executive. Having tested his organizational skills in Mexico, Doheny returned to California with the confidence that he could prevail under any conditions.

His development as a businessman progressed incrementally from the moment he and Canfield dug out their discovery well in Los Angeles in 1892. Although he expanded rapidly on his own, it was his work for the Santa Fe, as oil consultant and manager of their oil properties, that first put him in control of a complex operation. When he went to Mexico in 1900, Doheny scouted out the initial drilling locations like the veteran prospector that he was, but he had to think on a much larger scale than ever before. With those properties in hand, Doheny turned over the oil camp to his managers, A. P. Maginnis and Herbert Wylie, and assumed the enormous responsibilities of securing capital and establishing a market for Mexican oil. After he sold out his California company to the Santa Fe in 1902, Doheny divided his time between bimonthly trips to Mexico and promotional activities which took him from Los Angeles to New York. All
the while, the operations of the Mexican Petroleum Company expanded under a growing contingent of able subordinates. This process accelerated dramatically when he returned to California, requiring Doheny to direct the affairs of two large organizations, one domestic, and the other foreign.

Doheny’s path to the top rank of American business leaders began in the late nineteenth-century—an environment that offered enormous monetary rewards for hard work and practical experience. But as the economic landscape changed in the early 1900s, many individuals with backgrounds and educations similar to Doheny’s failed to keep up with the fast-paced world of new management and organizational techniques. Although Doheny never relinquished a certain level of autocratic control which typified the former era, he had to develop a modern corporate structure to stay competitive in the new age. Since there are no reflections of his own to guide us, we have no clear answer as to how Doheny made this transformation.

Certainly, he learned a great deal from all of his associates over the years, but there were also a few key alliances that account for Doheny’s ability to adapt to the demands of modern business. His long-standing relationship with the officers of the Santa Fe Railway, for example, provided him with a number of excellent tutors. In particular, there appears to be a striking similarity between Doheny’s cautious, but progressive, policies and those of E. P. Ripley, the president of the Santa Fe. Because there is no evidence of a personal tie between the two men, Ripley’s influence is a matter of conjecture. But, even watching from a distance, Doheny would have been introduced to the fundamentals of big business from a man with an unassailable reputation as an executive. Before Ripley assumed control of the Santa Fe in 1896, it had fallen into disrepute, and according to one railroad historian, Ripley “turned a bankrupt ruin into one of the most profitable carriers in the nation through careful, controlled expansion, rapid modernization, and a concern for economic development of its territory.”

Doheny’s work had been part of this process for its first five years and it was for the purpose of modernizing the railroad that he encountered Ripley in 1897. After having supplied fuel oil to the Southern California Railway for several years, Doheny’s position as the Santa Fe’s oil expert drew him into that corporate environment and made the rest of his career possible. In a 1905 interview Doheny acknowledged this relationship, without mentioning Ripley by name, when he noted the critical role of the railroad’s investments in oil lands and companies in advance of the other roads. Without a doubt, Doheny asserted, the Santa Fe had been the “fa-
ther of the fuel oil business” in California. And it was just as true that Doheny succeeded in Mexico by taking that railroad network with him.2

Another important experience was Doheny’s tenure as a director of the Union Oil Company from 1902 to 1904, a position that gave him a closer look at the inner workings of one of the most well-established operations in the state. It was also no small token of his stature among California oilmen that Union Oil’s board of directors sought his advice in the first place and contravened an internal policy against selling any treasury stock to get his assent. In doing so, Union’s chairman, Lyman Stewart, held no illusions about acquiring the services of a powerful and ambitious individual like Doheny. Stewart did not presume to wield any influence over him and recognized that Doheny “was not the type of character to be dominated or dictated to.” Nevertheless, Stewart shouldered the responsibility for inviting Doheny into his company because he “wanted the benefit of his counsel.” Doheny must have appreciated the gesture, since his only recorded contribution was a resolution he put forth to raise Stewart’s salary as president to $1,000 a month. The parsimonious Stewart objected to the move and asked for $3,000 a year. Doheny persuaded the board to approve the larger sum anyway.3

Doubtless, all of these influences contributed to Doheny’s ability to establish his fuel oil business in Mexico and to his desire to return to California. Notwithstanding the importance of these corporate sources, Doheny also succeeded because he had extremely capable partners, beginning with Charles Canfield. While Doheny and Canfield went together to Mexico in 1900, Canfield continued to build up his California interests after Doheny sold out to the Santa Fe Railroad in 1902. Over the next five years, Canfield made periodic trips to Ebano and New York on behalf of the Mexican Petroleum Company, but he concentrated his efforts in the Kern River and Coalinga oil fields, where he earned a reputation similar to Doheny’s as one of the most capable independent producers in the state. Canfield also honed his executive abilities through close contact with the top officials of both the Santa Fe and the Southern Pacific railroads. Although Canfield was in no way Doheny’s proxy during this period, he charted the way for his partner’s eventual return.

For that reason, and because they reveal several heretofore neglected trends in the historical development of the California oil industry, Canfield’s activities are worth examining in some detail. Of particular note were his continuous efforts to establish a united front among the independent producers in response to the flush field conditions after 1900, a situation that mirrored the one that had almost ruined the Los Angeles district
five years earlier. By 1902, massive overproduction and cutthroat competition in Kern River sent the price of oil below twenty cents a barrel. At the beginning of this downward trend in the summer of 1900, Doheny and Canfield joined the first attempt to create an independent organization to control the field and protect the local producers from the growing menace of the Standard Oil Company.4

There had been unsubstantiated rumors in the 1890s that the oil trust was lurking in the shadows of the Los Angeles oil district hoping to capture the local market, but nothing had come of it. Five years later, there were better reasons to believe the threat in Kern River. In fact, in 1900, Standard Oil acquired the Pacific Coast Oil Company as its official California subsidiary and, consequently, was in the market for crude oil across the state. Moreover, a Standard Oil agent had been prowling around Bakersfield at the same time that the local producers were hashing out the details of a cooperative plan. At a crucial moment in the negotiations, the agent announced that Standard planned to step into the picture, buy up the surplus oil, and put it into storage. The agent literally scoffed at the puny efforts of the local oilmen to band together in the face of the threat. He claimed that the group would “go to pieces” in a matter of weeks, noting that the oil trust “had gone up against cooperative societies before and vanquished them.” The Standard Oil Company, he boasted, “had met fraternal bodies, but had never met defeat.”5

Many small producers naturally reacted to this challenge with resignation, but there were others who believed that they could not only learn from past mistakes but take some lessons from the tactics of the great monopoly, itself. “John D. Rockefeller’s brains cannot be concealed,” one stalwart noted, “and the public will surely take advantage of them.” Neither Canfield nor Doheny, however, seemed the least bit concerned with Standard Oil. Canfield took the heretical view that the trust ought to be encouraged to come in and set up the storage and pipeline facilities necessary to stabilize the situation. Let them “build the tanks, lay the pipe, and find the market,” Canfield thought, while the independents furnished the oil.6

In reality, Standard Oil was in no better position to control the California market than any other large company, and the belief in its monopoly power came from assumptions that the oil business on the West Coast mirrored that of the rest of the nation. Actually, for much of the early 1900s, the state’s petroleum industry remained an isolated market revolving around the sale of heavy fuel oil instead of refined products. Standard Oil was a latecomer to this region, with little opportunity and no inclination to produce oil for itself. And Standard’s national strategy of domi-
nating the refined oil trade emphasized the weakest segment of the California industry. Although the Standard Oil Company of California, formed in 1906, would eventually catch up over the years and expand to gigantic proportions, the initial decision to hold back from acquiring oil lands and entering production cost it a significant share of the market.\(^7\)

In 1905, however, prompted by Theodore Roosevelt’s “trust-busting” campaign and Ida Tarbell’s recent exposé of Rockefeller’s empire, the Bureau of Corporations went hunting for Standard Oil on the West Coast. When asked about the situation by federal investigators, Canfield explained the unique characteristics of the California market which prevented Standard Oil from wielding its traditional level of power. No corporation, Canfield believed, could really control the local industry:

There are too many fields easy of access to market that can be developed by individuals every day. There are thousands of them in the state today which can be opened up and every one of them are a menace to the market and you can’t stop them. The water ways belong to everybody, and many of those fields are right adjacent to tidewater. Every man that has a piece of land with oil on it can drill a well, as they have been doing throughout the state. I think there are easily a hundred operators who are ready to sell oil on the market, and people are going to buy oil where they can get it cheapest.\(^8\)

Nothing made that situation more evident than the dismal performance of the initial Kern River cooperative, formed in September 1900. Known as the Producers’ Oil, Storage and Transportation Company, this organization supposedly had commitments to handle three-fourths of the oil from the field. Unfortunately, fear and self-interest remained the bane of any attempt to stabilize the market, and the combined effect of increased production, falling prices, and rampant speculation began eroding the level of trust within the organization from the start. Although Doheny participated in the planning stages of the cooperative, his work in Mexico dominated his attention, and he was not an active member. Canfield, who was president of the company, was also occupied on several fronts, and nothing much came of the attempt to organize.\(^9\)

Then, with the local situation almost out of control by the summer and fall of 1901, five large independents, including the Canfield Oil Company, merged to form the Associated Oil Company, which subsequently took in dozens of smaller operators. Canfield was also the first president of the Associated and recalled that it was only after running the price of oil down to fifteen cents a barrel that the producers took this step. Short of that,
Canfield believed, "half of us would have been bankrupt." Instead, the Associated acquired the oil properties and contracts of its members and attempted to regulate production accordingly. This stabilized the market to a degree and provided enough oil for the new company to secure a fuel oil contract with the Southern Pacific Railroad. Soon thereafter, Canfield also brought in the Chanslor-Canfield Midway Oil Company, which had a contract to supply oil for the Santa Fe.10

By heading up the Associated Oil Company, Canfield took his place within the inner circle of businessmen who controlled the development of the San Joaquin Valley, and he helped establish one of the major components of the oil industry in California. Doheny, on the other hand, disappeared from the scene entirely once he sold the Petroleum Development Company to the Santa Fe in 1902. The irony of Canfield's position was that, through its role as the major supplier of oil to the major railways, the Associated Oil Company became as powerful in reality as Standard Oil had been in the imagination of the independent producers. While Associated Oil never monopolized the West Coast petroleum market, it controlled about 70 percent of the fuel oil business in these early years and was able to dictate terms to the small producers who joined and punish those who refused.11

Along the way, Canfield found himself caught between the Southern Pacific and the Santa Fe as they fought to control the production and transportation of fuel oil. And with both railroads purchasing oil lands and forming production companies of their own, the Associated's position was never secure. In 1903, for instance, a dispute over shipping charges between the oil company and the Southern Pacific cost Associated Oil a measure of control over its own operations. Believing that the railroad charged exorbitant rates to ship oil from Kern River to the coast, the Associated threatened to build its own pipeline between Bakersfield and San Francisco. In response, E. H. Harriman, the new head of the Southern Pacific, negotiated a long-term contract with the oil company in exchange for approximately forty percent of its stock. Harriman paid double the market price for his shares and received a contract for 10 million barrels of oil at twenty-five cents a barrel. Harriman managed to stop the oil company's rebellion, but, in doing so, he upset the balance between the two railways.12

When Harriman assumed control of the Southern Pacific in 1901, he started to modernize the road and streamline its finances in the same way Ripley had reorganized the Santa Fe. Both efforts naturally included a growing interest in petroleum. From the start, the Southern Pacific had an advantage with its large holdings of public land in California which cut
across the newly opened petroleum district. Colis Huntington had sold off a good deal of this in the 1890s, but Harriman knew enough to maintain control of strategic oil properties. The Southern Pacific also formed the Kern Trading & Oil Company to produce fuel oil in addition to its contract with Associated Oil.\textsuperscript{13}

These moves further strained the relationship between Harriman and Ripley over the expansion of their western lines. But given the existing level of tension, Harriman hoped to avoid a conflict over oil resources which could be mutually harmful. Before he purchased his Associated stock, for instance, he tried to assure Ripley that he wanted the oil shares as a wedge to keep the Associated directors in line, not as a lever to squeeze the Santa Fe out of the picture. In fact, Harriman offered Ripley a chance for the Santa Fe to join him as a one-third partner in the stock purchase. Ripley was not interested at the moment and said he would need a one-half share, in any case, but he left the door open for further negotiations. Then, when Harriman went ahead on his own, Ripley started to worry. More threatening was Harriman’s silent campaign to purchase small amounts of Santa Fe stock in his own name. Since Harriman’s tactics in gobbling up competitors were notorious, Ripley had to respond.\textsuperscript{14}

With this turn of events, Ripley believed that a significant portion of the Santa Fe’s oil supply had been put at risk and that his shipping contract with the Associated, which generated over $1 million a year in revenues, was in jeopardy as well. Apparently, Harriman was not scheming for any particular advantage in this case, but Ripley had to be sure that he had an impregnable supply of oil. At first, Ripley contemplated a rate war with Harriman to divert traffic away from the Southern Pacific, but he decided instead to attack the oil issue head on. Specifically, Ripley wanted to purchase an oil reserve large enough to break the market if Harriman moved against the Santa Fe. “If we had a surplus of oil which could be put into the market,” Ripley believed, “we would then have both the oil and the transportation, and would be in a position to demand our share of the business upon threat of making the business worthless.”\textsuperscript{15}

Ostensibly, the Santa Fe purchased Doheny’s old company for precisely this sort of contingency. But by 1904, the Petroleum Development Company’s wells at Bakersfield were being invaded by water. The situation was not irretrievable, but it required recasing the wells, which drastically reduced the company’s output, forcing it into the market to purchase oil to make good on contract obligations. Doheny had initially estimated that the company’s property contained 100 million barrels of recoverable oil, and the Santa Fe had expected to draw down that supply at one million
barrels per year. Now, after correcting for the presence of water, the railroad had to cut its expectations by half.\(^\text{16}\)

To shore up his position, Ripley negotiated a separate deal with Canfield, outside the purview of the Associated Oil Company, for the Santa Fe to purchase half of the Chanslor-Canfield Midway Oil Company's undeveloped property in the Midway field. In this way, Ripley would have access to prospective oil lands potentially more productive than all of the property the Associated had under its control. Canfield thought the Midway property contained at least 500 million barrels. Having learned its lesson with Doheny, however, the Santa Fe lowered its expectations by more than half, estimating that there were about 200 million barrels in the ground, 120 million of which would be recoverable. This was enough to meet their needs for many years to come. And, as Ripley concluded, it “put into our hands a weapon which the other side cannot afford to trifle with.”\(^\text{17}\)

With his strategy set, Ripley then threatened to open up the field on his own if he did not receive satisfactory treatment from the Associated Oil Company. In return for abandoning these plans, the Santa Fe obtained a five-year contract for oil at twenty-five cents a barrel and a guarantee that its shipping arrangements with the oil company would continue as before. Although Ripley's primary objective in gaining control of the Midway property had been to strengthen his hand against the combined threat from the Associated and the Southern Pacific, he also saw it as a way to secure the field against an invasion by the smaller independents. He thought the Santa Fe's strong presence in the field would be "a good thing for everyone concerned and a step in the direction of getting the business into a comparatively small number of hands." And he had no doubt that these undeveloped lands could easily become a "thorn in the flesh of the railroads as well as the Associated" if not conservatively controlled.\(^\text{18}\)

Although this was clearly a boon to the Santa Fe, Ripley's decision to use the Chanslor-Canfield Midway Oil Company to bring the Associated to heel left the Midway shareholders fuming when they realized that he was not going to develop the property after all. And they were particularly angry with Canfield, who seemed to be playing both sides of the field. Under the circumstances, Canfield and a few other Midway stockholders having positions with Associated Oil were persuaded to sell the other half of the company to the Santa Fe. In the end, the railroad paid $1.75 million for the entire property, giving Ripley everything he wanted. Canfield, on the other hand, compromised his relationship with the Southern Pacific and ended up on very bad terms with several members of the Associated's board. As a result, he resigned as a director in 1910 and filed suit against
Associated Oil for interfering with the renewal of the Santa Fe’s oil contracts. For Doheny, at least, a large share of the proceeds from the Midway sale probably went straight into the pool of capital available for his work at Ebano.¹⁹

Interestingly, the effects of having railroad executives as principal shareholders of the large oil companies in California were never addressed during the federal government’s investigation of the state’s oil industry. The independent producers did their part to focus public attention on the issue when they loudly accused the major oil companies of conspiring with the railroads. But the federal agents seemed oblivious to any claims that were not somehow related to Standard Oil. That the investigators were more preoccupied with the oil trust than blind to actual conditions was revealed by their observation that “the complicated relations of the railroads to the oil business [were] clearly fraught with mischievous possibilities.”²⁰

Given the confusing arrangements between contesting parties, it was almost impossible to tell who benefitted from any particular piece of business. A few sources, however, confirm the collusion between the railroads and the large oil companies. During one negotiation, for instance, Ripley offered to pay several cents a barrel above the market rate for oil if the oil company agreed to make at least 40 percent of its shipments to San Francisco on the Santa Fe. In this instance, the excess payments on a proposed three-year contract for 110,000 barrels a year netted the Associated at least $25,000 to $30,000 annually, which Ripley acknowledged, “to all intents and purposes,” was a “rebate on [the Associated’s] freight.” Previously, in the late 1890s, the government had accused the Santa Fe of having granted $400,000 in rebates to the Colorado Fuel and Iron Company in a case that led to the resignation of Paul Morton, President Roosevelt’s secretary of the navy and a former vice-president of the Santa Fe. Still, in 1905, the Bureau of Corporations refused to delve into the relationship between the Santa Fe, the Southern Pacific, and the Associated Oil Company.²¹

It was clear that, despite its stated goals, the Associated Oil Company was not a panacea for the problems of the market. The very fact that there were still hundreds of small companies pumping out oil despite the depressed conditions belied the ability of the large companies to handle the situation. To protect themselves, the Associated, Union Oil, and Standard Oil (Pacific Oil Company) all tried to capture and store as much surplus oil as they could while a plague of independent producers descended on the district. In fact, California had become a haven for insolvent
organizations precisely because oil was so easy to find. According to statistics for 1907, 96 percent of all the wells drilled in California produced some oil, compared to 79 percent for the country as a whole. And from 1907 through 1919, about 92 percent of all wells in California struck oil, compared to the national average of 73 percent. The result was rampant overproduction by those without the financial resources to handle the oil.\textsuperscript{22}

In the fall of 1904, Pacific Oil finally refused to keep buying heavy crude oil when there was no end in sight, thus abandoning its suppliers to the market. This decision precipitated another moment of truth in the oil district and brought a new organization into existence, the Independent Oil Producers Agency. Ultimately, the Agency exerted enough control over the situation to sign a new contract with the Associated Oil Company for several million barrels of oil at a minimum of eighteen cents a barrel, which absorbed the production of seventeen small companies. The Associated also agreed to accept up to 90,000 barrels of oil a month in additional storage from new Agency members as long as the total did not exceed 500,000 barrels a month for purchased and stored oil combined. A few years later, the independent producers in Coalinga, at the northern section of the district, formed a second Agency that contracted with the Associated Oil Company to sell at least 14,000 barrels a day between 1907 and 1909.\textsuperscript{23}

To summarize, the California oil industry after 1902 was shaped by a steady process of consolidation, which placed most of the business into the hands of several large marketing companies and several regional producers' agencies that bargained on behalf of many, but by no means all, of the smaller independents. Canfield played a major role in this process from 1902 to 1905, but his direct involvement in the California operations began to decline by the latter part of the decade. This was partially due to his worsening relationship with the Associated Oil Company, but Canfield also deliberately withdrew from the field after the death of his wife in January 1906, which, according to his son-in-law, took “the joy of planning and developing” out of his life. Thereafter, until his own death in August 1913, Canfield retreated from much of his previous activity in California, although he continued to make trips to Mexico and elsewhere as the first vice-president of the Mexican Petroleum Company. Nevertheless, when Doheny returned to the West Coast as a producer in 1908, he entered a market shaped by Canfield's efforts. He emphasized this contribution in a later tribute to his partner: “If the development of the oil industry has meant anything to California and the nation at large, then to Mr. Canfield much of the praise for the tremendous work belongs. On that industry our
state's prosperity has to a great extent been founded, and in Mr. Canfield's life is to be found the big chapters of the story of that industry's growth."

To cope with the financial and organizational responsibilities required to handle the simultaneous development of his expanding operations in Mexico and California, Doheny turned to several other individuals. Two of the most important were T. A. O'Donnell, who assumed the primary role in California, and Norman Bridge, who served effectively on both sides of the border as company treasurer. Thomas A. O'Donnell grew up in the Pennsylvania oil fields in the 1870s and was the master of every detail of the business by the time he arrived in Los Angeles twenty years later. He first went to work for the Union Oil Company, but Doheny soon hired him to oversee the drilling operations on his wells in the old Los Angeles city field. A few years later, O'Donnell and Max Whittier, another pioneer driller, formed their own company and put down more than sixty wells by 1897, when they went off in different directions. By 1908, when Doheny needed his help once again, O'Donnell had become one of the best drilling contractors in the state and a mainstay of the industry.

In contrast to O'Donnell, Dr. Norman Bridge did not know a thing about oil when he started in the business. While struggling to build up a medical practice in Chicago in the 1870s, Bridge occasionally gambled on investment schemes that robbed his bank account as well as his conscience. Through deliberate restraint, he concentrated on his medical career to become a professor of medicine at Rush Medical College, later associated with the University of Chicago, and an attending physician at several local hospitals. After contracting tuberculosis, Bridge moved to Los Angeles in 1891 to recuperate. As one of the city's most influential physicians, Bridge directed several tuberculosis sanatoriums and participated in a wide range of civic and cultural organizations.

When oil fever took hold of Southern California in the late 1890s, Bridge succumbed to temptation once again and made some ill-advised investments that taught him a lesson: "If one wished to go into the oil business," Bridge observed, "it ought to be with people who understood it, and who had a reputation for success at it." Adopting this strategy led him to put up $5,000 as one of the original investors in the Mexican Petroleum Company in 1900. Three years later, he was on the board of directors and headed for a prominent role in the oil business. When the stockholders of the company blocked Doheny and Canfield's initial plan to expand into the Huasteca district in 1906, Bridge helped them form a private syndicate to get the project underway. E. P. Ripley was the fourth member of that group, although his responsibilities with the Santa Fe kept him a distant
CHAPTER 4

and silent partner. Bridge, on the other hand, went into the work full force and, at the age of sixty-one, changed careers to become an oilman. This was not, he wrote, without some "strain of soul," because he was deeply concerned about the unseemly aspects of big business. In the end, he consoled himself with the thought that at least in the oil industry he could help make a "great addition to the wealth of the world without hurting anybody." He felt even better about his partners, "the two masters" of oil exploration, and he was soon hacking his way through the Mexican jungle with Doheny and Canfield in pursuit of oil lands and leases. On those occasions, Bridge made up for his lack of practical experience with good humor, intelligence, and reliability.  

Finally, there were two other men, J. C. Anderson and J. M. Danzinger, who made up the core of Doheny's California team. Anderson began by acquiring leases for him in 1907 and became the manager of all of Doheny's West Coast properties a few years later. Being Doheny's brother-in-law, he was perhaps the closest of his associates. Similarly, Danzinger had been an attorney for the Chanslor-Canfield Midway Oil Company and was Canfield's son-in-law at the time he went to work for Doheny.  

Thus armed with talent, Doheny renewed his California interests when he incorporated a series of producing companies between 1908 and 1910. These included the American Petroleum Company, centered in Coalinga; the Niles Lease Oil Company, located in the Salt Lake field in Los Angeles; and the American Oilfields Company, concentrated in the Midway field. There were also two subsidiary companies, Midland Oil and Midland Oilfields, designed to develop smaller properties in the Midway and Sunset districts. All of these companies operated almost exclusively on proven oil land, rather than prospects, which virtually assured their success from the beginning.  

The decision to purchase only proven acreage reflected a change in Doheny's character which did not go unnoticed among the old hands of the industry. In reviewing the development of the new American Petroleum Company, one oilman could not help but wonder about the difference: "It is noted that E. L. Doheny, who is the principal owner of the company, has changed from being one of the rankest wildcatters in the west to one of the most conservative operators . . . It is said that in the early days when his fortune was small he was willing to risk it on a single throw, but now that he has become immensely wealthy, he is pursuing the policy of making investments in only such land as is sure to bring a return much smaller than he hoped to be able to obtain when he was operating as a wildcatter." Although this observation overstated Doheny's former exploits, it was en-
Return to California, 1908–1912

tirely correct about his maturation as a businessman and entrepreneur. But his more sophisticated approach did not make him any less controversial or dangerous to his fellow producers.

To the contrary, Doheny’s reemergence in California upset the delicate balance between the big marketing companies and the independents, because he could afford to pursue his own goals. This was immediately apparent when he made a separate contract with the Associated Oil Company in October 1908 which called for an average of 4,200 barrels of oil a day over a five-year period, or about one-third of the entire contract for the Coalinga Agency. Doheny’s advantages angered the Agency’s directors and made life uncomfortable for T. A. O’Donnell, who was an original member of the group. In his own defense, O’Donnell stated that he “tried in every way” to stop Doheny’s negotiations with Associated Oil but that they were too far along to terminate. He was successful, however, in getting Doheny to admit that he had been wrong in not joining forces with the independent producers. Having “now realized his mistake,” as O’Donnell put it, Doheny offered to surrender his contract when he joined up. Instead, the Agency’s directors decided to allow Doheny to keep the contract for himself if he brought in all of his excess oil.  

The Agency based this decision on an improving market that coincided with Doheny’s return to California. During a profitable interlude between 1907 and 1909, demand for crude oil briefly exceeded production and brought the price up from twenty-five to fifty cents a barrel. Meanwhile, oil stocks dropped to their lowest point in the decade. Having stayed abreast of the local situation, Doheny entered the market at precisely the right time, and his initial production helped shore up the reserves of both the Associated and the Agency when they needed it most. However, this proved to be an illusory benefit when Doheny and a few other well-financed companies brought in several large wells in both Coalinga and Midway, again flooding the state with oil. The subsequent depression lasted for more than five years, until the fuel oil demands of the First World War caused a turnaround in local conditions.  

Within a short time, Doheny’s large production made him a vital element in any attempt to control the market, but, less than a year after agreeing to join the Coalinga Agency, Doheny balked at the low price they offered him for his oil and refused to sign a long-term contract. Instead, he arranged to sell all of his oil to the Associated Oil Company, which immediately imperiled those Agency contracts that were based on his surplus. At the time, the oil lands of the American Petroleum Company made up one-fifth of all the property under Agency control. Doheny was thus
both the most important ally and the most dangerous competitor of the independent operators in the San Joaquin Valley. As before, however, there were other self-interested champions willing to save the local producers. In this instance, Lyman Stewart came forward and offered to make Union Oil the exclusive sales agent for all the oil produced by both of the independent agencies, prompting the Coalinga and Bakersfield producers to merge into one large group. Thereafter, the newly reorganized Independent Oil Producers Agency, headquartered in Bakersfield, signed a long-term contract with the Union Oil Company. Through these arrangements, the Agency kept struggling producers in business while Stewart transformed Union Oil into one of the strongest marketing companies in the state. In particular, he used the Agency’s oil to meet the demands of a six-year contract to deliver fuel oil via tank steamer for the construction of the Panama Canal. In later years, Union continued exporting large amounts of California oil throughout South America and the Pacific.

Doheny’s intentions were more problematic, and speculation about his motives spawned numerous unsubstantiated rumors about his plans. One supposedly reliable source claimed that Doheny had merely cooperated with the Agency so that he could learn about its plans and then trade that information for a favorable deal with the Associated. A similarly conspiratorial theory suggested that Doheny was plotting to take over control of the Associated for himself. If nothing else, the situation drew out a vivid portrait of Doheny’s image among his contemporaries: “It is conceded that Mr. Doheny has the nerve force and brain to handle the Associated Oil Company’s affairs, but it is well known that the temperament of the man would forbid success. Mr. Doheny is high strung, a quick thinker, imperious, but he lacks temperamentally, the qualifications of the diplomat, his methods are direct and his actions incisive, judging by past actions he cannot be politic, suave, ingratiating, and achieve results by those milder manners and methods which are certain to be necessary in the future management of the Associated.” These strident qualities accounted for much of Doheny’s success, and he clearly preferred to run things when he could, but there was no evidence to suggest that he intended to take over the Associated Oil Company. Nevertheless, his aggressive tactics and tough reputation were cause for concern among the independents.

With his companies operating in every major oil field in the state, Doheny’s influence grew with each new well. This was especially true for the American Oilfields Company, which began operations in the Midway district in February 1910. Drilling on proven oil land under the best of
circumstances led to nearly instant success. Beginning in April 1910 with a production rate of 400 barrels a day, the company had increased its output to over 5,000 barrels a day two months later. And Doheny could have doubled that amount, since he actually drilled two 5,000-barrel wells in May but shut them in and cut back development for lack of adequate storage. Clearly, Doheny had no desire to flood the market with oil if he could avoid it, and he hoped to leave the oil in the ground for as long as possible.36

These plans went awry, however, when the Midway-Sunset field produced several large gushers in the spring and summer of 1910. This development began in March, when Union Oil drilled in its famous Lakeview No. 1, which produced about 16,000 barrels a day for eighteen months before it stopped flowing. Typically, almost half of that oil went to waste while drillers tried to control the well. Then, in mid-July, Doheny unexpectedly hit a big gusher of his own: American Oilfields No. 79 started at 10,000 barrels a day during its first two weeks and increased to more than 20,000 barrels a day through August, with most of the oil going into storage. The next month, Norman Bridge released a statement to the shareholders of the company proclaiming that American Oilfields was “now producing more oil than any other single oil company in the world,” with a daily production of over 25,000 barrels for the first week of September. Incredibly, that record stood for only ten days, until the Huasteca Petroleum Company drilled in Casiano No. 7. At that point, with his California and Mexican wells combined, Doheny was producing crude oil at an astonishing rate.37

The effect of the gushers on the Midway field was instantaneous. A four-hundred-percent increase in production, from 2,095,000 barrels in 1909 to 10,436,000 for 1910, made it the most rapidly growing oil district in the state. Doheny’s American Oilfields Company accounted for twenty-five percent of the total, with more than 2 million barrels of its own. Coalinga grew at a modest rate of 25 percent, from 14,795,000 to 18,388,000 barrels, for 1910 but had the largest production of any district in the state. The American Petroleum Company produced about 10,000 barrels a day, or roughly twenty percent of Coalinga’s annual total.38

Because of Doheny’s looming presence in the market by 1910, the Independent Oil Producers Agency had to find a way to cooperate with him. To do that, the members made an open bid to bring him into the Agency on his own terms. What Doheny demanded, and received, was a three-year contract for a minimum delivery of 1 million barrels of oil a year at a guaranteed price of fifty cents a barrel. Initially, the members of the Agency
agreed to these special privileges because, as one observed, they saw “too many advantages with Doheny in the Agency to complain.” Certainly, there was an argument to be made for gaining control of Doheny’s oil before he used it against them.39

However, Doheny had also been looking for a way to improve the situation in anticipation of the threatened overproduction from the Midway field, and he thought he had found it in a plan to market California oil in Arizona. This project began in March 1910 and involved L. P. St. Clair, the head of the Agency, and W. L. Stewart, the new president of Union Oil. Doubtless, Doheny’s assurances that this new venture would be a success helped the Agency decide to give him his special concessions. Industry analysts, at least, regarded the plan as a “master stroke for the future of the Independent Agency.” As he conceived it, based on his recent experiences in the Huasteca, Doheny planned to construct an eight-inch pipeline from Kern County to the mines and smelters in Arizona, along with a possible extension across the border to Cananea, Mexico. This 700-mile line would be built along the tracks of the Santa Fe Railroad to facilitate the transportation of construction material and labor. To coordinate the work, Doheny, St. Clair, and Stewart formed the California-Arizona Pipe-Line Company on March 23, 1910. Although Doheny was supposed to handle the marketing work in Arizona, it was obvious to most observers that, given his other obligations, he was unlikely to devote the necessary time to see the project through.40

Without a doubt, those constraints forced him to abandon the effort, especially after 1911, when the political situation in Mexico demanded almost all of his attention. Nevertheless, the idea lingered for quite some time, and, as late as February 1912, the Agency was still paying Norman Bridge’s expenses for work “connected with an investigation of the possible expansion of the fuel oil business in Arizona.” But any concerted effort to push the pipeline project must have been unlikely at this point, since the Agency was also hunting for customers anywhere it could find them, including extensive efforts by President St. Clair to secure long-term contracts in South America in conjunction with Union Oil.41

In conclusion, given the tremendous increases in production already underway in the oil fields, the Independent Oil Producers Agency based the special concessions it gave to Doheny and a few other large companies on a fundamental misreading of the market. According to an Agency director, the contracts had been made at a point when the “conditions in the oil business looked rosy” and the Agency “confidently expected to get in excess of fifty cents per barrel for all its production.” At that point, in 1910,
the independent producers had visions of controlling the oil production of the entire state. But in the middle of a subsequent oil glut, with prices dropping below thirty cents a barrel by 1911, the Agency had to use the proceeds from almost half of its sales contracts just to make the payments to the companies that had gotten special terms. With no room to grow and no desire to renge on its obligations, the Agency pleaded with the large companies to adopt a “true Agency spirit” and accept a reduction of their contracts instead of insisting on their “pound of flesh.”

Doheny’s response to this plea was not recorded, but there were numerous reports indicating that he was not brimming with the spirit of cooperation. In particular, American Oilfields had been accused of breaching its contract with the Agency through various efforts to contract with outside parties. Still, Doheny had played a vital, albeit sometimes antagonistic, role in the early history of the Independent Oil Producers Agency and kept most of his California companies affiliated with the organization for many years to come. His direct participation in the Agency lasted for less than a year, from May 1910 to April 1911. After that, O’Donnell served as Doheny’s proxy at all of the stockholders’ meetings over the next few years. Although Doheny was reelected to the Executive Committee in April 1912, he no longer attended the meetings.

By this time, Doheny had once again become a significant factor in the California oil industry. Furthermore, in contrast to what happened in 1902, when circumstances forced him to sell out, Doheny’s California operations moved forward under separate management even as the Mexican side of the business absorbed the bulk of his energy over the next few years. Despite the rapid success made in just four years of work, the outlook for Doheny’s Mexican operations eclipsed even the brightest prospects for California oil. Although Doheny’s capacity to juggle the financial and strategic policies of the two separate enterprises showed remarkable vision and executive ability, this was only a prelude to future demands that would tax the resources of his organization to the limit and require every ounce of Doheny’s skill.