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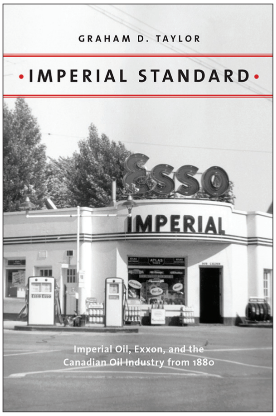

IMPERIAL STANDARD: Imperial Oil, Exxon, and the Canadian Oil Industry from 1880

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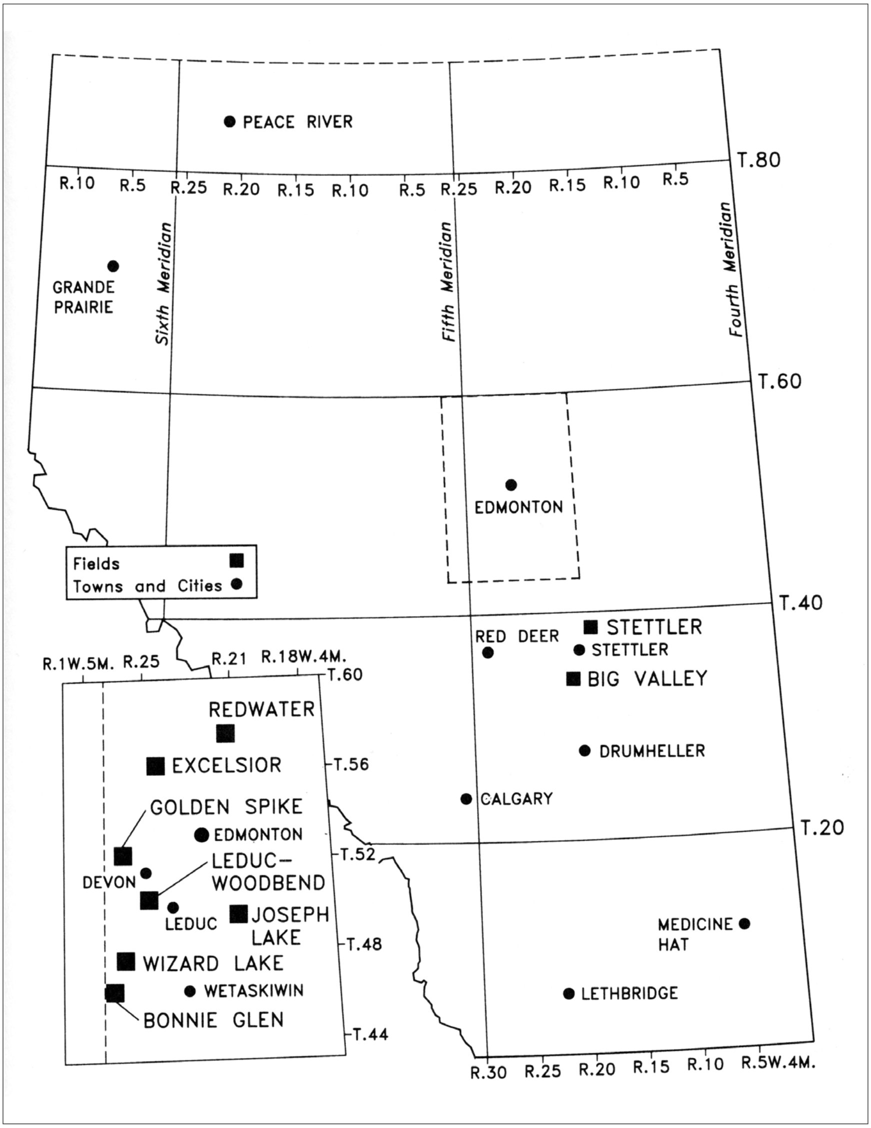
GOLDEN AGE

After Leduc Number One, Imperial Oil was on a roll, with major new discoveries every few months. The initial well ran through 1974, producing over 300,000 barrels. At first a second well in the Leduc area brought up only gas, but after drilling probed past 5000 feet it struck oil, in May 1947. Less than a year later a new well came in at Woodbend, adjacent to the Leduc field. In July 1948 Imperial discovered the largest producer yet at Redwater, which ultimately held 800 million barrels of recoverable oil. Within six months another well—designated Golden Spike—came in, with a 200 million barrel reserve. Other discoveries included Excelsior and Bon Accord northeast of Edmonton, as well as the Acheson field with an estimated reserve of 75 million barrels, developed by Imperial with Standard of California (Socal). By 1951 Imperial's wells were producing 64,000 bbl./day, more than four times its output on the eve of the Leduc discovery.[1]

Imperial was attentive to the impact of these rapid developments on the communities affected. After a generation of dealing with powerful local organizations like the United Farmers of Alberta, Imperial officials were careful to keep people in the Leduc area informed about their activities. In October and November 1947 public relations people from Toronto, accompanied by Vernon Taylor, held meetings with groups of farmers to ascertain their concerns over the impact of drilling operations while presenting themselves as having "no knowledge of mineral rights, surface rights or land rental rates."

Many farmers in the Leduc area were "of Central European extraction" and spoke little English but had a strong sense of community according to the Imperial observers. They also detected the influence of



Map 7.1. Alberta Oil Discoveries, 1947-51. David Breen, T*he Alberta Petroleum Industry and the Conservation Board*, Edmonton: University of Alberta Press, 1992, p. 291. Courtesy of David Breen.

a “Surface Rights Association,” which was demanding that leasing rates should be standardized. This would become a major source of acrimony over the next few years. The Social Credit government passed a Right of Arbitration Entry Act in 1947 that set up a process for adjudicating these concerns, but after several years many landowners became disillusioned about the lack of results.[2]

The farmers also expressed concern over the effects of oil drilling on soil fertility. Imperial brought in an agriculturist from the University of Alberta to advise them on how to re-fertilize the soil. There was less concern over the pipelines that the company was installing to gather oil from various sites, since they would “clean up” the spills from initial drilling.[3]

As the size and scale of operations in the Leduc field expanded, Imperial took steps to provide more stable accommodations for their production workers, in place of the trailer camps usually found near drilling sites. The company obtained a quarter section of land close to Leduc Number One and a planned gas conservation plant, and worked with the Department of Municipal Affairs to establish a town called Devon, with water, sewer, and gas supplies. Imperial set up a real estate subsidiary to handle financing with the Central Mortgage and Housing Corporation. Services were also provided to the other less developed communities near the drilling sites. The company had experience in developing “planned communities” near worksites at the Ioco refinery in British Columbia and the Imperial refinery in Dartmouth, Nova Scotia as well as in Peru and Colombia. In this case, however, Imperial sought to encourage employees to take up home ownership.[4]

Imperial also paid close attention to the measures undertaken by the Alberta Conservation Board to regulate access and development of the booming new oil fields. The success of Leduc Number Two lured oil seekers, large and small, to the Edmonton region. Among the big players were McColl-Frontenac, now owned by Texaco, which struck oil at Wizard Lake and Bonnie Glen in 1951–52, just south of Leduc-Woodbend. The Canadian Atlantic Oil Company controlled by Frank McMahon, who had been active in British Columbia and Turner Valley since 1938, had the dubious distinction of experiencing one of the largest and longest-lasting blowouts in Alberta’s oil history in 1948, the Atlantic Number 3, which was located close to the Leduc field and forced Imperial to temporarily close its own production. The Atlantic No. 3 disaster was finally brought under control by a Standard-Imperial engineer, Tip Moroney, after burning for six months—incredibly there was still an ample amount of oil recovered.[5] In 1953 Standard of New York (Socony Vacuum—later Mobil) and a Delaware-based company, Seaboard Oil, discovered an even larger oil field on the Pembina River west of Edmonton that ultimately was found to hold 1.7 billion recoverable barrels. More than 5,000 wells were drilled in the Pembina area over the next few years.[6]

The conservation board scrambled to head off renewed criticism in mid-1947 when it realized that Imperial had carefully acquired rights to much of the subsurface oil and gas around Leduc. New regulations stipulated that when the holder of a reservation converted it to a lease, 50 per cent would revert to a "crown reserve"—some of which would then be auctioned off. The intent of the policy was to create a "checkerboard" of lease holdings that would presumably prevent large companies (like Imperial) from amassing consolidated units that could drain entire fields. Inevitably these measures drew attacks from those like C.J. Nickle, publisher of an influential oil newsletter, who saw it as "strangling Alberta's oil industry," but this did not temper criticism from the left-wing CCF that the government was in effect turning over "these great pools of wealth" to Imperial Oil.

A related issue involved royalty rates tied to leaseholds. Imperial and other large companies wanted a specific royalty rate so they could budget their operations on a stable basis. In 1948 the Alberta government ignored these demands and allowed a "royalty bonus" in addition to a "cash bonus" for bidders on highly desirable parcels such as those in the Leduc fields. The companies mounted a new lobbying campaign opposing royalty rates that exceeded 15 per cent. Fortunately for the lobbyists the Social Credit party faced what it regarded as a serious challenge from the CCF, which was promising to take over half of the province's oil production and impose 25 per cent royalties on private producers (with emphasis on Imperial as the largest of them). With backing from the oil industry, Social Credit swept the election, ensuring that Ernest Manning would remain premier, a position he held until 1968.[7]

Financial Restructuring

Even before the Leduc discovery, Imperial confronted challenging demands for new capital investment. Many of the refineries had been built more than a quarter century earlier and except for Sarnia there had not been much in the way of renovation through the Depression and war years. Marketing and service facilities also needed updating—during the war the Canadian government barred any spending on upgrading service stations, so in 1945–46 they were clamouring for new investment.

Dependence on imported US oil had become more costly as the exchange rate for the Canadian dollar fell precipitously after the end of the Second World War, an additional impetus to developing new domestic sources. Expenditures on exploration and wildcat drilling more than doubled between 1944 and 1946: more than half of the $18.7 million (CAD) spent on exploration since 1917 was accounted for in these three years. Had the Leduc gamble failed, Imperial would have faced huge new capital investments to build synthetic fuel plants.

Wartime production expansion had increased domestic profits from $7 million in 1940 to $14.9 million (CAD) in 1946 although taxes levelled net income through the war period. More critically, the dividend policy constrained Imperial's capacity to expand its net working capital. Although Jersey Standard as chief shareholder had adjusted its demands for dividends after 1940, Imperial was still paying out an average of 70 per cent of net income in dividends through the war and postwar period. While Imperial's president Hewetson recognized the need for renovation and inventory expansion to meet the pent-up civilian demand for oil products as the war ended, beyond the obvious need to beef up exploratory operations the board adhered to a cautious policy with regard to investments.[8]

The good news from Leduc in February 1947 brought with it, of course, a new set of investment demands. As competitors flocked to the Alberta oil fields, Imperial had to continue and expand its exploratory efforts. Even more challenging were the issues of getting the oil to markets, particularly in central Canada. Huge increases in crude oil production would overwhelm the capacity of existing refineries in Calgary and Winnipeg, and

Figure 7.1. Henry Hewetson, 1950. Glenbow Archive IP-26-8b-Hewetson, H.H.-2, Imperial Oil Collection.

the transportation of both crude oil to refineries and refined oil to markets posed thorny problems involving politics and logistics as well as financing.

The last time Imperial Oil had significantly increased its capital base, in 1917, it had issued new equity shares. Walter Teagle had been president of Imperial, and Jersey Standard had picked up a significant proportion of the issue in order to maintain its ownership stake. In 1947, however, Jersey Standard was dealing with a variety of financial demands: the government of Venezuela was pushing for "fifty-fifty" profit sharing, and Jersey Standard was on the verge of joining Aramco, the Saudi Arabian consortium. Imperial had no champion with the heft of a Teagle at 30 Rockefeller Plaza (Jersey Standard's headquarters after 1933). The parent company had no intention of diluting its position with Imperial, however, and currency constraints on both sides of the border limited Imperial's access to US lenders.

On the other hand, Jersey Standard was receptive to proposals that Imperial explore the possibility of raising funds from Canadian sources. The parent company authorized Imperial to look into borrowing up to $35 million (CAD) although it set a three-year limit on terms for financing. In September 1947 the Imperial board settled on an alternative approach that would give them greater flexibility—and a novel one for the company: a bond issue. A special meeting of shareholders on September 22 approved issuing debentures up to $60 million (CAD). The board immediately authorized a $24 million (CAD) bond issue at 2.25 per cent, maturing between 1950 and 1955. The Royal Bank of Canada subscribed for the entire amount and it was successfully marketed within days, reflecting the post-Leduc aura that surrounded Imperial with the Canadian investing public.[9]

By early 1948 it was apparent that the costs of expansion were greater than initially anticipated, and in particular a pipeline to central Canada was vitally necessary to meet demand and reduce the growing inventory of crude oil emanating from Leduc, Woodbend, and Redwater fields. A new debenture issue of $6 million (CAD) was authorized, but the company needed to look for a longer-term solution to its capital needs. This was the context within which the sale of its largest subsidiary, International Petroleum, emerged as a move that would serve a range of goals for the company not just in terms of augmenting its capital budget.

Imperial's initial investments in Peru and Colombia had been largely orchestrated by Jersey Standard for its own strategic purposes. Even in the 1920s–30s, most of the crude oil brought into Canada came from the US, not from International Petroleum, and the establishment of a pipeline from Portland to Montreal in 1941–42 had reduced Imperial's eastern Canadian reliance on South American oil even more. Neither Imperial nor Jersey Standard had put new investment into International Petroleum after the mid-1920s, and Imperial was not likely to put its limited resources into the renovations that the fields in Peru and Colombia required after the Second World War. The most salient consideration was that the government of Colombia had made it clear that it intended to nationalize the de Mares concession and other IPC properties in 1951.

Imperial's board proposed to sell its holdings in International Petroleum early in 1948. This move obviously required the agreement of Jersey Standard, the largest shareholder, which apparently was obtained as it offered all its investors the opportunity to purchase shares in IPC at $9.20 (USD) per share, including an exchange of Imperial for International Petroleum shares on a three-for-one basis. The Canadian Foreign Exchange Control Board facilitated sales for the minority shareholders. In September 1948 the transaction was completed: Imperial had divested itself of IPC for $80 million (CAD), a little more than half in cash and the balance in 2 per cent interest bearing notes (principally from Jersey Standard).

Why did Jersey Standard buy IPC, given the imminent crisis that company faced with the Colombian government? There is no clearly articulated rationale from any of the parties involved. By the mid-1940s, IPC's largest source of revenue came from its partnership with other oil companies in Venezuela. Jersey Standard already had a significant stake in Venezuela through its investment in Creole Petroleum. In 1948, demands from the Venezuelan government for a greater share in oil profits were at least temporarily forestalled by a military coup that promised a relatively more hospitable environment for multinational oil companies. Jersey Standard was of course well aware of the nationalist pressures in Colombia, but hoped to at least maintain a foothold there by providing management services for the nascent government enterprise that would own the oil fields, and it was able to continue providing such services for several years. Nevertheless, the willingness of Jersey Standard to provide support for Imperial Oil by accepting its divestment of International Petroleum was surprising, in view of its more hard-line views when the Canadian company was seeking financial support in 1947.[10]

The financial moves in 1947–48, along with the growth of its working capital, provided Imperial with a net infusion of $180 million (CAD) in capital resources, although of course it was offset by increased debt obligations and the loss of dividend revenue from International Petroleum. But the capital enabled the investments in infrastructure essential for exploiting the benefits of new and continuing oil discoveries that would yield significant growth after 1949–50. There was one other restructuring move made in this period that, while it was not as lucrative as the sale of International Petroleum, marked an important break with its past.

Royalite had been the second largest and second most profitable subsidiary for Imperial Oil through the 1920s–40s. But as opportunities for development in Turner Valley dwindled, Royalite had begun exploring for oil and gas in new areas, placing it at least potentially in a competitive position with Imperial in Alberta. Although obstreperous figures like William Herron were gone from the scene, Imperial still found the minority shareholders in Royalite a troublesome presence, and in June 1948 the Imperial board offered them an opportunity to share in Imperial's promising future through a generous share exchange (1.25 shares in Imperial for 1 share in Royalite). In October Imperial's new president, George B. Stewart (Hewetson was now chairman of the board), could report that Imperial's shareholdings in Royalite had increased from 68.5 per cent to 80 per cent.

Relations with Royalite's board appeared to have soured, however. When Imperial proposed to buy out the remaining shares in Royalite for $17 million (CAD) the Royalite board balked, and produced a counter-offer of $20 million (CAD), which Imperial rejected. There was an internal struggle within the board and ultimately president S.F. Heard plus Imperial's representatives were outvoted. In January 1949 Heard advised his fellow directors that Imperial had sold all of its shares in Royalite through Dominion Securities. Imperial's motives are not clear, but it seems the board determined that a clean break with Royalite was preferable to further negotiations. In any case, Imperial ended up with a net return of $20 million (CAD), which included selling Foothills Oil & Gas and Lowery Petroleum as well as its shares in Royalite.[11]

There was one other transaction carried out in this period that was not related to post-Leduc financing, but also marked a significant break with the past and had a lasting impact on the oil industry in eastern Canada. For many years Imperial had relied on independent distributors to supplement sales of the company's products to retailers. During the late 1920s Imperial had begun a process of establishing closer control over these distributors through direct investment, or holding bearer bonds or stock options as collateral for loans. The Imperial board was advised about what were referred to as "marketing organizations," but they were not formally identified as affiliates—although in most cases Imperial owned virtually all the shares in the companies.

By 1946 there were "marketing organizations" in each part of the country: Irving Oil in the Maritimes, Champlain Oil in Quebec, Supertest Petroleum in central Canada, Maple Leaf Petroleum in Alberta and Ronerk Company Ltd., which controlled three distributing companies in western Canada. For the most part their book value was small, the largest being Champlain at $1.8 million (CAD), Supertest at $2.3 million (CAD), and Imperial's share of Irving at $2 million (CAD). But they supplemented the company's direct sales to ensure a retail market share ranging from 24 to 36 per cent across the country.[12]

At this point Imperial's board became uneasy about the legality of these arrangements. While Canada's Combines legislation was far less onerous than the panoply of antitrust and state and federal regulatory bodies that confronted would-be monopolists in the United States, in the postwar years Jersey Standard was once more facing antitrust investigations, and the anxiety at 30 Rockefeller Plaza may have percolated down to the Imperial executives in Toronto. In any case, in September 1946 they consulted D.L. McCarthy, a prominent Toronto lawyer who had been involved in a Combines case against Imperial Tobacco. McCarthy's response to president Hewetson in January 1947 was reassuring: Imperial Oil's commitments with the "marketing companies" was unlikely to arouse the investigative ire of the Combines Commission, with one exception: the arrangements with Irving Oil in the Maritimes, which should be dissolved.[13]

This recommendation was likely greeted with relief by at least some members of the board, as Imperial's relationship with Irving had been exasperating for both parties for some time. Kenneth C. Irving had begun his career running his father's general store in rural New Brunswick in the early 1900s. During the 1920s he became interested in the emerging auto industry, acquiring a Ford dealership but also branching into the service station market. Although Imperial was a major supplier, Irving was a thorny partner who also marketed his own brand of "Primrose" gas. For a time he was buying his products from Cities Service in the US—until the Bennett government imposed protective duties on imported oil and gas in 1930.

Irving returned to the Imperial fold, but continued to sell his products using the "Irving Oil" logo. By the late 1930s, Irving was the second largest retailer of automotive products in New Brunswick and had expanded his service stations into Nova Scotia and New England. Irving was also ambitious, moving into tire retailing, manufacturing wood veneers, and setting up a steamship company during the 1930s. This expansion was backed by Imperial Oil, which underwrote bank loans of more than $400,000 (CAD). In 1945 Irving announced his intention to set up a refinery in Saint John (New Brunswick) if he could obtain the financing—which, among other consequences, would compete with Imperial's Halifax refinery.

This was the context within which Imperial set out to consolidate its arrangements with the marketing companies. In Irving's case, Imperial proposed to convert loans into bearer shares. This would mean that, should Imperial exercise its options, it would own 70 per cent of Irving Oil. At the same time, Irving would be retained as manager of the company, holding power of attorney over the shares held by Imperial. Nevertheless, as McCarthy pointed out, Imperial—with its somewhat clandestine ownership of Irving—would effectively control more than half the oil and gas market for the Maritimes, a situation that could lead to a Combines investigation. Since Irving was continuing to campaign for his own refinery, the Imperial board appears to have withdrawn from further moves to take over the New Brunswick company, eventually selling its bearer shares in Irving Oil.[14]

Irving had used earnings from wartime production of the wood products of Canada Veneers to the RCAF to help finance expansion into shipyards, railroads, and the pulp and paper industry in the Maritimes. By the 1950s he was competing with Imperial in the Quebec market and tried to persuade Jersey Standard to underwrite his refinery. When that proposal fell through, Irving entered a partnership with the Canadian subsidiary of Standard of California (Chevron) to finance his dream. Irving Oil continued to be an important player in the eastern Canada oil and gas market over the next half century, and the Irving dynasty was among the richest families in the country.[15]

Building Infrastructure

Even as it was assembling the financial resources to exploit the opportunities presented by Leduc, Imperial was seeking to create the infrastructure required to bring their newfound oil to markets. One of the first steps was to establish refining capacity in Edmonton, in part because the city itself provided the most immediate market for their growing output, but also because it would provide the base for expansion beyond Alberta. In this undertaking Imperial benefitted from its earlier involvement in the Canol debacle.

Although the US Army had hoped to retain a foothold in its ill-fated venture into Canada's Northwest Territories, the Truman administration in Washington was committed to sloughing off this costly white elephant, not least because President Truman himself had been directly involved as a senator in investigating the Canol follies. When the questioned about holding onto Norman Wells and its pipeline to Skagway, the president dismissed Canol as a "dead cat." After Imperial completed its last operations in April 1945, the government of Canada declined to take it over and the Canol properties were assigned to the US Foreign Asset Liquidation Commission.

Responsibility for its operations, such as they were, was assigned to the US-Canadian Permanent Joint Defence Board. In September 1946 Canada's Air Vice Marshall Curtis, a member of the PJBD, approached Imperial Oil about the possibility of re-opening the Whitehorse refinery and pipeline to provide aviation fuel for military aircraft operating in Fairbanks, Alaska. Even though the Cold War had yet to become a preoccupation of the US government, military officers were girding for potential threats. The Imperial executives, who included soon-to-be board chairman Hewetson and incoming president George Stewart, reacted cautiously to this overture: the company was obviously wary of further entanglements with the American military bureaucracy and their congressional watchdogs. In the end, nothing apparently came out of these discussions, but in certain respects the episode confirmed that Imperial was regarded as a trustworthy partner in the management of North America's oil resources.[16]

After Leduc, the Imperial board took another look at Canol's Whitehorse refinery. It had limited capacity but it was newer than many of Imperial's existing refineries and included catalytic cracking and crude distillation units from Texas. Even more enticing was the fact that the US government was anxious to get rid of it. In May 1947 Imperial purchased the refinery for $1 million (USD); the estimated cost of construction had been $22.5 million (USD).

Imperial contracted with a Los Angeles company, W.W. Barnes, to dismantle the refinery and ship it, by truck and rail, to a 360-acre site the company had purchased just east of Edmonton. This was not a simple or easy operation in the Canadian winter, but it was accomplished, and the company reopened on July 17, 1948, with an initial capacity of 6,000 bbl./day. The cost of the project was $8.7 million (CAD), so the total cost of the refinery was around $10 million (CAD). C.E. Carson, the Imperial board member who was also head of the company's manufacturing department, commented that "a complete new refinery could have been built for this amount," but the acquisition of the Whitehorse property "save[d] about eighteen months' time," and would "conserve foreign exchange."[17]

Fuel prices in Alberta and Saskatchewan were significantly reduced over the next six months, and by 1949, with the installation of a second distillation unit, output was increased to 25,000 bbl./day. As new discoveries expanded the prospective output of the fields around Edmonton, in 1951, Imperial negotiated an agreement to provide crude oil supplies to a new Edmonton refinery built by McColl-Frontenac/Texaco with a 5,500 bbl./day capacity, which was later increased to 11,000 bbl./day. British-American Oil also built a refinery in Edmonton in 1951, with an eventual capacity of 7,000 bbl./day. In 1975 Imperial built a new and much larger refinery, the Strathcona, in Edmonton. The Strathcona replaced older refineries in Calgary, Regina, and Winnipeg that were now supplied by pipelines from Edmonton. During the cutbacks in production in the 1990s, Strathcona was the only refinery operated by Imperial in western Canada.[18]

Building a pipeline to link Leduc and other emerging Alberta oilfields to markets was a more complex task, involving a number of difficult decisions; indeed given the magnitude of the project as it evolved, the actual construction time of 150 days was astonishing. Imperial Oil had limited experience in pipeline development: the most significant effort was the construction of a six-inch line from Cygnet, Ohio to the Saint Clair River in 1913 to supply the Sarnia refinery. Five years later, the addition of loops and intermediate pumping stations increased capacity from 3000 to 10,000 bbl./day. Imperial established a US affiliate, Transit & Storage Company, to manage the American part of the 454-mile Cygnet line; another company, Imperial Pipe Line, ran the Canadian side. Initially the Cygnet line drew crude supplies from the Lima, Ohio fields; by the 1930s Imperial joined with Jersey Standard and Carter Oil to invest in the Ajax Pipe Line, which drew on the large Oklahoma fields.

Of course the International Petroleum Company had experience constructing pipelines in Peru and particularly in Colombia in the 1920s. A number of the managers who were seconded to Interprovincial Pipeline from Imperial Oil had been involved in these projects. In addition, shorter oil and gas lines had been constructed in Alberta and, if nothing else, the problems of the Canol pipeline provided examples of the pitfalls of construction in a difficult environment.

During the Second World War, Jersey Standard, concerned over the vulnerability of tankers in the Atlantic to U-boat attacks and the seasonal closing of the Saint Lawrence to large ships, built a line from Portland to Montreal with an 80,000 bbl./day capacity. Humble Oil—a Texas-based affiliate of Jersey Standard—built the 489-mile line in six months; it opened shortly before the US entry into the war in December 1941. After the war Jersey Standard doubled the capacity of the line and then sold it for $50,000 (USD) to a consortium of Canadian companies, with Imperial acquiring a 40 per cent share of the line.[19]

After Leduc, the characteristically cautious Imperial board initially contemplated building a 16-inch pipeline from Edmonton to Regina, a distance of 450 miles over prairie, which would serve the Saskatchewan and Manitoba markets. But even this modest proposal involved unprecedented action. A pipeline that crossed provincial boundaries required federal approval. Fortunately, Imperial was not the only company contemplating building an inter-provincial pipeline, and the Liberal government in Ottawa was receptive to projects that would promote Canada's economic growth in the postwar era.

In April 1949, a Pipe Line Act was hastily pushed through Parliament on the eve of an election, which the Liberals won. Days after the bill passed, a number of pipeline companies were chartered under the Act, including Imperial's Interprovincial Pipeline Company—and also a British-American Oil Company pipeline and a natural gas pipeline to British Columbia, undertaken by Frank McMahon among others.

In the meantime the Redwater discoveries in late 1948 had widened horizons for Imperial—with potential reserves exceeding 500 million barrels, the prospects of serving markets in central Canada, or the United States, became more viable. Imperial vice president John R. (Jack) White maintained that the company contemplated moving at least 75,000 bbl./day for 25 years. In February 1949 Imperial Oil had recognized the need for a separate organization to manage this more ambitious project and set up the Interprovincial Pipeline Company, capitalized at $200 million (CAD). Imperial Oil held 40 per cent of the shares, and the balance was issued to the public; but the management was clearly determined by Imperial: Interprovincial's president was O.B. Hopkins, the Imperial geologist who had played an important role in Imperial's quest for oil in Alberta since the 1920s. Other Imperial figures on Interprovincial's board included Jack White, who would become Imperial's president in the 1950s, Frank G. Hall, and A.E. Halvorsen.[20]

Once the construction was agreed upon, supply issues came to the fore. A special steel plate was needed for the pipeline, but it was not available in Canada. The federal government, via the Minister of Trade and Commerce C.D. Howe (also known as the "Minister of Everything"), arranged for the waiving of special duties on importing 40,000 tons of steel plate from Britain. This actually proved to be unhelpful, as the steel did not meet the requirements for the tubing required by Imperial; but Stelco agreed to use the imported steel for other customers while Page Hersey Tubes Ltd. could draw on Stelco for steel needed for Imperial's pipes. The government proved to be very patient with the particular requirements of Interprovincial Pipeline.[21]

More contentious was the internal debate at Imperial Oil (and Interprovincial Pipeline) over the next steps in expansion. Everyone agreed that the goal should be supplying a market with a refining capacity of at least 100,000 bbl./day. But there were many different potential clients and each of them had advocates on the company board. Shipping to Imperial's refinery in Sarnia was an obvious destination: the refiner only had 55,500 bbl./day production, but this could be supplemented by those of other companies, including British American Oil and Canadian Oil Companies. A pipeline to Sarnia would cost less than one-twentieth the amount of rail shipments from Alberta. But there were other alluring markets, including Chicago, which would enable Interprovincial to tap into the huge "Mid-Continent" market; Minneapolis, which had at least a 100,000 bbl./day prospect; and the coast of British Columbia, which had inadequate refinery capacity and a high cost for construction but could give Imperial a foothold in a potential (albeit distant) California market. Each of these options had vigorous supporters.

Perhaps not surprisingly the Imperial/Interprovincial preference was for the established central Canadian market. In June 1949 the federal Board of Transport Commissioners approved Interprovincial's application to build a line from Edmonton to Regina. Interprovincial dispatched representatives to communities along the proposed route to persuade landowners to sign right-of-way options, and to assure the public (particularly in Saskatchewan) that the company would operate as a "common carrier," just as the Imperial Pipe Line Company in Alberta provided access to all producers in the Leduc-Redwater fields.[22]

To finance the project, Intercolonial raised $90 million (CAD) by issuing twenty-year bonds at 3.5 per cent, twenty-one-year convertible debentures at 4 per cent, and the sale of 20,000 shares of common stock at $50 (CAD) per share. An important component of the financing arrangement was a "Throughput Agreement" signed by Imperial Oil, under which Imperial, in the event Interprovincial's revenues fell below a certain level, would cover the shortfall to enable the pipeline company to meet its bond and debenture obligations through 1970.[23]

Interprovincial's next move proved the source of much public controversy. Imperial had retained the consulting services of a Tulsa, Oklahoma pipeline operator, Transit Company Ltd. By the summer of 1949 cost comparisons indicated that the most efficient route from Regina to the Ontario refineries would be to build the pipeline to Gretna, Manitoba on the Canadian-US border, then extend a line to Superior, Wisconsin near Duluth on Lake Superior; tankers would then carry the crude oil to

Sarnia. Interprovincial would set up a US subsidiary, Lakehead Pipeline Inc., to manage the line from Gretna to Lake Superior. The extended pipeline would now stretch 1,150 miles from Edmonton to Superior, more than double the distance of the initial project.

Even before Interprovincial presented its application to the Board of Transport Commissioners for an extension to Gretna, opposition was growing. Interprovincial and the other pipelines had been represented as a kind of twentieth-century version of the transcontinental railway lines—not just a harbinger of economic development but also symbols of nationhood. This implied on the one hand that the federal government should play a supportive role in its development, as indeed was the case; but it could also be interpreted as a national project that required an "all Canadian" route, "in defiance of geography" if necessary. The communities that stood to benefit from an "all Canadian" route were naturally among the strongest advocates of this view.

In June 1949 the manager of the Fort William chamber of commerce urged Imperial Oil to consider his city and its twin, Port Arthur, as the logical terminus for an Alberta pipeline to the Lakehead. These communities had been the entrepot for the Canadian fur trade in the nineteenth century, and Imperial had an agency there. The chamber manager did not need to point out that it was also in the Parliamentary riding of C.D. Howe, the most powerful member of the Liberal cabinet. An article in the *Port Arthur News Chronicle* in May implied that the choice had already been made to use the route. Similarly, the city of Winnipeg anticipated a return to its era of prosperity that had slipped away in the Depression and Imperial's board chair Henry Hewetson had indicated the possibility of a new refinery there, as an adjunct to the pipeline project.[24]

Needless to say, the tone of the discussion took a turn for the worse after Interprovincial revealed its plans. O.B. Hopkins, president of Interprovincial, in testimony before the Board of Transport Commissioners, pointed out that constructing a pipeline across northern Ontario would add $10 million (CAD) to the cost of the project, involving construction of an additional pumping station and blasting through the Canadian Shield. The company's counsel, J.W. Hamilton, noted that no special permission was required by the US government to build the Gretna to Superior section of the line. The Board of Transport Commissioners approved Interprovincial's application for the Gretna extension on September 12, 1949.[25]

The Port Arthur city council made a last-ditch effort to derail Interprovincial's application, resolving that "every possible effort should be made to keep our Canadian resources and their transportation in Canada." When this plea was ignored by the Board of Transport Commissioners, the Port Arthur city fathers urged Parliament to reverse the decision, appealing to familiar themes: "American capital has played a part in development and progress in Canada, but at a price . . . Surely we are not so shortsighted that we will sell our birthright for a few million dollars."[26] Interprovincial representatives protested that there was a good deal of Canadian investment in the pipeline, although acknowledging that they could not provide percentages. In any case the real target was Imperial Oil and, looming behind it, Jersey Standard.

In Parliament the Progressive Conservatives and CCF both lambasted the government for not supporting an "all Canadian" line "regardless of cost." C.D. Howe, however, rejected these criticisms, arguing that the "all Canadian" route would hurt Alberta's oil producers by increasing the costs of transporting oil to central Canada. He also asserted that the government would not subsidize the pipeline in any case, thus reaffirming his image as a "business minded" politician.[27]

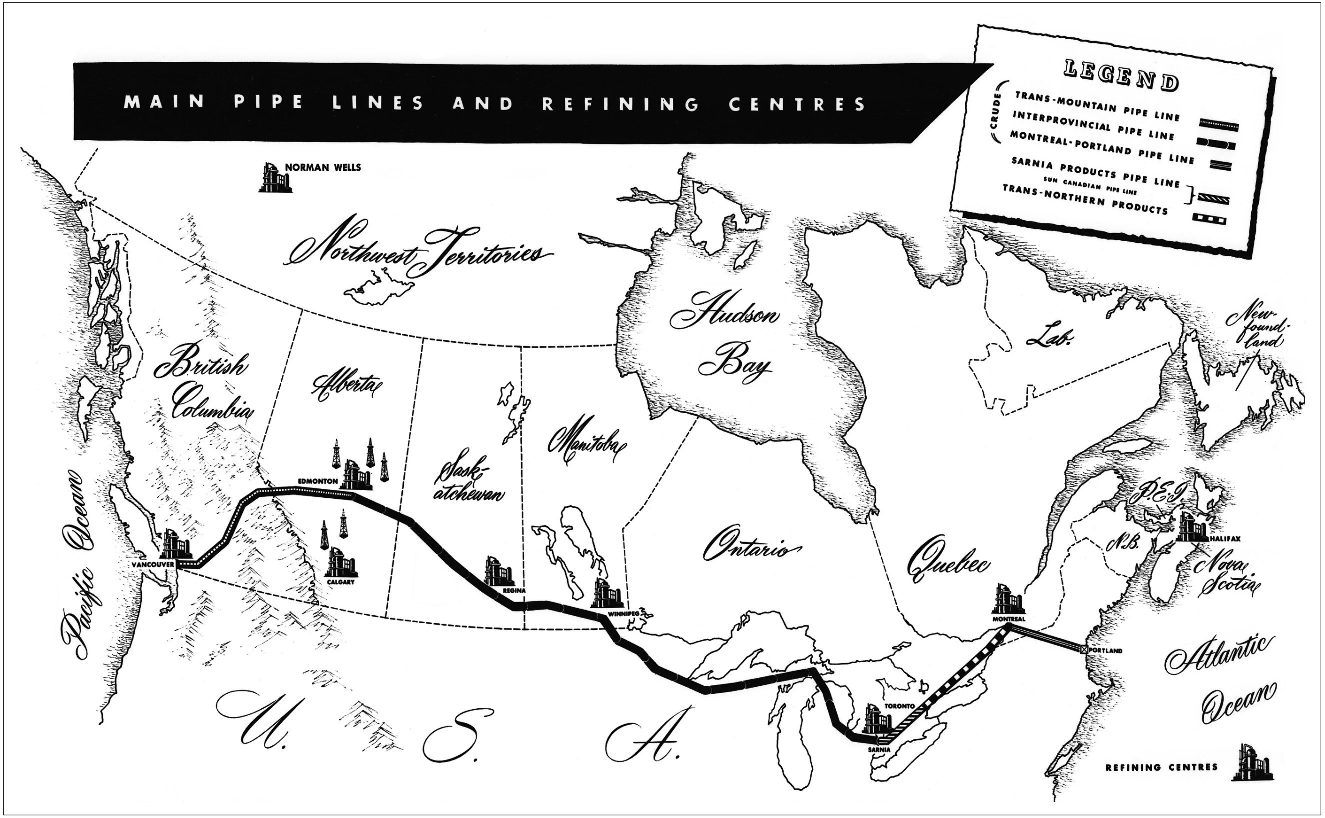
Over the years Imperial's executives had learned the value of public relations—a field pioneered by John D. Rockefeller Jr. with Ivy Lee and Mackenzie King in the aftermath of the "Ludlow Massacre." Although the government of Canada had essentially vindicated Interprovincial's proposal for a pipeline partly through the US, the company engaged in fence mending with the aggrieved parties at the Lakehead. On September 21, Hopkins wrote to Mayor C.O. Robinson of Port Arthur, a leading figure in the opposition to the Gretna-Superior route, reiterating the economic arguments underlying Interprovincial's decision, but insisting that "our relations with the people of Port Arthur and Fort William have always been excellent," and offering to send representatives from the company to meet with city leaders to discuss the matter. A week later Intercolonial and Imperial executives—including Hopkins, White, Hewetson, and Stewart—showed up at Port Arthur to explain their position to the local business community. Imperial Oil also followed up with an assurance to

Winnipeg that a spur pipeline would be built from Gretna and a new refinery built there within the next few years.[28]

There were other, technical issues that confronted Interprovincial as it moved toward the construction phase. The original plan for a pipeline to Regina contemplated a 16-inch pipeline. With the extension of the project and the influx of more crude oil from Redwater, the Tulsa consultants recommended a 20-inch pipeline; but Interprovincial already had on order the 16-inch pipe, and its Canadian supplier, Page-Hersey, did not have the capacity to produce a 20-inch pipe. The upshot of the complex negotiations surrounding this issue was that Interprovincial built a line that combined sizes: 20-inch pipe for the Edmonton to Regina component, 16-inch from Regina to Gretna, and 18-inch from Gretna to Superior. The larger pipes were provided by American suppliers; once again, duties and taxes were waived by the federal government to hasten the completion of the project. Eventually, in the 1950s, a 30-inch pipeline was built from Superior to Sarnia, replacing the tankers.[29]

After the complexities of the preliminaries, the actual construction of the pipeline moved rapidly, although by the time the project got underway the estimated cost had risen to $100 million (CAD) due in part to the price of larger tubes. The Tulsa consulting company had conducted aerial and ground surveys along the entire route during the summer of 1949, and in October Interprovincial reviewed construction bids from ten contractors. Here again, the ticklish issue of Canadian content had to be addressed. Few of the Canadian companies had much experience in pipeline projects of the scale contemplated in this case, but there would be another uproar if American contractors were to be chosen, particularly for the Canadian phases of the line.

Interprovincial (and Imperial Oil) managers had consulted with the large US contractor, Bechtel, in an earlier phase of planning. Bechtel had built a pipeline for the Mene Grande oil fields in Venezuela, in which International Petroleum was a player, in the early 1940s; and it was a major contractor for the large Trans-Arab Pipeline (Tapline) being built for a consortium of oil majors that included Jersey Standard. Bechtel's Canadian subsidiary had the foresight to partner with Fred Mannix of Calgary, whose family firm was well established in construction projects in Alberta.



Map 7.2. Main Pipe Lines and Refining Centres in Canada, 1956. Imperial Oil. Glenbow Archives IP-9B-4-1, Imperial Oil Collection.

In the end, Interprovincial chose Canadian Bechtel to construct the largest part of the project from Edmonton to Regina. The Regina to Gretna phase was awarded to Williams Brothers, a Canadian company that had been involved in the Portland to Montreal pipeline project. The American phase from Gretna to Superior went to Anderson Brothers, a US company that had extensive experience with Texaco, Shell Pipe Line Co., and Ohio Oil. In a meeting with the federal Deputy Minister of Mines and the Deputy Minister of Industries and Labour, Interprovincial spokesmen took pains to highlight the Mannix connection with Canadian Bechtel and the fact that most of the supply contracts, except for the 20-inch tube, would be procured from Canadian sources.[30]

Once these impediments were overcome, construction moved along quickly—until the project met a delay in March 1950 when the South Saskatchewan River began to flood early, before the pipe had been laid. Nevertheless, on October 4, 1950, Alberta premier Ernest Manning was present to turn the valve to start Edmonton's oil flowing eastward. On April 24, 1951 Ontario premier Leslie Frost was on hand at Sarnia to greet the first tanker carrying Alberta crude oil to Imperial's refinery. It was a major achievement in record time, and a benchmark in the history of Canadian oil.[31]

Over the next three years the capacity of the pipeline was steadily expanded with the addition to loop-lines, enlarged pipeline capacity, and ultimately the construction of a pipeline from Superior to Sarnia, replacing the tankers. Meanwhile pressure increased for a pipeline to British Columbia, hastened by the Korean War, which seemed to justify the need for more oil capacity on the Pacific coast. In March 1951 the Canadian government approved the creation of a Trans Mountain Oil Pipe Line from Alberta to Vancouver. Imperial was part of a consortium set up to build Trans Mountain, which proved to be a major engineering challenge but was completed in 1953. Imperial increased the capacity of its Vancouver refinery from 12,000 to 22,500 bbl./day. Goals that would have seemed quixotic a few years earlier had now been achieved.

The decade after the Leduc discovery had truly been a "golden age" for Imperial Oil. The company had invested more than $1 billion (CAD) in its expansion between 1950 and 1959, but the returns had been substantial. The book value of shareholders' investment rose from $257 million to $630 million (CAD) in that period; dividends amounted to $283 million (CAD), representing 55 per cent of earnings after taxes.[32] It had also been a "golden age" for Alberta's "oil patch:" $2.4 billion (CAD) in new capital investment had flowed into the province between 1947 and 1957, and the economic activity generated by the development of the industry had contributed an estimated $3 billion to income growth for Albertans; petroleum accounted for 45 per cent of the income gains to Alberta households by the end of the post-Leduc decade.[33] For the Canadian public, it was a period of rapid growth with low inflation, as oil prices remained low and stable, and new consumer products—many of them tied to the petrochemical industry—raised standards of living to unprecedented levels. In that era the growth of the oil industry seemed to be a win-win proposition for all parties.