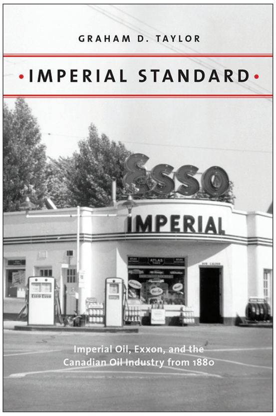

IMPERIAL STANDARD: Imperial Oil, Exxon, and the Canadian Oil Industry from 1880

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ADVENTURES IN THE TROPICS

The Genesis of International Petroleum

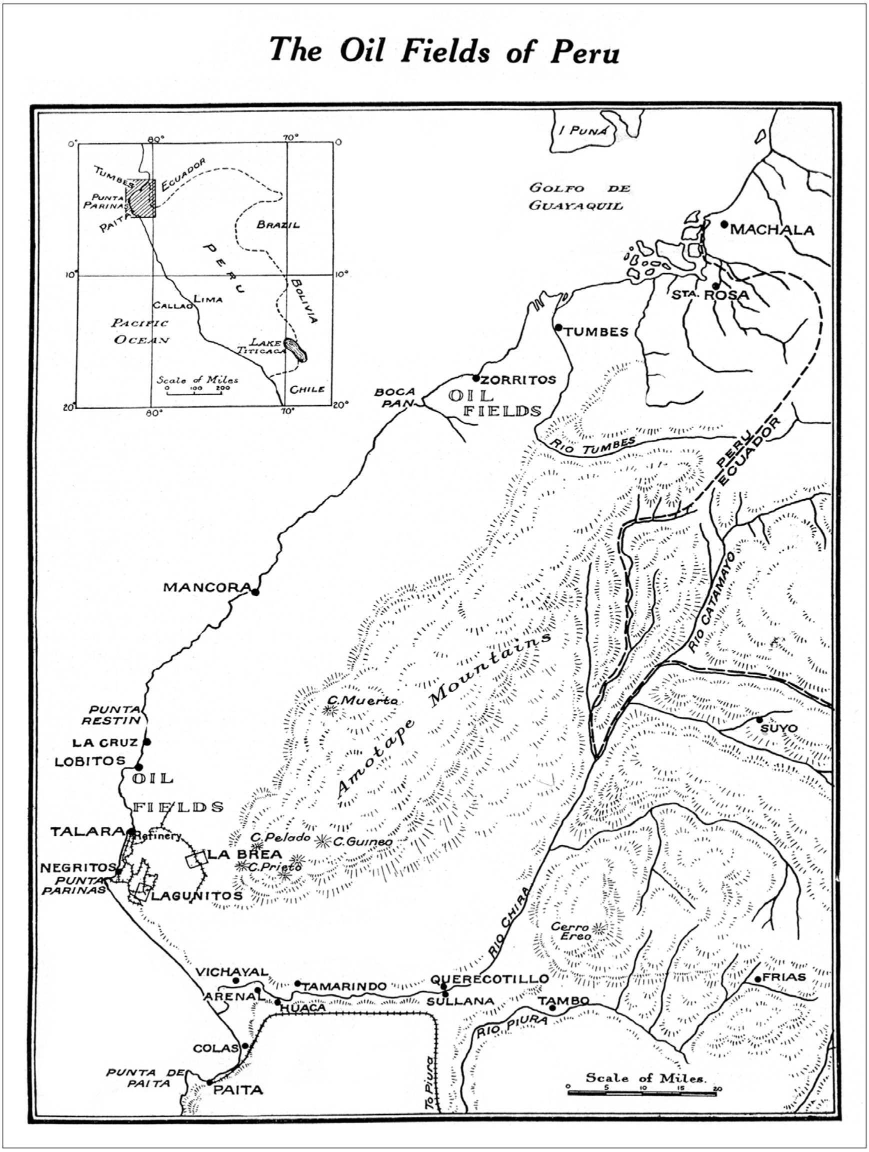
Early in 1913, Sir Archibald Williamson and Kenneth Mathieson—representatives of the heirs of the late William Keswick of London—contacted Walter C. Teagle, the vice president and member of the board of directors of Standard Oil of New Jersey, with a proposal to sell the shares owned by Mr. Keswick in the London & Pacific Petroleum Company to Standard. London & Pacific had been established in 1889 by partners in the merchant houses of Jardine Mathieson and Balfour, Williamson, to develop oil fields on the La Brea y Parinas Estate on the northern coast of Peru, based on a ninety-nine-year lease of the mineral rights of the estate. Keswick had been the major investor in the company, and the shares offered would effectively transfer ownership of London & Pacific to the American company.

Over the next few months negotiations ensued and Jersey Standard dispatched a mission headed by John H. Carter—also a Standard director and a veteran of the oil business going back to the development of the Pennsylvania fields in the mid-nineteenth century—to survey the potential costs and benefits of taking over the Peruvian venture, which up to that point had exhibited limited success, producing at most 400 bbl./day by 1913—although that still made Peru the second-largest contemporaneous oil exporter in Latin America, following Mexico. Carter's report was positive, indicating that with the kind of technical and management capabilities that Jersey Standard could provide, production from the proven reserves could be substantially expanded. Teagle advocated a more ambitious plan, which involved acquiring not only the La Brea estate but also the assets of all the other companies operating in the area under sub-leases from London & Pacific.

The parties reached an agreement that took effect on November 2, 1914. The company that acquired these assets, however, was not Jersey Standard but a new entity, the International Petroleum Company Ltd., which was to be a subsidiary of Imperial Oil Ltd. A major issue for both Imperial Oil and Jersey Standard was access to oil reserves. Imperial's output from the Petrolia fields had declined to the point that by 1912 its Sarnia refinery was increasingly dependent on supplies from Cygnet, Ohio. Jersey Standard had a huge refining capacity after the breakup of the Standard Oil Trust, but few new producing fields, and it needed to find alternative sources to serve the East Asian markets. Wearing both his Imperial and Jersey Standard hats, Teagle set out to find new sources. Consequently, the London & Pacific offer was particularly attractive. But for several other reasons, from Teagle's viewpoint orchestrating the acquisition through Canada was useful.

The issue of nationality was a factor, as the British shareholders in London & Pacific preferred to deal with a "British" company rather than the American behemoth.[1] But there were other considerations that Teagle and his Jersey Standard colleagues found persuasive. New Jersey had passed a corporate reform act in 1913 that substantially restricted the ability of companies chartered in that state to hold shares in other enterprises; in addition, in 1909 the US Congress had passed an act establishing a corporate income tax. Jersey Standard could have established a British holding company for the Peruvian fields; but under English law, a company that held undistributed assets could be taxed, and this could have substantially diluted the value of the London & Pacific holdings. Canada's federal tax laws were more lenient in this regard, as income from overseas assets was not taxed. All of these elements reinforced Teagle's interest in using his new fiefdom, Imperial Oil, as the vehicle for the Peruvian investment.[2]

But Teagle's ambitions extended well beyond the acquisition of an oilfield in Peru. In the aftermath of the antitrust suit, and the election of Woodrow Wilson as President (he had been the governor of New Jersey when the state's corporate reform act was passed), there was widespread distrust in the halls of 26 Broadway, Jersey Standard's headquarters, about



MAP 4.1. Oil Fields in Peru, *Imperial Oil Review*, June 1922, p. 5. Courtesy of the Glenbow Archive, Imperial Oil Collection.

the future intentions of US government policies toward "big business," in particular the possible extension of the Sherman Act to "monopolies in foreign nations."[3] Teagle envisioned an entity, located offshore from the United States, that could manage Jersey Standard's emerging foreign investments; and Imperial Oil could well fit that bill. The scope of Teagle's vision was outlined by his colleague and legal counsel at Imperial, W.J. Hanna, in a letter to T.H. White, the Minister of Finance for the government of Canada, in April 1914: "For some time there has been under consideration the bringing together in one corporation of a number of large commercial interests that are to-day operating in Germany, France, Italy, South America, China and in fact the principal countries of the world. Capitalization when brought together would be upwards of 100 millions . . . There would be between fifty and sixty thousand shareholders, located in different companies that it is intended to bring together."[4] Although International Petroleum did not become the vehicle for all of Jersey Standard's foreign ventures, for Teagle it was a handy device when needed.

In December 1914 Imperial Oil approved the establishment of International Petroleum Company as a subsidiary, acquiring all the La Brea estate and most of the associated enterprises. The company's authorized capital was $20 million (CAD), of which $5.2 million in common stock and $500,000 in preferred shares were issued in early 1915. Teagle was the president, and G. Harrison Smith (who would succeed Teagle as president of IPC in 1917 and later became head of Imperial) was vice president. In its public communications the new company emphasized that IPC was to provide crude oil from Peru to Imperial's Vancouver refinery for western Canadian markets.[5]

Teagle dispatched petroleum engineers and drillers to develop the La Brea fields, most of them Americans since "Imperial had no producing staff at that time."[6] Despite the remote location of the estate, it was close to the coast of Peru, and the wells struck oil quickly, so that production rose by early 1916 from 400 bbl./day to 5,000 bbl./day, and the small refinery at Talara was expanded. Four oil tankers were sub-leased from Imperial's own fleet, one of which was specifically tasked to supply the Peruvian port of Callao for the domestic market.[7]

IPC's relations with the government of Peru, however, were not developing as smoothly as production in the fields. By the second decade of the twentieth century, there was increasing tension throughout much of Latin America over the rapid growth of foreign direct investment in the region, directed both at the foreigners and at the politicians who were perceived as working for them. Admittedly British, French, and German capitalists were very much a part of these developments; nevertheless, a decade of "Big Stick" diplomacy by the United States had encouraged particular animosity toward American business. And although IPC was a "Canadian" subsidiary, it was largely perceived in the countries where it operated as an arm of the Standard Oil octopus.

Revolutionary nationalism and anti-American sentiments were most prevalent in Mexico and Colombia, but Peru was also experiencing political turmoil. In 1914–15, while Jersey Standard and Imperial Oil were setting up IPC, Peru was convulsed by civil strife, a military coup, and eventually the election of a new president, José Pardo y Barreda. Although no radical, Pardo found it politic to cater to the nationalist sentiment that focused on the threat of this new foreign behemoth.[8]

The Pardo government brought forward a series of tax measures, beginning with a revision of the original La Brea concession that increased the mining tax to cover all lands in the estate regardless of whether or not they were developed—this was based on the view that London & Pacific had consistently understated the extent of their development in order to avoid taxation. Next, taxes were proposed on production and exports, both specifically to be imposed on IPC. The company responded in a variety of ways: seeking to negotiate a compromise on the concession issue (which proved fruitless), lobbying against the bills, challenging the proposals in court, demanding that the issue be subject to international arbitration (through Britain, and later the Hague), and threatening to curtail production.[9]

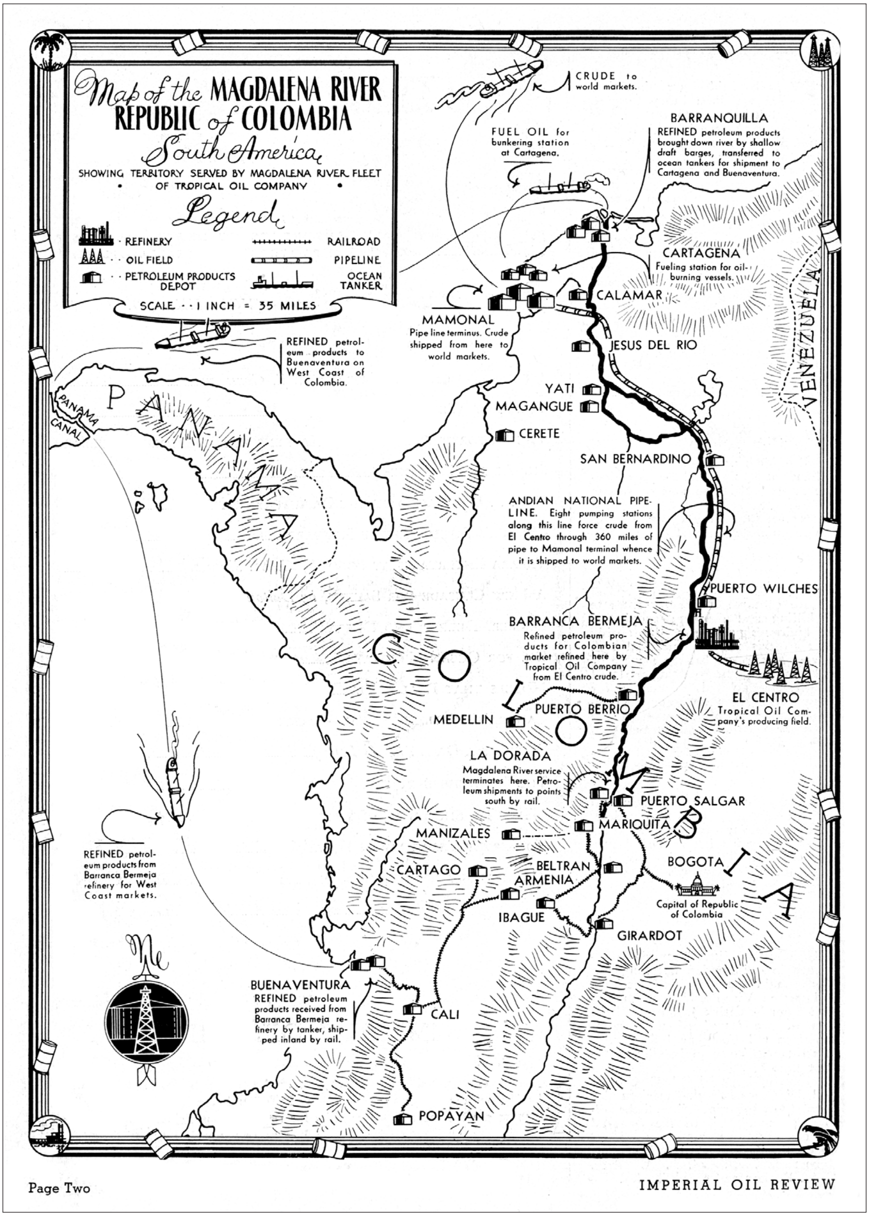
The confrontation reached a critical point in 1918 when the IPC announced that the Canadian government had requisitioned its tankers to serve with the convoys in the Atlantic carrying supplies to Britain. This was in response to Germany's vigorous U-boat campaign, and Imperial Oil had already contributed its own tankers to convoy duty. But to the government of Peru, the move appeared to be another pressure tactic by IPC, which closed down operations for several months, leaving Lima stranded with a limited supply of oil. Many Peruvians viewed IPC's moves with skepticism, since from their perspective the "real" parent of IPC was the American company Standard Oil. Several accounts of this episode indicate that these suspicions were not without substance and that the Canadian government did not specifically requisition two of the IPC tankers.[10]

Proposals were floated to cancel the La Brea concession altogether, and possibly transfer ownership to interested German parties or establish a domestic oil company. Yet in this same time period, the government asked IPC to support its efforts to acquire a $15 million (USD) loan from banks in New York—which unravelled when the bankers demanded that Peru pledge revenues from its export taxes (including those on petroleum) as collateral.[11]

In any case, the shutdown seems to have had the desired effect from IPC's point of view. Shortly after the First World War ended, the Peruvian Congress agreed to submit the La Brea issue to international arbitration. Early in 1919 Pardo was overthrown by another coup, this one staged by Augusto Leguia, who had been president from 1908–12. Leguia, who had been an executive with the New York Life Insurance Company before entering politics, was pro-business and pro-foreign investment. But he also drove a hard bargain, demanding that IPC make a "gift" of $1 million (USD) to the government of Peru. In 1922 the company and the government reached an agreement on the La Brea issue, with Peru confirming IPC's rights to minerals, and levying taxes only on property actually under development; in return IPC accepted a higher tax rate.[12]

Expansion into Colombia

In 1915 Joe Trees and Mike Benedum, two American "wildcatters" (independent oil producers) with a record of successful oil finds in West Texas, Mexico, and Romania, acquired an option to an oil concession in Colombia from a French speculator, Robert De Mares. Ten years earlier De Mares had obtained access to mineral rights in a 2,000 square mile area along the upper reaches of the Magdalena River, deep in the interior of the country, but had been unable to raise the capital to develop the concession. Trees and Benedum set up a company, Tropical Oil, and began drilling in 1916 in what became known as the "Infantas" field. After two



Map 4.2. Oil in Colombia. *Imperial Oil Review*, Autumn 1937, p. 2. Courtesy of the Glenbow Archive, Imperial Oil Collection.

years of working in the wilderness region with limited resources, they felt confident enough about their prospects to take over the concession.

In the meantime, the government of Colombia had been deliberating on a policy regarding development of potential oil resources. The governing Conservative party was divided between those who supported foreign investment and a more nationalist element that borrowed ideas from revolutionary Mexico. This latter faction prevailed in debates over oil policy: they passed a petroleum law in 1919 that asserted government control over subsoil resources, imposed export taxes, and limited concessions to a thirty-year period, after which the government could take over the assets. Subsequently, the Colombian Supreme Court ruled much of this legislation unconstitutional, but for foreign oil companies contemplating investment in Colombia, it had provided a glimpse of the kind of obstacles they would face. Two potential American competitors—Pure Oil and Sinclair Oil—backed out of earlier commitments in Colombia. More crucially the British firm Pearson & Son, which had a strong position in Mexico and had been wooing the Colombian government for years, also withdrew from the scene.[13]

Nevertheless, Jersey Standard found the De Mares concession attractive. Trees and Benedum had worked with Standard Oil on earlier projects and a geological survey confirmed that the concession was worth at least \$5 million (USD). Because the concession predated the 1919 law, it (presumably) was not subject to the restrictions imposed on new investments. Although the prospects for drilling were good, the site was far upriver from any potential market and would require substantial capital investment for development, so that Tropical's owners could be brought to the negotiating table. Teagle, now installed as president of Jersey Standard, was firmly committed to the project, and had both the motive and the means to achieve his aims.[14]

By 1919 Jersey Standard's fears of further antitrust measures had been allayed, and Teagle's original ideas about the uses of International Petroleum were less salient. There were, however, reasons why IPC came to be seen as an appropriate instrument for investment in Colombia. Anti-American resentment over the US role in the Panamanian "revolution" of 1903 remained strong in Colombia: in 1909 President Rafael Reyes Prieto had been forced to resign after negotiating a treaty that recognized the independence of Panama. In 1914 the Woodrow Wilson administration in Washington negotiated a new treaty (the Urrutia-Thomson Treaty) that provided $25 million (USD) in compensation for Colombia's loss of Panama; but this had been held up by the US Senate because of opposition by the Republicans. The passage of the oil regulatory law in Colombia reinforced the reluctance of the US Congress to ratify the treaty. Although Colombia's President Marco Fidel Suarez sought to placate the Americans in order to get the treaty approved, he was assailed for proposing to suspend the petroleum law. So the issue continued to influence the political environment in Bogota. An openly American venture, particularly by the notorious Standard Oil company, would encounter resistance. In these circumstances the Canadian identity of IPC could provide cover, however threadbare.[15]

To help him achieve his goals in Colombia, Teagle relied on a "secret agent:" "Captain" James W. Flanagan, who combined the skills of an entrepreneur and those of a lobbyist, and whose connections to Jersey Standard were often concealed even from other company officials. In 1914 Flanagan had gone to Mexico to scout out potential oil concessions and gather information on events in that revolutionary country. Shortly thereafter he turned up in Peru, posing as a potential railway contractor while "lavishly entertaining" political figures in Lima and reporting (privately) to Teagle on the tumultuous events there.[16] In Bogota in 1919 Flanagan presented himself as the representative of a Canadian company, the Andian National Corporation,[17] interested in constructing either a railway or pipeline to connect the Infantas oil field to Cartagena on the Caribbean coast.

Andian was indeed a Canadian company, whose president and board chairman was Sir Herbert Holt, the chief executive of a range of prominent Canadian enterprises, including Montreal Heat, Light & Power, the largest electric utility in Quebec, and the Royal Bank of Canada. Teagle and Hanna had devoted a good deal of energy to bringing Holt into the orbit of Imperial, as a shareholder and financial adviser, and his position with Andian was to provide a degree of legitimacy that was less apparent with Flanagan, who was vice president. Flanagan, however, was the main figure in this undertaking, in terms of both its business and its political machinations. Flanagan brought Carlos Urrutia, the Colombian ambassador in Washington, onto the Andian board, which helped smooth the way

FIGURE 4.1. "Captain" James Flanagan, with daughter Diva, 1936. Glenbow Archive IP-26-8b-Flanagan, J.W.-1, Imperial Oil Collection.

for land concessions for the proposed pipeline. He also lobbied behind the scenes with Republican Senators such as Albert B. Fall and Henry Cabot Lodge, chairman of the Senate Foreign Relations Committee, to ensure ratification of the Urrutia-Thomson Treaty, which was finally approved in 1921.[18]

In due course these various operations came together: Tropical Oil became part of IPC in August 1920 in exchange for 1.8 million shares of the Canadian company; Joe Trees remained as president of Tropical, but G.H. Smith of IPC became the vice president and effectively the managing director. IPC's capital was increased to $100 million (CAD), with the

Tropical shareholders retaining 33 per cent. Andian did not become part of IPC until 1925, when it issued $15 million (CAD) in bonds to finance the pipeline. Meanwhile, the terms of the transferred De Mares concession were worked out with the Colombian government. In many respects they resembled the 1919 legislation: the concession was limited to a thirty-year period; there would be a 10 per cent royalty on production; and IPC/Tropical was to establish a refinery within two years to supply the domestic oil needs of Colombia. In addition IPC agreed to ensure that 25 per cent of the workforce was hired locally, and to establish supervisory positions in the company for Colombians.[19]

By all accounts, the conditions in which the Infanta oil fields and the Cartagena pipeline were developed were extraordinarily challenging. Despite these initial problems, crude oil production increased sixfold in the first two years of operation under IPC. A small refinery was completed at Barranca by the end of 1922. Barges and steamers were detailed to carry fuel oil and other products to the local Colombian market. Housing for employees, commissaries, and hospitals (malaria and related diseases were endemic) were set up—the latter with help from the Rockefeller Foundation. In his report to Imperial Oil shareholders in 1923, board chairman Charles Stillman offered the optimistic observation that "the Colonies [sic] which they [IPC employees] constitute are happy, prosperous and contented, despite the disabilities of residence so far from home."[20]

Transportation was the major issue. In 1924 a narrow gauge railway was built from the refinery to the Magdalena River, but the pipeline was not completed until 1927. At that point, Andian had invested $26.8 million (CAD) in the 360-mile system, one of the largest outside North America. Almost immediately, however, De Mares production increased from 18,000 to 36,000 bbl./day and annual exports rose from 4 million to 13.7 million barrels. Within two years output from Colombia doubled that of Peru. Meanwhile a new producing field was under development. Although oil prices had stagnated through the mid-1920s due to overproduction globally, the addition of this huge influx of Colombian oil provided a stable production base for Imperial Oil—and for Jersey Standard.

1927 was a benchmark year for IPC. Within two years oil production leaped from 58,000 to 79,000 bbl./day. "For the first time," Imperial Oil's Charles Stillman exulted, "the Republic of Colombia became a contributor to the world's supply of petroleum."[21] It also marked a high point for IPC in terms of its capital investments in the region. Although the company sustained its existing operations in Peru and Colombia through the 1930s, there were few new initiatives in terms of expanding or intensifying the business. In 1937 IPC played a role in a complicated scenario involving Mene Grande oil field in Venezuela: Jersey Standard (through IPC) and Shell (through a Dutch subsidiary) acquired a half interest in the Mene Grande Oil Company. Gulf Oil Corporation had developed the field. IPC as a junior partner played no operational role in Mene Grande, but as Jersey Standard's surrogate "obtained the right to inspect Mene Grande's books and to approve or veto its exploration and development plans."[22] This proved to be a valuable investment: by 1947 Mene Grande was producing 40 per cent of IPC's crude oil. In the meantime Jersey Standard acquired other oil holdings in Venezuela, notably the Creole Syndicate with production on Lake Maracaibo in 1928, which would eventually eclipse IPC's output from Colombia and Peru.[23]

There were several factors at work in this situation. In 1928–30, IPC was exploiting the benefits of its substantial investment (via Andian) on pipeline development. After 1931, the combined impact of the Great Depression on markets and overproduction (particularly in the new East Texas fields) depressed export prices. After 1934, IPC increased its output for the domestic markets in Colombia (which was legally required) and Peru. But there were other, political, considerations. In Peru another military coup toppled Augusto Leguia in 1930, followed by new nationalist efforts to reverse the 1922 settlement. These were thwarted; but looming in the background was a populist movement, APRA, which threatened to revisit the tax issue and perhaps take even stronger measures against foreign companies.[24]

In Colombia, IPC was the target of a premature effort led by the Minister of Development José Antonio Montalvo to extend government authority over the petroleum industry in 1927–28. A more foreign investment-friendly regime came to power in the early 1930s under the Liberal president Enrique Herrera but the issues resurfaced after Mexico nationalized its oil fields in 1938. In 1941 the Colombian government demanded that the De Mares concession terminate within five years. Although Colombia's Supreme Court reaffirmed the original concession date to 1951, Jersey Standard was on notice that IPC's days were numbered. In both Peru and Colombia, then, the Depression, plus continuing political unrest, discouraged interest in bold new initiatives to expand IPC's operations.[25]

International Petroleum, Imperial Oil, and Jersey Standard

In most accounts of the oil industry in this period, International Petroleum Co.—if it is mentioned at all—appears as a surrogate for Jersey Standard, a view obviously shared by contemporaries in the host countries, Peru and Colombia. This is not surprising: in the early stages of its entry into South America IPC was clearly carrying out strategies worked out at 26 Broadway. Walter Teagle, the dominant figure at Jersey Standard from 1917 through 1941, was a person of immense energy, determination, and breadth of vision. These are all entrepreneurial qualities, but Teagle was a quintessential "company man" and the company he served was Jersey Standard. IPC was conceived and developed as a means of establishing a Jersey Standard presence in an unfamiliar, even hostile environment; if it served the needs of Imperial Oil, this was incidental to the purpose. Even after his departure into the upper echelons of Jersey Standard, Teagle took a great interest in the activities of IPC, seeking "intimate attention to details," according to Jersey Standard's historians, and leaving "little independence of action" to the local managers.[26]

But both Imperial Oil and International Petroleum were more than "paper" organizations on a chart: they were real entities, and as IPC's operations matured in the mid-1920s, these characteristics became clearer. G. Harrison Smith, who was the leading figure at IPC in the 1920s and later became president of Imperial Oil, was a protégé of Teagle's. He had joined Imperial just after the 1899 takeover and worked his way up through the Standard system. Smith was a loyal company man but also capable of standing up to Teagle, who opposed his decision to shut down production in Peru in 1918. R.V. LeSueur was a Canadian lawyer who handled IPC's legal cases in Peru in the early years and became president of IPC in the 1930s and then president of Imperial Oil in the 1940s; fluent in Spanish, LeSueur had a Peruvian wife and a relatively good reputation with the business and political elite in Lima. Alex McQueen, who became

FIGURE 4.2. G. Harrison Smith, president IOL, 1944. Glenbow Archive IP 26-8b-Smith, G.H.-3, Imperial Oil Collection.

vice president of IPC in 1921, was an "old Petrolia hand," whose roots went back to the early days of the Canadian industry. He was also a key figure with both IPC in the 1920s and Imperial's Alberta subsidiary in the Turner Valley, Royalite.[27]

In its first years of operation in Peru, IPC had relied substantially on American drillers to develop the fields. By the mid-1920s, Imperial's President could claim that "the Company's organization of both Peru and Colombia are manned very largely by Canadians," and although this may have been hyperbole, the list of Imperial managers who worked with IPC runs into the hundreds, and many of them assumed major managerial roles with Imperial in the 1950s–60s.[28]

In 1926–27 International Petroleum became more visible in the Canadian press. The business journal, *The Financial Post*, published a series of articles lauding Tropical's (IPC's) development of the oil fields and pipelines in Colombia, and emphasizing the role of "Canadian courage, Canadian ability and Canadian patriotism."[29] The *Imperial Oil Review* featured articles on IPC's work in Peru and Colombia, emphasizing the company's efforts to address health and housing needs for their employees. The company also hired locally as promised: by 1926 there were over 2,000 employees in the Infanta oil fields and the Barranca refinery, only 7 per cent of whom were non-Colombians.[30] There were, however, complaints that management positions were principally occupied by Canadians; and there was growing labour militancy, culminating in a strike in 1927 that was put down by government intervention. Wages were better than those offered by many other employers in the country, but the labour movement was growing stronger and a Standard Oil subsidiary was an obvious target—particularly at a time when even some Conservative politicians were clamouring to revisit the country's petroleum policy and revise royalty agreements.[31]

The rationale for Imperial's investment in South America, to the Canadian public and minority investors, was to augment declining domestic supplies, with Peruvian oil going to Vancouver and Colombian oil to Montreal. The arrival of the first tanker from Colombia in 1927 received much publicity in Montreal, with Sir Herbert Holt ceremoniously turning on the tap.[32] But Imperial's largest refinery in Sarnia was supplied by the Cygnet pipeline from Ohio, and Imperial invested in the Cygnet's supply line from Oklahoma—Ajax Pipeline—in 1930. In 1941 Jersey Standard built a pipeline from Portland, Maine to Montreal, which it sold to Imperial in 1948. Meanwhile, Jersey Standard received a substantial volume of oil from both Peru and Colombia at its Bayonne, New Jersey refinery, as the South American light crude was deemed highly desirable for motor fuel, which had a much larger market in the US than in Canada: the Colombian Ministry of Mines and Resources in 1944 estimated that over 80 per cent of exported crude went to the US refineries.[33]

From the perspective of Imperial's managers, the destination of various sources of crude was not a particular issue as long as Imperial's own needs were served: as Imperial's Charles Stillman emphasized in his 1927 report, Colombia had become "a contributor to the world's supply of petroleum," not just for Canada. Equally important was the issue of overproduction, which was a recurring feature of the oil markets throughout this period. In 1922, when Peruvian oil production was just beginning to exceed local market requirements, Stillman lamented "the demoralization of markets in the United States," as a result of overproduction. This overproduction depressed oil prices and left refiners with surplus gasoline, which they were dumping "on the Canadian and Eastern American markets." The situation persisted over the next several years so that even as he welcomed the arrival of Colombian exports, he expressed concern over "the condition of over-production and low prices of crude" that Imperial experienced "indirectly through its association with the International Petroleum Company."[34]

Conditions improved toward the end of the decade, but as the Depression deepened prices declined—in part because of diminished market demand and also because of overproduction, particularly in the Texas fields. By 1931–33 IPC was cutting back production; output increased in the latter part of the decade, reaching a high point in 1937, but then fell again during the recession. Even during the Second World War, the volume of production and exports remained lower than it had been in the late thirties, in part because of the hazards of tanker shipping in the North Atlantic and the diversion of Imperial tankers to convoy duty.[35]

Imperial Oil, and through it Jersey Standard, did very well financially from the International Petroleum investments. During the 1920s dividends from IPC represented an average of 22 per cent of Imperial's net income. But this figure rose dramatically during the Depression due to increased earnings by IPC and declining returns to Imperial from its domestic operations: between 1931 and 1941, IPC dividends rose from 50 per cent to over 80 per cent of net income; the income from the South American investments was almost eight times larger than Imperial's profits from its Canadian manufacturing and marketing. During this same period, the dividends paid by Imperial to its shareholders (with almost 80 per cent going to Jersey Standard) exceeded net income. From 1921 to 1947 income from subsidiaries accounted for more than half of Imperial's net income (with IPC contributing more than 80 per cent through most of this time); and dividends paid to Jersey Standard represented more than two-thirds of Imperial's net earnings.[36]

For both Imperial Oil and International Petroleum, the dividend policies that followed in the 1930s left their respective companies with relatively little income available for new capital investment. As John Ewing, Imperial Oil's historian, observed: "over the 20 years from 1926 to 1945 Imperial Oil had returned to its shareholders about 100 per cent of its earnings;" and its capacity to do so relied on "the income that the company received from its investment in other companies, conspicuously in the International Petroleum Company."[37] After 1940, Imperial stabilized its dividend draw-down from IPC to $8.7 million (CAD) per year and its own payments to shareholders stabilized at $13.5 million (CAD) per year.[38] Consequently, both companies had increased retained earnings for reinvestment. Nevertheless, both Imperial and IPC emerged from the Second World War with inadequate reserves to sustain major new investments.

For Imperial Oil this problem became particularly acute when (after almost thirty years) the company struck oil at Leduc in Alberta in 1947. In the following year new discoveries substantially transformed the future domestic prospects for the Canadian company. But it faced immediate capital needs to exploit these finds, not only in developing production and refining capabilities but also to establish pipelines to carry the oil from the remote reaches of Alberta to Canadian and US markets. By 1948 Imperial's board decided to sell most of its subsidiaries, notably International Petroleum.[39]

There was another factor that influenced this decision: in 1947 the Colombian government had announced its intention not to renew the De Mares concession when it matured in 1951, but to take it over and operate it as a national company. Of course, much could change in four years, and the Colombians would probably need to contract with an established company to develop its own capabilities in this field. Nevertheless, this was a Damocles sword hovering over IPC, and the company had substantially expanded its Venezuelan commitments while allowing Colombian output to stabilize in the years following the end of the war.[40]

Jersey Standard took over control of International Petroleum in 1948, paying Imperial $80 million (CAD). In light of Colombia's apparent intention to nationalize IPC's assets there, this might appear to be a curious decision. But at this point Jersey Standard believed that by 1951 some kind of contractual arrangement could be worked out, and in any case it acquired direct control of IPC's investments in Peru and Venezuela. Since

Imperial remained as a subsidiary of Jersey Standard, in some respects this amounted to an internal transaction. But Imperial may have come out ahead in this deal: in 1951 Colombia did proceed to take over the oil fields of the Tropical Oil Company, which was renamed Ecopetrol, although IPC remained as a partner in running the domestic refining and distribution system for several years. In the 1960s the military government of Peru seized IPC's properties there in far more contentious circumstances, which led to years of bickering over compensation; meanwhile the government used the IPC assets as the base for a national company, Petro Peru.[41]

International Petroleum, Peru, and Colombia

International Petroleum was established for the purpose of opening up the oil fields of Peru and Colombia for exploitation and exports and augmenting the reserves of Jersey Standard and its Canadian affiliate. This was a supply-driven strategy, and serving the markets of the host countries was not initially a major consideration. In 1914, neither was in the forefront of the demographic and economic growth that characterized larger South American countries such as Argentina, Brazil, and Chile. Peru's exports expanded significantly after 1907, but it was still recovering from the loss of the nitrate beds of Tacna and Arica to Chile two decades earlier. Colombia was in the early stages of expansion of its coffee production, challenging the domination of Brazil, but civil wars at the turn of the century had disrupted its economic growth. These circumstances were to change dramatically in the years after the First World War, when GDP growth in Colombia and particularly in Peru substantially exceeded those of their larger neighbours and South America as a whole.[42]

Although in both countries wealth was concentrated in the hands of a small elite of landowners and merchants, the sheer growth of the economy expanded consumer markets. Urbanization also played a role in fostering demand: Colombia in particular experienced significant urban growth, with the cities of Bogota, Medellin, and Cali increasing from 3 per cent to more than one-third of the nation's population between 1918 and 1951.[43]

International Petroleum was attentive to the demands of domestic markets in Peru and Colombia during this period. In Colombia, the requirement to serve local needs was built into the 1920 agreement. There was no parallel for Peru, but the repercussions that IPC encountered after kerosene supplies to Lima were curtailed in 1918 led the company to ensure that the Peruvian market was not stinted. During the early 1930s—the worst years of the Depression—production for internal consumption in Peru rose from 1.9 million bbl. to 3 million bbl./year; and this figure doubled over the next decade.[44] Although the onerous conditions attached to new concessions had driven out most of the large companies in production and refining, IPC still faced competition in imports in the Peruvian and Colombian markets (except for kerosene, which was protected), particularly during periods of global overproduction and always from large integrated companies such as Shell and Gulf. So IPC followed a policy of low prices for these local markets through much of this period.[45]

During the 1930s International Petroleum was clearly treated as a "cash cow" by its owners and there was little new investment in the plant or in equipment. In 1939 IPC acquired a concession in Ecuador and began exploratory work, but little came of this venture at the time. In 1945, a joint Jersey Standard/Imperial team sent to investigate La Brea concluded that it "lagged behind other affiliates" in maintaining working and housing conditions.[46] In light of its obvious financial status within the Jersey Standard system, this situation may not seem too surprising. The company had begun as the favoured project of Walter Teagle, and had embarked on an ambitious and costly development program in the 1920s. As other regions became the focus of growth in the 1940s—particularly Venezuela and the Middle East—IPC's Colombian and Peruvian operations became a backwater, facing growing nationalist pressures and diminishing production runs. Had Imperial not discovered oil in Alberta in 1947, the Canadian company might have been induced to put more capital into reviving IPC. But of course Leduc altered Imperial's course, and IPC became something of a problem child for Jersey Standard.

The Legacy

Today Exxon Mobil is not only the world's largest petroleum company; it is also well versed in the complexities of global oil diplomacy. This was not the case in 1914: although Standard Oil was a sophisticated organization that sold its products in global markets, it had relatively limited experience dealing with foreign governments, particularly those driven by economic nationalism. As in Mexico, Jersey Standard learned through its experiences in Peru and Colombia in the post-1918 era.

In this context, the link to the British Empire through Imperial Oil proved useful. It helped facilitate the acquisition of the London & Pacific properties in Peru, and later enabled Jersey Standard to enlist British aid in resolving IPC's tax problems with Peru as well. In Colombia the Imperial/IPC cloak may have served a different purpose, given the degree of anti-American sentiment in that country. Nevertheless, the greatest benefit of the Imperial connection to IPC in the longer run was the generous tax breaks available to Imperial from the Canadian government, which were duly passed on to Jersey Standard as dividends. For its part, Imperial Oil may have been little more than a loyal follower and cash cow; but by the 1930s the Canadians were playing a larger role in running IPC and it was a valuable training ground for geologists, engineers, drillers, and pipeline layers who could apply their knowledge to the Canadian scene after Leduc.

At that point, Jersey Standard had to make some critical choices: the Canadians had finally discovered significant oil reserves but lacked the capital to exploit them. IPC faced the prospect of dissolution, at least in Colombia, by 1951. In the end, Jersey Standard determined that the future of Imperial Oil was more important to its own corporate needs, and that there was at least the prospect of a negotiated agreement with Colombia over the IPC oil fields. The trade-off worked for at least a decade in Colombia, and Imperial continued to be an important part of Jersey Standard's global profile through the present.