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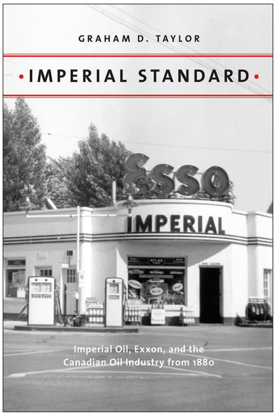

IMPERIAL STANDARD: Imperial Oil, Exxon, and the Canadian Oil Industry from 1880

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COGS IN THE WHEEL

Teagle's Shadow

On February 28, 1918 Walter Teagle resigned as president of Imperial Oil to take up the more august position of president of Standard Oil of New Jersey. Teagle had in fact departed from Toronto for 26 Broadway in New York in November 1917 when Standard's board hurriedly reorganized its top management to enable the incumbent president, A. Cotton Bedford, to serve as the head of the Petroleum Committee of the US Council on National Defense that was coordinating industrial mobilization for the country's war effort.[1] Teagle's presidency of Imperial had only begun officially in January 1914, so he had occupied the position for a little more than four years; and even in that period his activities were divided between Toronto, New York, and London as he continued to hold a directorship at Standard Oil and in effect managed all of Standard's foreign operations throughout the First World War.

Nevertheless, during that brief tenure Teagle had a lasting impact on the Canadian company. Imperial became the parent entity for Standard's oil ventures in Peru and Colombia. The tanker fleet, which in 1910 consisted of two steamers that hauled oil across the Great Lakes from US sources, increased to ten ships and began bringing South American oil to Canada's west coast by 1918. Refinery capacity also expanded dramatically: in 1912 the company had a single refinery at Sarnia processing a little over 3,000 barrels daily. By 1919 new refineries were in operation in Halifax, Montreal, and Vancouver, and production had quadrupled. Distribution and sales networks had been reorganized and extended to cover the national market. Imperial's capitalization was vastly expanded, pensions and benefits were given permanence, and an employee share purchase plan introduced.

Teagle's influence on Imperial continued long after his physical departure from Toronto. He remained as a director until 1919, and in the ensuing years directors and managers who had been closely associated with him sustained his initiatives—including W.J. Hanna, the long-term legal counsel for Imperial and a prominent Tory political figure in Ontario, who succeeded Teagle as president briefly until his untimely death in 1919; G.W. Mayer, who had carried out the reorganization of Imperial's sales force; Victor Ross, a financial journalist with the Toronto *Globe* who set up the *Imperial Oil Review*, the first "in-house" publication in the Standard Oil system in 1915 (at Teagle's instigation, he later established *The Lamp* for Jersey Standard); and G.H. Smith and R.V. LeSueur, both of whom rose to the presidency of Imperial Oil after holding similar positions with International Petroleum.[2]

More significantly Teagle's position as chief executive of Jersey Standard for more than twenty years, as well as the strategies and policies he pursued at the parent firm, would have both an indirect and a direct impact on the evolution of Imperial Oil during this era. Jersey Standard faced a range of substantial and continuing challenges in these years, and while Imperial was no longer the potential flagship of Jersey's international operations by the 1920s, Teagle's experience in Canada made him more aware than most of his colleagues at 26 Broadway of the role that Imperial played in the Standard system. On a more personal level, Teagle retained a connection to Canada as a result of his interest in hunting and fishing, with an annual visit to Kedgwick Lodge in a remote area of New Brunswick for salmon fishing.

When Teagle was chosen "to fill John D.'s shoes"[3] in 1918, Jersey Standard was still the largest oil company in the world—despite the effects of the post-1911 breakup of the trust. The onset of the First World War and US entry in 1917 increased demand for petroleum and silenced the trustbusters as government and public attention focused on the war effort; in 1918 the Webb-Pomerene Act allowed US oil companies to "cooperate" in seeking overseas markets. Meanwhile, the Russian Revolution and civil war in 1918–20 disrupted the operations of one of Jersey Standard's major international rivals, the Nobel group, and even for a time seemed to open opportunities for the American company to get a foothold in the Caspian Sea region. Nevertheless, the new president of Jersey Standard had to cope with an array of interconnected dangers and vulnerabilities.

As in 1912–14, Jersey Standard's formidable refining capacity required a constant supply of crude, which for the most part was under the control of other survivors of the breakup. These survivors, who could still be regarded as "friendly concerns," were now able to sell on more advantageous terms to both Jersey Standard and potential rivals, including some of the larger remnants, Standard of New York (the future Mobil) and Standard of California (the future Chevron). These vulnerabilities had led Teagle to promote the search for foreign sources, in Peru and Colombia, as well as a vigorous effort to find domestic crude—although Jersey Standard was politically barred from access to the most promising fields in Texas until it acquired a local company there, Humble Oil, in 1919. These efforts had increased in-house sources from 8 per cent to 17 per cent of Jersey Standard's refining capacity by the time Teagle took over.

The First World War had demonstrated the military importance of oil as a fuel source for naval ships, airplanes, and mobile vehicles on land, leading governments to take an unprecedented interest in finding reserves for future wars. At the same time warnings of an approaching, perhaps irreversible age of scarcity—a recurring nightmare among oil producers—pervaded the industry. So for Teagle and Jersey Standard, a renewed quest for new sources of crude shaped strategic thinking in the early 1920s. The Americans faced a formidable rival in this race with the emergence of Royal Dutch Shell as an international power.

In 1907 Marcus Samuels' Shell Transport and Trading Company had merged with the Royal Dutch Petroleum Company, which was developing oil fields in Sumatra and Borneo in the Dutch East Indies. Within a few years Samuel had been ousted by the ambitious chief executive of Royal Dutch, Henri Deterding, who spent the next two decades seeking to surpass Jersey Standard in the global oil markets. Mexico provided an early site for competition, and by the mid-1920s the focus had shifted to the Persian Gulf region. Teagle, fearing a possible amalgamation of Royal Dutch Shell with the Anglo-Persian Petroleum Company, both with close ties to the British government, importuned the US State Department to help Jersey Standard get a foot in the door of the prospectively large oil fields of Iraq. The contest also featured rivalry in markets across the world as Teagle probed for oil concessions in the Dutch East Indies.[4]

Canada had been the scene of an early skirmish between Jersey Standard and Royal Dutch Shell. In 1915 Teagle learned of a scheme presented by the Shell group to the Canadian government that would give it a virtual monopoly over oil exploration and development in the western provinces. Although ultimately little came of this proposal, it stimulated Teagle to initiate Imperial's first ventures into Alberta in 1917–19, representing its entry into the western oil patch (to be discussed in the next chapter).

Jersey Standard's concerns over the diminishing prospects of new oil reserves, along with a growing interest in the use of petrochemical by-products of thermal cracking, led the company to enter into negotiations with the German chemical giant, I.G. Farben, over patent exchanges covering the development of synthetic fuel oil from coal, discussions which led to a much broader range of patent agreements in the late 1920s–30s. These agreements, particularly on the subject of synthetic rubber, would lead to an unprecedented collaboration between Imperial Oil and the Canadian government during the Second World War, and the establishment of what became Canadian Polysar. By this time, however, controversies in the United States over the "conspiracy" between Jersey Standard and the German company marred the final years of Teagle's presidency.

By the late 1920s, however, the issue was not scarcity of oil supplies but surplus (also a recurring feature for the industry). New oil fields in the Middle East, South America, and the Dutch East Indies were coming on stream. The main contributors were the huge fields in Oklahoma and East Texas, the largest to be discovered until the Saudi Arabian "elephant" of the 1940s. In addition, improvements in refining enabled the oil companies to double the recovery from each barrel of oil, which exacerbated the glut.

Teagle and other industry leaders in the US recognized the need to impose some kind of control on new production through cooperation, but even a pro-business Republican administration in Washington was reluctant to reopen the doors to the antitrust battles of the past. Controls eventually came about in the Depression through quotas imposed by the Texas Railroad Commission, which had regulatory authority over the largest fields in the country.

There were fewer constraints on agreements among international companies, and by this time Royal Dutch Shell was as eager as Jersey Standard to stop the slide in oil prices that excess production and competition had generated. In 1928 Teagle, Deterding, and representatives from Anglo-Persian, Gulf Oil, and Standard of Indiana got together at Achnacarry castle in Scotland ostensibly for a hunting weekend (which stretched into several weeks). The result was what became known as the "As Is" Agreement, in which the parties promised to allocate foreign business on the basis of current market shares, to close down some wells and limit the number of new production facilities based on market conditions.

A quarter of a century later, the As Is Agreement was portrayed by the US Justice Department in a new antitrust suit against Jersey Standard and other oil majors as marking the moment of creation of an international oil cartel, a characterization echoed by many histories of the industry (and embraced as well by the founders of the Organization of Petroleum Exporting Countries in the 1960s). In the immediate years following the Achnacarry meeting, however, the agreement had little impact as oil surpluses continued to flow and prices stagnated. Market discipline, such as it was, came about through the quota allocations set by the Texas Railroad Commission, which effectively determined the world price. As with its parent, Imperial Oil's fortunes were shaped by this context of global boom and bust.[5]

One other feature of the Teagle era at Jersey Standard would have at least an indirect impact on Imperial Oil. The vast expansion of production during and after the war, the quest for overseas supplies and markets, the shift in refining from kerosene to fuel oils and more variegated by-products, and the imposition of government taxation and regulation all contributed to increasing strains on the corporate structure erected by Jersey Standard after the 1911 dissolution decree. The business historian Alfred Chandler Jr. characterized the organization that had evolved as a "partly federated and partly consolidated enterprise." Integrated operations such as Imperial Oil and Standard Oil of Louisiana functioned with a good deal of autonomy while other units were subject to varying degrees of direction by departments at 26 Broadway. As the company expanded and developed new product lines, new divisions sprang up with functions that overlapped those of the existing units and blurred lines of responsibility.

Some departments—such as Export Trade and Development—that were regarded as essential to the future of the company received close attention and support from the board, while others—such as Domestic Marketing and Manufacturing—floundered.

Organizational weaknesses were less apparent during the period of overseas expansion and general growth after the First World War—but by the mid-1920s, with a glutted inventory and falling oil prices, the costs of management inefficiencies became clear. In 1925–26 Teagle undertook a first round of changes. The domestic departments were consolidated into a single division, and export and foreign operations were similarly reorganized—with Imperial Oil remaining as a separate entity. The old system of management by committee—inherited from pre-1911 Standard Oil—was replaced by single executives with staffs and full responsibility for divisional performance. In 1927 a second round of restructuring followed with the aim of reducing the involvement of board directors in the minutiae of routine administration, so that they could focus instead on long-term planning. Although the reorganization emerged from Jersey Standard's own experiences, it paralleled in many respects the changes being introduced in this same era by large companies such as DuPont and General Motors.[6]

Within this new structure, however, there were outliers whose special status was reflected in the retained autonomy. Humble Oil, by now one of the largest production units in the company, was one exception—possibly in deference to the sensibilities of the ever-suspicious Texans. Imperial Oil was the other. While major financial commitments had to be cleared through Jersey Standard's executive committee, most operations were under the control of Imperial's own Board. The main point of contact was a representative of Jersey Standard on Imperial's Board. Over the years similar arrangements were extended to other Jersey Standard affiliates, and members of the Imperial Board would also serve on the board of the parent company, beginning with Smith and LeSueur in the 1940s. This special status for Imperial may have reflected an appreciation on the part of Jersey Standard for Canadian sensitivities, and perhaps a recognition of its unusual role as the official parent of International Petroleum. But it may also have been an outgrowth, at least in this era, of the continuation of a special relationship between Imperial and its benefactor, Walter Teagle.

The Automobile Revolution

For almost half a century the most commercially significant by-product of petroleum—in Canada and elsewhere—was kerosene, used primarily for illumination. On the eve of the First World War, kerosene accounted for close to 50 per cent of the output of the refineries of Imperial and Jersey Standard. By this time, however, electric lighting was emerging as a competitor with oil and gas lamps, particularly in urban areas served by grids fuelled by coal and hydro power. Providentially for the oil industry, a new and even larger potential market was taking shape with the arrival of an automobile based on the internal combustion engine. The earliest automobiles had been developed in Germany in the 1880s but the key event was the introduction of the mass-produced motorcar by Henry Ford in the United States in 1908–12, using gasoline refined from petroleum.

Although Canada had a much smaller and more rural population than the United States, the impact of the automobile was delayed but eventually just as substantial: in 1906 the number of registered motor vehicles in Canada was 565, increasing to 28,000 five years later. By 1914 this number had risen to 75,000 and in the early 1920s to more than 500,000, doubling again by the end of the decade. In 1904 the Ford Motor Company had established a beachhead in Canada through an agreement with Duncan McGregor in Windsor, Ontario, and four years later Robert McLaughlin of Ottawa had formed a partnership with the company that would become General Motors of Canada. By the 1920s the Canadian automotive industry was the tenth largest in the world, and gasoline sales accounted for more than 25 per cent of the country's petroleum refining output. In addition, the Canadian prairies provided a strong market for gas-powered farm vehicles, including the Fordson Tractor as well as the established Massey-Harris and other producers of combines converting from steam to gas.[7]

Gasoline had been a by-product of petroleum refining since the 1860s, but in the early years of the industry it had been discarded as waste. As demand grew in the early 1900s, not only for gasoline but also for related by-products including fuel oil and lubricants, Standard Oil and other major companies in the industry began exploring ways of improving refining processes. In 1913 William M. Burton and R.E. Humphreys, chemists at Standard of Indiana's Whiting refinery—where Frasch had developed his sulphur reduction process a quarter century earlier—patented a new petroleum "cracking" technique that would extract substantially more gasoline and other by-products from each barrel of petroleum and reduce the cost of motor fuel by 80 per cent per gallon. The process involved separating hydrocarbons into wet gas and distillate that resulted in the splitting or "thermal cracking" of heavy molecules into lighter products.[8]

Teagle, who was on the verge of taking on the presidency of Imperial Oil, determined that the Canadian company should reap the benefits of the Burton-Humphreys process as part of his strategy for expanding its refinery operations. Negotiations dragged on as Standard of Indiana contemplated setting up its own refineries in Canada; but in January 1914 Imperial purchased a license to the process for $15,000 (USD) for the first 50,000 barrels per year and 30 cents per barrel for amounts above that level. It was a coup, as Jersey Standard did not acquire access to the process until 1915 (on the basis of much tougher terms).[9]

Imperial continued to benefit from its technological ties to Jersey Standard over the next decade, in part because Charles Stillman, president of the company from 1919 to 1932, had been in charge of the Sarnia refinery and retained an interest in improving the efficiency as well as the output of Imperial's production. In 1924 Imperial acquired a license to the "tube and tank" cracking process developed by Jersey Standard as an improvement to the Burton process (and incidentally to circumvent Standard of Indiana's patents). Stillman also established a technical department under R.K. Stratford, initially as an inspection division for new products, but it evolved into a more broad-ranging research and development unit with links to the Standard Development Company, Jersey Standard's research affiliate. During the 1920s this was a fairly modest operation that focused on improvements to motor oil refining, leading to the introduction of a higher-octane product branded as "Three Star Gasoline" in the early 1930s.[10]

While Stillman focused on improving and expanding refinery production and expansion, Imperial faced equally significant challenges in the marketing and distribution of gasoline to the Canadian market. One issue was the abundance and low price of gasoline. The 1920s witnessed the dramatic growth of petroleum output including the expansion of oil fields in the US, particularly Texas, as well as gas production in the Turner

Valley in Alberta. In response to pressures from auto manufacturers and dealers, and the emerging mass market for motorcars, import duties on gasoline were held below 1 cent per gallon up to the onset of the Depression and the Bennett tariff of 1930, which raised them to 2.5 cents.

Surplus inventory posed a continuing problem for Imperial throughout the interwar period, which the company tried to offset through sales to independent distributors. As had been the case for Imperial in the 1880s, however, there was a recurring concern that these jobbers might become large enough to establish their own refineries or threaten to take their business to Imperial's equally desperate competitors. Imperial sought to avoid this situation by buying shares in the distributing companies—in effect subsidizing their own customers.[11]

Imperial also proved reluctant to adapt to the emerging environment of the market for gasoline. The company had marketed kerosene and related products through bulk sales to wholesalers, and this continued to be the practice in selling gasoline, particularly in central Canada where associations of garage owners were the major customers. Imperial had experimented with retail gas stations as early as 1908 in Saskatchewan; and during the Teagle era it had set up a subsidiary, Consumer Gas Supply Agency, to retail gas bought directly from the United States. But the logical move to establishing a national service station chain was slow to take hold.

Jersey Standard had been similarly backward in anticipating the new era of gasoline marketing. In 1919 it had only eleven service stations in the United States, and although Jersey Standard increased this number between then and 1924, it share of the country's gasoline business declined from 56 per cent to 47 per cent. The Texas Company (Texaco) had been particularly aggressive in this field. In part this conservatism reflected the influence of the legal department, which was still worried about antitrust implications; the intervention of the legal department may have been involved in the closing of Imperial's retailer, the Consumer Gas Supply Agency, in 1920. The major issue involved the application of exclusive agency contracts with local service stations. By 1925, however, challenges from Texaco and the Sinclair Company galvanized a shift in Jersey Standard's approach, which now focused on establishing stations that could offer full-service maintenance including mechanical and tire

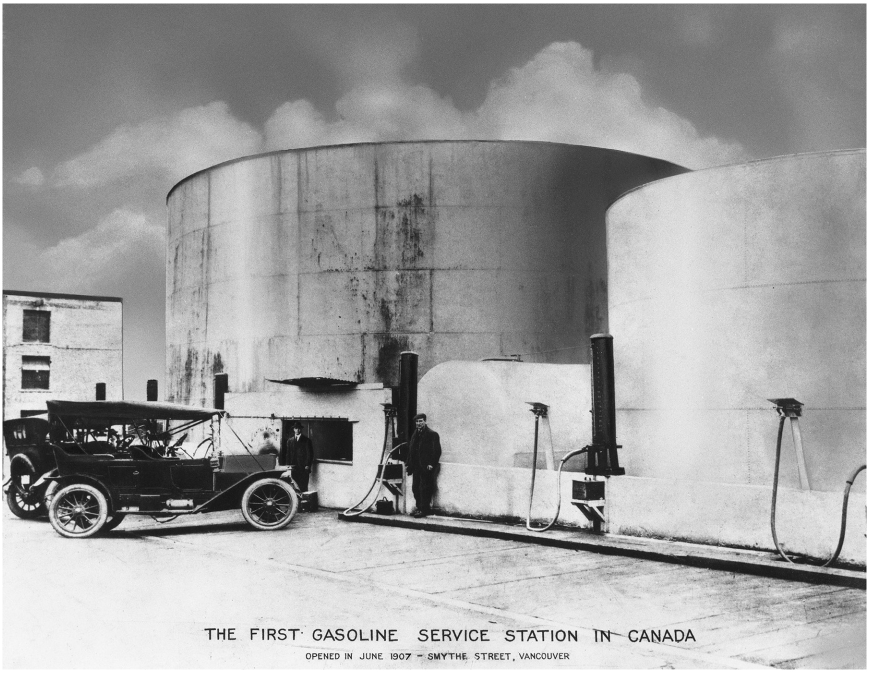

FIGURE 5.1. First gas station, Vancouver, 1914. Glenbow Archive IP-12-1-1, Imperial Oil Collection.

installations. In 1927 Jersey Standard introduced its "Esso" service stations, which were extended into Canada in the 1930s.

Imperial delayed its embrace of the full-service stations in the 1920s in part because of the capital commitments involved, which became an issue between the two companies. Imperial's managers later claimed they wanted to expand into service stations but were deterred because Jersey Standard vetoed the capital commitment involved. Teagle, now wearing his Jersey Standard hat, believed that the benefits of such a move were limited because the Canadian market was already saturated with low-cost gasoline distributors and the US had too many service stations. Imperial did move to a full-service system in the 1930s, using the "Esso" brand (which continues to the present time). The company, however, was careful to limit its capital commitment to a relatively small proportion of the stations involved, with a much larger number of semi-independent garage contractors selling Esso gasoline. This complicated system would later pose public relations problems for Imperial in its never-ending battles with regulators over gas prices.[12]

Competition, Boom, and Bust

The advent of the gasoline era and the petroleum glut in the 1920s contributed to the growth of competition with Imperial in Canada. In 1921 it held 80 per cent of the gasoline market in the country, but this had dwindled to a little over 60 per cent by the end of that decade. The competitors included both large US and other foreign companies and also smaller homegrown enterprises.

Imperial faced its greatest challenge on the west coast with competition from both Shell, which set up a bunker storage plant for fuel oil in Vancouver in 1919, and Union Oil Company, a long-time rival of Standard Oil in California, which established a refinery in British Columbia two years later. Victor Ross of Imperial's board became so incensed over this threat that he suggested Imperial denounce their competitors as "foreign companies." The company dispatched their best sales manager, A.E. Halvorsen, to stem the challengers, and by 1928 Imperial had regained much of its market share in the region, in part through arrangements with independent jobbers and distributors. [13]

In central Canada, Imperial faced some older rivals and a new one in the 1920s, but limited their inroads. Canadian Oil Companies, which had been set up by dissident refiners in Petrolia in 1906 was, ironically, taken over by a US company—National Refining of Cleveland—two years later. During the 1920s its ability to exploit the gasoline market in Ontario was hampered by a lack of capital investment from the American parent company (curiously similar to Imperial's experience). In 1938 it returned to Canadian ownership, but remained a relatively smaller player; in 1962 it was acquired by Shell for $6 million (CAD).

Shell itself, which had loomed so menacingly over Imperial during the Teagle era, also proved to be less of a threat in the years after the First World War, as Europe and East Asia became the focus of Standard-Shell rivalry. In 1911 Royal Dutch Shell had set up a Canadian subsidiary that established a foothold in Quebec, while manoeuvring to control the exploration

FIGURE 5.2. Imperial Oil advertisement, 1934. Glenbow Archive IP-13f-2-a, Imperial Oil Collection.

for oil in the West. Although it competed with Imperial for the British Columbia market, expansion was limited elsewhere—refineries were only set up in Vancouver and Montreal in the late 1930s. Shell did not become a player in the post-Leduc boom in Alberta until the 1960s when it began buying up existing operations such as Canadian Oil Companies.[14]

Another small-time Ontario refiner became a much bigger challenge to Imperial's ascendency in the interwar period. British American Oil Company was originally neither British nor American; it was the creation of Albert L. Ellsworth, who had been an accountant for Standard Oil of New York at the Buffalo refinery and relocated to Ontario in 1906. Ellsworth joined forces with Silas Parsons, of the Canadian Manufacturers Association, plus a handful of other investors to set up a refinery in Toronto. Focusing on the declining kerosene market, British American struggled—but by the 1920s it had shifted to gasoline refining, established pipelines connected to cheap US suppliers, supplemented by exploration and drilling by its own subsidiaries, and expanded refinery operations into western Canada. Ellsworth backed the wildcat oil drillers Robert Brown and George Bell in setting up Turner Valley Royalties in 1936, which was Canada's largest twentieth-century oil find before Leduc. By the end of that decade, British American was the second largest integrated oil company in Canada.[15]

One other company emerged in the late 1920s as a potentially formidable rival to Imperial. In 1926 the Montreal financial firm Nesbitt Thomson cobbled together an amalgamation of refiners and distributors that included Frontenac Oil of Montreal, Three Rivers Oil & Gas in Quebec, and McColl Brothers Ltd., a Toronto refiner, along with some smaller enterprises. Capitalized at $17 million (CAD) in 1928–29 at the height of the Bull Market, McColl-Frontenac sold at $45 per share. Within a year that boom had collapsed, and shares fell to $24.50. By 1937 share prices were down to $8.50, aggravated by a disastrous investment in oil production in Trinidad. In 1938 the US company Texaco took it over and restructured its financing just in time to benefit from increased demand generated by Canada's involvement in the Second World War.[16]

The crash of 1929 and its aftermath hit all the companies in the industry, and Imperial was not unscathed. During the 1920s Imperial had undergone two rounds of recapitalization, and the general rise in stock market prices boosted the company value, to the delight of the minority shareholders—Jersey Standard retained control of more than two-thirds of the stock, but the numbers of smaller investors swelled from fewer than 1,000 to over 5,000 by the end of the decade, abetted in part by the employee stock purchase plan Teagle initiated.

In 1915 Imperial's authorized capital had been increased from $15 million to $50 million (CAD) to provide resources for Teagle's expansion program, with 2 million shares offered at $25 par value. By 1925 the company's actual asset value had risen to close to $240 million (CAD), and Imperial, with Jersey Standard's approval, issued 8 million new shares at no par value. This allowed for the conversion of the old shares, with a book value of $30 per share. A second recapitalization came in April 1929 with 32 million shares issued at no par value. In the midst of the stock market boom, Imperial's shares quickly rose above $100 and peaked at $119 per share shortly before the crash. By 1930 share values had gone below $30, and there was no further change in the capital structure until 1947.[17]

Throughout the 1930s Imperial was essentially in a holding pattern. Sales remained virtually flat from 1931 to 1937, although earnings rose from $14 million to $25 million (CAD) after 1934, thanks in part to the effects of the Bennett tariff and slowly rising prices of oil by the middle of the decade. Imperial regained some ground from its smaller competitors, particularly in British Columbia, and it retained a dominant role in the Maritimes and Quebec. But overall, the markets were shrinking. Although production and sales had also flattened in South America, the contributions of International Petroleum gave Imperial's balance sheet a more solid appearance than might otherwise have been the case.[18]

One episode highlights the exceptional conditions that Imperial faced during the Great Depression. Newfoundland, not yet part of Canada, had become a self-governing Dominion in 1907. Standard Oil had acquired a foothold there in 1902, establishing storage facilities supplied by tankers, and Imperial assumed this role after 1918. The company had a virtual lock on the market, primarily for kerosene—a small market, to be sure, as the Dominion had a population of fewer than 300,000 people in 1930.

The Depression had a devastating impact on an economy based principally on fish processing for export, and was aggravated by the burden of debts incurred by the government for constructing a railway and other investments intended to boost industrial growth in the 1920s. Critics of the government in power under Sir Richard Squires charged that these costs were exacerbated by widespread public corruption. By 1932 public debt exceeded $98 million (CAD) and interest on the debt amounted to 64 per cent of public revenues. Squires had desperately sought to stave off disaster, seeking, unsuccessfully, to sell Labrador to Canada and arranging a series of short-term loans at increasingly onerous rates.

With a $2.5 million payment looming, and unemployed constituents laying siege to the legislature, the Squires government proposed to take over the importation and sales of all petroleum products in the Dominion. This came as an unwelcome surprise for Imperial Oil. Although Newfoundland was a relatively small market, Victor Ross warned that this experiment in "government oil monopoly" would likely tempt the premiers of provinces in Canada facing similar financial problems—particularly in Quebec and western Canada—to follow its lead.

The Squires government responded to Imperial's protests with an alternative (and probably preconceived) arrangement: Imperial could be awarded "exclusive rights" in Newfoundland until 1947 in return for a subscription of $1.75 million of a new bond issue of $2.5 million (CAD) called a "Prosperity Loan." The company would also guarantee a payment of $300,000 in royalties annually into a "petroleum fund." Imperial's board was reluctant to enter into an agreement that could resurrect its image as a "monopoly" but Ross's fears about the alternative situation seem to have been persuasive: G.H. Smith, who was due to take over the presidency of Imperial when Stillman retired in 1933, certainly had experience from South America in dealing with politicians threatening nationalization.

In the first year of operating under the new dispensation, Imperial's earnings from Newfoundland were less than $300,000 and the company had to make up the shortfall. But the era of monopoly proved to be short-lived. Later in 1932 Squires was driven from office by a Conservative coalition under Frederick Alderdice. When Alderdice in turn proposed to allow Newfoundland to default on its debts, the British government—with support from Canada—intervened, dispatching a Royal Commission under Lord Amulree to find a solution to Newfoundland's problems. The Amulree Commission recommended a suspension of Dominion status, placing Newfoundland into what amounted to receivership. With regard to Imperial's "exclusive rights," the commission arranged for its cancellation, and for the redemption of the bonds within two years. Imperial no longer had a monopoly, but it continued to play a dominant role in the market for many years.[19]

Imperial Oil's ties to Jersey Standard proved to be a mixed blessing during the Great Depression. Throughout the early 1930s Jersey Standard pressured Imperial to buy its crude oil exclusively from its major supplier, Carter Oil, but both Stillman and Smith resisted, arguing that "from a political standpoint" the Canadian company needed to meet its needs from a variety of sources and to increase refining operations to capacity before importing. More seriously, Jersey Standard's relentless demand for dividends from both Imperial and International Petroleum throughout the decade significantly limited the Canadian company's ability to reinvest for future development. Imperial's fixed assets barely changed between 1929 and 1939, and with depreciation its total asset value diminished from $209 million to $164 million (CAD). Some of Imperial's managers grumbled that Jersey Standard was "eager to keep its own shareholders happy" by drawing "even more from its subsidiaries than their own earnings." But in this dimension Smith was a loyal adherent to the parent company and dissent was discouraged.[20]

On the other hand, the Jersey Standard connection was valuable—and not only because of the access it provided Imperial to technological improvements in refining and product development. Imperial was also integrated with Jersey Standard's transportation network, and received assistance in developing sales operations—the Esso brand itself proved significantly beneficial by the 1940s. Although Jersey Standard limited Imperial's access to long-term capital investment, short-term financing was available for "everyday needs." In the context of the desperate circumstances of the Depression this was an important factor. Imperial was by no means the best managed nor the most entrepreneurial company in the industry; but its sheer size, coupled with its links to Jersey Standard, ensured that it would remain the largest integrated oil company in Canada throughout this era. Even British-American Oil Company, the second ranked company in 1939, was only one-tenth the size of Imperial Oil in terms of assets, sales, and employees.

The Joint Industrial Committees

In 1913 Imperial had only one operating refinery, at Sarnia with a 3000 bbl./day processing capacity, serving slightly more than one-third of the country's market demand (another 40 per cent was covered by imports, primarily from Standard Oil and its US affiliates). Five years later the company had more than doubled Sarnia's capacity and had built new refineries in British Columbia, Saskatchewan, Quebec, and Nova Scotia, extending its reach across the entire country and increasing its market share to more than 60 per cent.

The transformation of Imperial was more than an expansion in its scale of operations. Refining had become much more complex, no longer a matter of distilling crude oil into a relatively limited line of products. Thermal cracking processes, thanks to the improvements introduced by Burton-Humphreys and related patents, enabled continuous flow operations that reduced the costs of producing not only motor fuels for the growing automobile market but also a range of other hydrocarbon derivatives. It furthermore facilitated constant improvement of the quality of gasoline, heating oil, and other by-products.[21]

Imperial Oil, like its American parent, emerged from the First World War as a company with an enlarged manufacturing base and a larger work force concentrated in its refining operations. The establishment of new refineries across the country required a coordinated approach to labour relations. This need was exacerbated by tensions between workers and employers across a range of industries—tensions produced in part by the traumatic experience of wartime mobilization and demobilization and the growth of a militant trade union movement that culminated in the Winnipeg General Strike and a host of other confrontations in 1918–20.

Teagle, who in other respects seemed a relatively enlightened representative of the emerging managerial elite, appears to have been singularly blind to these challenges, at least during his tenure as president of Imperial Oil. On the other hand, Standard Oil, which was experiencing similar tensions at its large US refineries, took the lead in developing labour policies that would hold the unions at bay for many years, and prodded Imperial to follow its example. In the accounts of these events, the rotund Canadian figure of W.L. Mackenzie King is often cited as a key player, although his direct influence on Standard Oil may have been exaggerated.

By 1912 the Rockefeller investment interests extended well beyond the oil business. John D. Sr. was more or less in retirement but his son John D. Jr. played a more active role in managing the family fortune as well as the Rockefeller Foundation. One of these far-flung investments was a mining company, Colorado Fuel & Iron, which in 1913 was embroiled in a bitter labour dispute. The strike culminated in the "Ludlow Massacre" when state militia assisted by company guards attacked a camp of locked-out strikers and their families, killing more than a dozen people, including women and children. Coming in the wake of the Standard Oil monopoly battles, the Ludlow Massacre was a black eye for the Rockefellers, and John D. Jr. cast about for a resolution of the strike. To that end he recruited Mackenzie King, the former Labour minister in the Laurier government in Canada, who was temporarily unemployed when the Liberal party went down to defeat over the issue of Reciprocity with the United States. King had devoted a great deal of time and effort to finding peaceful resolutions to labour disputes and promoted a range of measures that employers could adopt to reduce these tensions.

Rockefeller invited King to join him in Colorado to address the problems of Colorado Fuel & Iron, and King accommodated him with a series of ideas: arbitration of labour disputes, compensation for injured miners, establishment of pensions, and consultation between workers and managers that could alleviate workers' hostility and distrust. To assist King, Rockefeller brought in Clarence Hicks, who had worked for the Young Men's Christian Association and then advised International Harvester on ways to improve its labour relations. Later King, who returned to Canada to resume his (very successful) political career, wrote *Industry and Humanity*, a book that detailed his views lugubriously.

Meanwhile Jersey Standard was encountering its own labour problems. In July 1915 a protracted and violent strike erupted at the company's largest refinery in Bayonne, New Jersey. President Cotton Bedford rejected proposals from the state governor that the issues be subject to arbitration, denouncing the strike as the work of "professional agitators" and "alien" influences. But the US Commission on Industrial Relations, which had already focused its attention on the Ludlow Massacre, criticized Jersey

Standard for the way the Bayonne strike was handled, leading Bedford, prodded by Rockefeller, to change his tune. Hicks was brought in from Colorado in 1917, and he proposed extending the industrial relations plan that he and King had developed to Jersey Standard. It was unveiled with fanfare early in 1918; by this time Teagle had arrived at 26 Broadway, where he belatedly embraced the plan and directed its adoption by Imperial Oil.[22]

Many of the elements in the King-Hicks program were featured in other "welfare capitalist" initiatives of the early twentieth century: an employee stock purchase plan, along the lines championed by Teagle, which proved to be among the most successful aspects of the program as it evolved at Imperial; retirement benefits that included contributions from the company with additional voluntary contributions from employees up to 3 per cent a year; sickness and disability benefits (accompanied by a vigorous "safety" program promoted in the *Imperial Oil Review*); and an array of social activities including athletic clubs, company picnics, and related "morale-boosting" events. An "Employment Department" was established whose role, as in other large-scale industries, was to limit the arbitrary power of shop foremen through very detailed manuals that covered the criteria for hiring and the grounds for dismissal of workers.

The most important components of the program, at least from the standpoint of its designers, were the "joint industrial councils" that would provide a forum in which representatives of managers and workers would meet monthly to discuss a range of issues including (in theory) wages and hours as well as working conditions, the airing of grievances, and related matters. There would be an equal number of worker representatives (one representative per forty employees) and management-appointed delegates, chaired by the senior supervisor—in most cases the head of a refinery.

In introducing this system, the *Imperial Oil Review* maintained that it was not undertaken in a "spirit of patronizing philanthropy," but rather intended to encourage "an *esprit de corps*" that would result in "efficiency, harmony, and mutual profit." Needless to say, trade union leaders and some employees regarded it as "a scheme to break unions," and certainly Imperial's managers were alarmed at the progress of the craft union organizations at the Sarnia refinery. More than half of the workers had joined one or another local, although the company refused to negotiate with any of them. In British Columbia the Ioco refinery experienced a

FIGURE 5.3. Joint Industrial Council, Sarnia refinery, 1919. Glenbow Archive IP-23-6a-1, Imperial Oil Collection.

twelve-day strike in early 1918, and President Stillman raised pay rates across the company as well as reducing work times to eight hours per day and a six-day week at the same time that the new Industrial Councils were getting underway.[23]

Joint councils were to be set up across the company, but the largest and most significant ones were formed at the refineries: in 1920 refinery employees accounted for more than half the workforce, and it was on these sites that workers were concentrated and considered most susceptible to the appeals for unionization. The first council was set up at Sarnia, the largest refinery with 1,600 workers. By 1920 there were councils in all five refineries, and another one was established at Calgary in 1924. For the first months of organization, the *Imperial Oil Review* dwelt at length on the numbers of workers participating in councils and their various achievements. By the middle of the decade the dangers of unionization had receded and the *Review* would cover council events in less detail. In the meantime, however, the councils were providing a range of opportunities for managers to facilitate the stock purchase plans and encourage charitable contributions to local communities, as well as other "morale-building" activities. The councils also served as an early warning system for potential problems in the plants.

A better sense of how the Councils functioned in practice can be provided through the contrasting experiences at the Montreal East refinery and the Ioco refinery in Burnaby, British Columbia. The Montreal oil business had been handled by Edward Hewitt, an agent for Samuel Rogers, until the amalgamation in 1899. By 1912 Imperial had two bulk plants in Montreal, which served the Quebec market. The threat of competition from Shell may have prompted Teagle to build a refinery in Montreal that began operating in 1916 with a 4000 bbl./day capacity, which more than doubled by 1920, by which time it had a work force of over 400. The Montreal refinery was unusual in that for many years its most important product was asphalt refined from crude oil, supplemented by bunker fuel oil for ships and later a variety of gasoline products and base stocks. The refinery was built in an area that had been intended as a "garden city" suburb for Montreal but by the end of the First World War had become a diversified industrial site.[24]

A refinery workforce comprised a complex array of skilled specialists as well as yard labourers. The distilling process required stillmen, gaugers to control the flow of oil, firemen to feed the boilers, and cleaners to remove the coke residue from the stills. Machinists, boilermakers, and pipefitters were required to maintain the equipment. Each of these groups could command a different pay rate and had to be carefully tended to by managers: boilermakers had staged a strike for better pay at the Montreal refinery shortly after it began operations; the still cleaners, who performed some of the most dangerous work, had been behind the strike in Bayonne, New Jersey in 1916.[25]

Refinery supervisors had to ensure that all the different groups were represented adequately on the councils, and sometimes also adjudicate their varying demands. For example, the council elected at Montreal East in 1924 had three representatives from the "Refinery [distilling] department," two representatives from "Mechanical," two from "Still Cleaning," and one each from the "Boiler and Power House" and "Asphalt" departments.

A good deal of time was spent on working through and reviewing the pay differentials. In Montreal, still cleaners maintained that they should receive extra pay for having to wear gas masks, a demand that other representatives did not agree with, and the chairman (refinery superintendent G.C. Mechin) pointed out that the gas masks were a safety measure. At another point process (distillery) workers, who had been detailed to yard duties in the winter months when the distillery was operating at a lower level, demanded higher pay; Mechin responded that "all employees are paid in accordance with the work they are doing," and a differential with other yard workers would be "unfair."

Mechin, however, was willing to provide a range of benefits requested by council members. Residual coke was given to workers for home fuel during winters, and for a time those who had their own automobiles were allowed to refuel their vehicles from a plant pump at a discount rate when market prices were high (although when prices declined, the company backed out of this commitment). During the worst years of the Depression, Mechin worked with the council in scheduling reduced working hours to avoid layoffs, and those who were laid off temporarily retained their seniority. The Montreal council also arranged for refinery workers to contribute to a fund providing aid to the city's unemployed.

Both the refinery superintendents and company officials found the councils to be handy conduits for promoting programs they wished to encourage. The employee stock purchase programs were particularly successful. Unveiled as the "Cooperative Investment Trust," the plan allowed employees to purchase—on instalment—shares in Imperial Oil with the company contributing one-third of the amount, with the stipulation that the stock be held for five years. The first plan introduced in 1920 was subscribed completely at Montreal and elsewhere, and council representatives eagerly called for a second issue in 1925. In that round the Royal Bank in Montreal agreed to hold the stock certificates as collateral for loans at 5.5 per cent interest. After the 1929 stock market crash, the company undertook to assist employees who might be forced out of the program to meet their loan obligations.

In 1941 the company used the councils to help sell Victory bonds, and also agreed to enable employees in Montreal to participate in the Hospital Service Plan set up in Quebec, although this was not a company subsidized health program. A company life insurance benefit program was negotiated with Sun Life, and the Montreal council arranged for those who were laid off to continue participating in the plan, although they were still required to contribute. Employees who were obliged to enter military service after 1942 (a contentious issue in Quebec) were guaranteed seniority when they returned to the company.

Mechin proved adept at dealing with recurrent calls from council members for wage and salary increases. When the issue surfaced in 1922, he produced a detailed analysis of cost of living changes both nationally and in Quebec to demonstrate that Imperial wages were competitive. Later, he argued that wage rates were being set at the company level. When council members proposed that the minutes of their meetings should be shared with other refinery councils (and vice versa) he maintained that the issues were very different in different jurisdictions so comparisons were unhelpful. When prices began to spike after war broke out in 1939, the company arranged for bonuses rather than permanent wage increases (unfortunately, the bonuses were later made taxable) and then took refuge in the wage controls established by the Canadian government. The councils, it should be noted, were willing to accept most of these arguments without protest.[26]

By contrast, the Ioco Council proved to be obstreperous from the outset. The Ioco refinery, which opened in December 1914, was the first step in Teagle's expansion plans. It was set up in part to head off the anticipated foray by Union Oil & Gas of California into the western Canadian market, but also to receive oil imports from International Petroleum in Peru. It was in a remote setting, far from the city of Vancouver (there was no road connection until 1918). In the early years workers lived in bunkhouses like lumberjacks. Later the company decided to build a model town with prefabricated housing and social centres. As seems to often be the case, the utopian community did not evolve as planned. Instead it became a hotbed for labour militancy.[27]

In 1922, when the superintendent presented the same cost-of-living figures that Mechin unveiled in Montreal, Ioco workers protested against the costs imposed by the "townsite" and argued that the labour rates in Vancouver were higher. This particular complaint settled down, but issues continued to simmer. In 1927, when the refinery was contemplating layoffs, the superintendent complained that there was "propaganda" that "we have waited until men were in a few months of being retired" to fire them "so as to save their pensions." He maintained the company followed a policy of layoffs that would not affect qualified pensioners, but this argument was not persuasive with skeptical workers. This issue continued to cause complaints for the next twenty years.

These problems acquired more saliency in the 1940s as wartime expansion replaced the cutbacks and restrictions of the Depression era. As the cost of living rose, the council became the focal point for demands for a bonus, which was finally granted by the company in November 1941. Two years later the provincial legislature in effect ensured that a union could bargain with an employer. Although no particular company was identified, it was clear that the law was intended to apply to companies like Imperial Oil.

By 1946 council representatives were warning that "some . . . employees were contemplating joining an outside organization," and there were calls for a "conference" of all the company's industrial councils, a prospect that managers found even more alarming than the possibility of an independent union emerging at Ioco refinery. The company had consistently discouraged councils from sharing information (except on issues raised by management), arguing that circumstances were very different across the country and councils should find "local" solutions to their concerns. Not surprisingly, Ioco employees eventually joined the Oil Chemical and Atomic Workers union, although the contagion of unionization was contained.[28]

There were many factors accounting for the variations between councils in this comparison. To some extent it may reflect the managers' approach to the situation: Mechin exhibited some diplomatic skills in contrast to other refinery managers, such as the superintendent at Sarnia (who was frequently at odds with his council). Montreal East had a relatively stable work force—described in the *Imperial Oil Review* as almost "dynastic" with numerous relatives and generations populating the refinery; in contrast there was more turnover in the Ioco refinery, and less homogeneity. The social context may also have played a role—in Quebec, labour strife was relatively rare, in part because of the anti-union practices of political leaders such as Premier Maurice Duplessis. In any case, Imperial employees had more job stability and higher wages than many other industrial workers in that province. In contrast, British Columbia had a much stronger tradition of labour militancy.

During the Second World War, the Canadian Congress of Labour set out to organize workers in the petroleum industry, but met with limited success. At this point the American Oil Workers International Union, an affiliate of the militant Congress of Industrial Organizations, entered the scene—possibly at the invitation of the CCL—and took over several locals, including one at Ioco (the only one established with Imperial Oil), where 65 per cent of the workers voted to affiliate with it in 1946; 26 per cent declined to participate in the vote. In 1955 the OWIU merged with workers in the chemical industry to form the Oil, Chemical and Atomic Workers Union (OCAW).

Two years later, Ioco was the site of Imperial's first major labour confrontation since the First World War. The issues were familiar: disputes over pay rates for different job classifications, overtime work, and vacation time. The strike began in late September and dragged on for more than two months. Although negotiations were left to management in British Columbia, at one point two members of Imperial's Executive Committee visited the refinery to see if it could be reopened on a limited scale. Shortly thereafter a tentative settlement was made, but one of the Executive Committee members observed that the company "should have better knowledge of [OCAW] organization," and its relationship with the Canadian Labour Congress.[29]

Another, larger strike erupted in Vancouver in May 1969. In this case it was not restricted to Ioco, as OCAW also confronted the Shell Canada and Texaco Canada refineries in Vancouver. The issues focused on wages during a period of high inflation. More alarming to Imperial's Executive Committee was the entrance of the powerful Teamsters union, which proposed to organize workers at the newly established Lougheed Terminal in Vancouver. One Executive Committee member warned that "if the Company found it necessary to resist strong Union demands to the point of a [Teamsters] strike, the repercussions could be great." The committee put up a brave front and the strike was prolonged, but in the end a settlement was reached that provided for a 15 per cent wage increase over two years with no reduction in benefits and more liberal vacation policies.[30]

Despite the upheavals at Ioco, Imperial Oil had far fewer labour problems than many other companies in Canada, and could maintain that the industrial councils played an important part in maintaining this stability. In the United States the Wagner Act of 1935 undermined Jersey Standard's industrial councils as "company unions," but there was no parallel in Canada. In 1977 an Imperial Oil official maintained that "Joint Councils . . . function efficiently and have employee acceptance even though they may not [resemble] unions in a power sense. Joint Councils do not have the right to strike but they are in the possession of the members who elect them, control them and look upon them as a means of service."[31]