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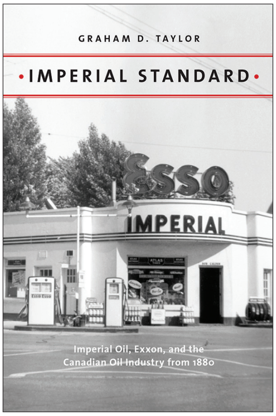

IMPERIAL STANDARD: Imperial Oil, Exxon, and the Canadian Oil Industry from 1880

Graham D. Taylor

ISBN 978-1-77385-036-8

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EXXON AND IMPERIAL: TIES THAT BIND

In the midst of the controversies over the National Energy Program, Imperial and other Canadian oil multinationals faced a challenge on another front. In March 1981 Robert Bertrand, the Director of Investigation and Research for the Combines Investigation Act, issued a multivolume report entitled *The State of Competition in the Canadian Petroleum Industry*. Based on a study of gasoline and fuel oil prices in Canada between 1958 and 1973, the report charged that Canada's largest oil companies conspired to control retail prices, suppress competition from independent refiners and distributors, and overcharge consumers for imported oil. In the context of spiking international oil prices and fears of supply shortages in eastern and central Canada, the report appeared to give credence to suspicions that the big oil companies were, once again, earning windfall profits from an energy crisis.[1]

Imperial's Jack Armstrong indignantly rejected the report, which in his view represented opposition to the very concept of integrated oil companies, and he speculated that the timing of the release reflected the federal government's desire to put pressure on the oil companies to accept its ambitious energy plans. The company followed up with a public relations blitz, featuring full-page ads in newspapers across the country denying Bertrand's allegations with the headline: "Rip-off? Nonsense!"[2] Not surprisingly, what now was called the "Bertrand report" achieved a degree of popularity not usually accorded such bureaucratic tomes, and the Toronto publisher James Lorimer opportunistically produced a one-volume abridgement for public consumption.[3]

The architects of the NEP were perhaps not averse to putting their critics in the oil industry on the defensive, but the regime that was promoting Petro Canada and grand state-sponsored megaprojects in the Arctic was very different from the Texas trustbusters of the early 1900s. In addition, the Bertrand investigation had been underway for a long time, as Armstrong and other oil company executives were well aware: the Restrictive Trade Practices Commission had seized thousands of their records and haled them before hearings on retail price fixing in 1975. But the investigation, portrayed as the "longest, most expensive" undertaking by the Department of Consumer and Corporate Affairs, appeared to have lost momentum by 1979 as the public outcry over oil prices dwindled after the first energy crisis subsided. The fortunes of the Combines investigators were reinvigorated by the onset of the second energy crisis but once again the roller coaster of oil prices would influence the outcome of this effort to curb the multinationals.[4]

The Restrictive Trade Practices Commission commenced hearings in the autumn of 1981 with consumer organizations and independent petroleum distributors calling for oil majors to be divested of ownership ties with pipelines and prevented from charging higher prices for brand-name retail gasoline sales. Critics also claimed that the foreign owners of multinationals like Imperial and Shell had routinely marked up prices of oil imported into Canada to increase their earnings from the subsidiaries, an argument that had been featured in the Bertrand report. The hearings dragged on into 1982 with the multinationals continuing to argue that the investigation was being manipulated by the federal government to advance its controversial energy agenda. When Imperial's president Livingstone appeared before the commission, he maintained that Exxon supplied less than 40 per cent of the Canadian company's imports, and that much of the balance came from the state-owned Venezuelan oil company and from Petro Canada. Company spokesmen also pointed out that in 1973 Imperial's arrangements with Exxon benefited Canadian consumers because the parent company was obligated to supply Imperial despite the Arab oil embargo.[5]

Even before the 1984 federal election, the tide was turning in the battle between the oil multinationals and the Combines Act investigators. The Royal Commission on the Economic Union and Development

Prospects for Canada, chaired by the former Liberal cabinet minister Donald Macdonald, advocated reductions in trade barriers between the US and Canada, and recognized that mergers might reduce competition internally, but could strengthen Canadian companies competing in global markets. After the election, the Mulroney administration transformed the relationship between the federal government and multinational business: the Foreign Investment Review Agency was renamed Investment Canada and tasked with finding ways of attracting new foreign investors. Michel Cote, the new Minister of Consumer and Corporate Affairs, effectively terminated the Restrictive Trade Practices Commission's investigation of the petroleum industry, renaming the Combines Act as the Competition Act and setting up a new tribunal to review disputes and update regulations relating to mergers.[6]

Although the focus of both the Bertrand report and the commission investigation was ostensibly on issues involving domestic competition and collusion in restraint of trade, an underlying theme was the role of foreign-owned multinationals in the petroleum industry. Indeed the preamble to the Bertrand report asserted that "Canadian petroleum companies derived their power from their parents' domination in the world industry, which was itself characterized by less than full and open competition."[7] At the same time the dominant role of the multinationals worked to the disadvantage of the Canadian economy as well as consumers, constraining the growth of independent companies in production and refining as well as controlling the retail price of gas and oil. All these charges echoed the views of opponents of foreign ownership in Canadian industry going back to Walter Gordon's critique in the 1950s.

Events in the second energy crisis of 1979–80 reinforced the image of Imperial as the pawn of its American masters. Shortly after the Iranian revolution began, Exxon reduced shipments of oil from other sources to its affiliates to offset the unexpected shortage from Iran. The cutbacks included a reduction of shipments to eastern Canada from Venezuela. Although steps were taken to restore the shortfall in response to outcries from Canadian political leaders, the public relations damage was done, and the episode was cited later as the rationale for the federal government's demand to shift imports from Venezuela to Petro Canada in the NEP era.[8]

In 1980 the NDP leader in Parliament, Ed Broadbent, launched a broadside from a different angle: through its patent arrangements with Exxon, Imperial Oil was "bleeding the country dry," by transferring technology developed in Canada with "millions of Canadian tax dollars" to its US parent. This was a reference to the long-standing research agreement between Exxon and its subsidiaries for patent sharing, but the charge was made in the context of the Liberal government's $40 million (CAD) loan to Imperial to sustain its work at Cold Lake. At the same time the allegations reflected a view going back to the Gordon era, that Imperial and other multinationals were stifling innovation through their control of technology developed in Canada. Imperial's president Livingstone responded by making the point that through its agreements with Exxon, the company had access to the results of the parent company's $325 million (USD) a year research spending—ten times the amount that Imperial itself was able to commit to research.[9]

For the most part Imperial Oil's public relations department spent time rebutting charges of overcharging consumers or profiteering, but in the debates over the NEP and the Bertrand report in 1981, chairman Jack Armstrong presented a more expansive defense of his company and its relationship with Exxon. Rejecting claims by Energy Minister Marc Lalonde that the oil multinationals were responsible for net capital outflows of more than $3.7 billion (CAD) between 1970 and 1979, Armstrong argued: "access to a large international pool of research and technology, not just by Imperial, but all of the foreign majors, has helped build an oil industry in Canada which is among the best and most efficient in the world." What was remarkable about this address was that Armstrong acknowledged the ownership ties that Imperial and other oil majors had with foreign multinationals. In the 1960s, Imperial had insisted that "foreign control" was a "myth" and the company's president, Jack White, argued that "most of the control of a business comes from . . . its economic environment . . . by the customers it serves, by the competition, by the resources it is developing; by the laws, regulations and taxation under which it operates; by the quality of [its] employees; by changing technology."[10]

In certain respects, both Robert Bertrand and Jack Armstrong were right: Imperial Oil's long-lived domination of the Canadian oil scene was tied to its relationship with Exxon, the largest and most powerful energy company in the world. While Imperial's connection with Exxon did not necessarily fit the stereotypes presented by critics as a satrap of Rockefeller's oil empire or an agent of American economic imperialism, the company's autonomy functioned within boundaries set by the strategic goals of Exxon. At the same time the parent company followed a pathway between centralization and decentralization in its relations with all its affiliates that provided the resiliency to survive major shifts in the global petroleum economy, in particular through the upheavals of the wars, revolutions, depressions, and nationalizations that characterized the twentieth century.

Over the years Jersey Standard/Exxon developed a variety of techniques to enable it to impose "indirect rule" over an increasingly complex and sprawling empire of subsidiaries, affiliates, and joint ventures. Among these the most significant involved budgeting, the establishment of "contacts" between Exxon's Board of Directors and the boards of its affiliates, and the promotion of lateral mobility for managers across the range of divisions within the company and in a variety of different geographic settings.

Budgeting was a key component of this process. In 1927 when Jersey Standard was reorganized as a holding company, coordination and control was to be exercised through the allocation of capital to achieve a common strategy. Each affiliate was to submit capital budget proposals to Jersey Standard's budget department, which would integrate them into a single capital budget for the entire system. In practice, however, this proved to be a challenge, as standard procedures had to be developed and adopted across hundreds of units with different tasks, requirements, and in some cases legal environments. Real budgeting coordination was not completed until the 1940s, and even then the dramatic expansion of the company's operations abroad—in Europe, the Middle East, and East Asia—required continuing reassessments of the procedures.[11]

The most significant development in this area came in 1959 when Exxon completed a merger with its largest affiliate, Humble Oil of Texas. As in the case of Imperial, Jersey Standard had held a majority of shares in Humble since the 1920s but officially maintained an arms-length relationship with that company, in part for public relations purposes. After the US Supreme Court ordered DuPont to divest itself of shares in General

Motors, however, the Jersey Standard board decided that complete legal control of Humble was necessary to avoid similar entanglements. In the wake of that merger, coordination of budgeting was expanded for all affiliates, particularly with regard to decisions about new areas of investment, which would be reviewed by a Board Advisory Committee on Investments on an annual basis.[12]

Imperial Oil was in a somewhat unusual position. After it sold International Petroleum to Jersey Standard in 1947, the company operated only in Canada and, in deference to Canadian "nationalistic political feelings," it was not subject to the intensive capital budget review imposed by Jersey Standard on other divisions and affiliates. At the same time, Imperial consulted with the executive committee of the parent company on major investment decisions, for example, in joining the oil sands consortium in the 1950s. But with the growth of new and expensive commitments in the 1960s–70s—including the move into petrochemicals, building the Strathcona refinery, participation in the Arctic Gas Pipeline initiative, and the Cold Lake project, among others—Imperial was in regular consultations with the Exxon Budget Advisory Committee about proposals for additional capital outlays, and these required reviews of performance as well as assessments of new undertakings. These presentations involved a degree of preparation of technical and financial documentation that brought the company into a much closer and regular contact with Exxon.

Meanwhile, annual meetings of Imperial Oil with its shareholders, usually held in Toronto, could be somewhat somnolent affairs. Business journalist Peter Foster described one such event in 1982, at the height of the controversies over NEP. "A venerable gathering. Widowed matrons . . . sedate elderly couples . . . small pockets of retired professional men . . . whole squadrons of former air force and navy men." The presentation by the board provided "what the shareholders came to hear," and after a few questions about the world in general, including the Falkland Islands war and its possible impact on oil prices, the recommendations of the board were "unanimously" approved. Afterwards "a buffet lunch of turkey à la king" was served. Of course, the distribution of dividends was not raised for debate.[13]

During the Great Depression, Jersey Standard had been criticized for depleting subsidiaries of capital through its dividend policies—for example Imperial. This changed in the 1940s, and in the years following the Second World War the parent company adopted an approach that ensured the stability of dividend payments to shareholders and adequate reinvestment of profits to the subsidiary. The overall growth of the industry and the economy buttressed this process. Between 1947 and 1970, dividends averaged between 50 per cent and 60 per cent of earnings per share, increasing slightly during the 1958–59 recession years when earnings sagged. In the 1970s net earnings rose faster than the dividend per share so that dividends averaged less than 50 per cent of earnings for several years.[14]

Another by-product of Jersey Standard's reorganization in 1927 was the establishment of "contact" relationships between members of its board of directors and the managers of divisions and affiliates. Each member had responsibility for maintaining contacts with one or several units in the organization, in order to facilitate the implementation of corporate policies and to represent their "contacts" on matters involving action by top management at Jersey Standard. This system was formalized in the mid-1930s. G.H. Smith, the president of Imperial and also a member of the Jersey Standard Board carried out this function until 1943. His successor was Frank W. Pierce, who had played a major role setting up Industrial Councils at Jersey Standard in the 1920s and served as board chairman of Imperial when Hewetson was president. In 1950 Hewetson was appointed to the Jersey Standard Board and acted as contact director with Imperial until 1959. In the 1960s–70s senior executives at Exxon who had experience with Imperial acted as contact directors in addition to their other tasks.[15]

The third link was the lateral movement of Jersey Standard and Imperial managers between the companies. This practice went back to the Teagle era when he brought in protégés from the US like G.W. Mayer who restructured the Canadian company's sales operations. When International Petroleum was set up, Jersey Standard dispatched geologists and pipeline engineers to help establish the infrastructure for Imperial's ventures in Peru and Colombia. A somewhat similar process took place when Hewetson took over Imperial in the 1940s and mounted a renewed effort to find oil in Alberta; Jersey Standard sent its chief geologist, L.G.

FIGURE 12.1. IOL/Exxon executives: O.B. Hopkins [far left], J.K. Jamieson [third from left], M.L. Haider [third from right], J.R. White [far right]. Glenbow Archive IP-21-1d, Imperial Oil Collection.

Weeks, and a production coordinator, L.F. McCollum, to provide advice. Perhaps the most important participant from Jersey Standard was Michael Haider, a petroleum engineer who had worked with Carter Oil Company. After Leduc, Haider remained with Imperial Oil, becoming vice president of production in the 1950s; Haider eventually returned to Jersey Standard, where he became president and chief executive in the 1960s.[16]

By this time, the exchange worked in both directions. Canadian-born Ken Jamieson, who as vice president at Imperial had played a major role in setting up the company's move into petrochemicals, went on to Jersey Standard where he too served as president and chief executive in the 1960s. In 1956 Jersey Standard "borrowed" J.A. Cogan from Imperial to help coordinate oil tanker movements during the Suez crisis; Cogan had also worked as an economic planner for Jersey Standard in New York.

During the 1920s–30s, International Petroleum had provided a kind of training ground for managers who rose to top positions later at Imperial, and this connection remained even after Imperial sold its interest in the Latin American company: Jack Armstrong, for example, spent some of his early years exploring for petroleum in Ecuador; Michael Haider was president of International Petroleum before going on to run Jersey Standard. Jamieson served as head of Humble Oil of Texas en route to being installed as chairman of the Exxon Board. These were not unusual or unique situations: by the 1970s Exxon was running more or less formal programs for aspiring managers in a variety of positions across their companies, but even earlier it was not uncommon for promising high-office candidates to spend some time with Humble Oil or Creole Petroleum or Aramco learning how to function effectively in a variety of assignments.[17]

At the same time, even though some of Imperial's chief executives spent time on assignment with other Jersey Standard companies, from Hewetson's time to the early twenty-first century, they were all Canadian-born and had for the most part risen from the ranks at Imperial Oil, including George Stewart, Bill Twaits, and Jack Armstrong. They were also a largely homogeneous group: not surprisingly most had been educated as geologists or engineers, as was the case with top managers at Exxon. Many were from the Canadian Prairies: Manitoba (Jack Armstrong and Don McIvor, who succeeded him as president) or Saskatchewan (Robert Peterson, Arden Haynes, Tim Hearn). Even as Canada was celebrating its evolution into a multicultural nation, Imperial Oil's upper ranks remained a bastion of tradition: mostly white, male, Anglo-Canadian, and Protestant. There were few women, Quebecois, or recent immigrants, and virtually no Indigenous people at this level. In the 1940s some women emerged from the ranks of geologists and research scientists: Diane Loranger, for example, began work as a field geologist for Royalite, rising to a supervisory position with Imperial, and later became an international consultant on paleontology.[18] There were some indications of change in the twenty-first century: two of the seven members of Imperial's board of directors in 2013 were women, but only one among the eight other senior managers listed in the company's annual report.[19]

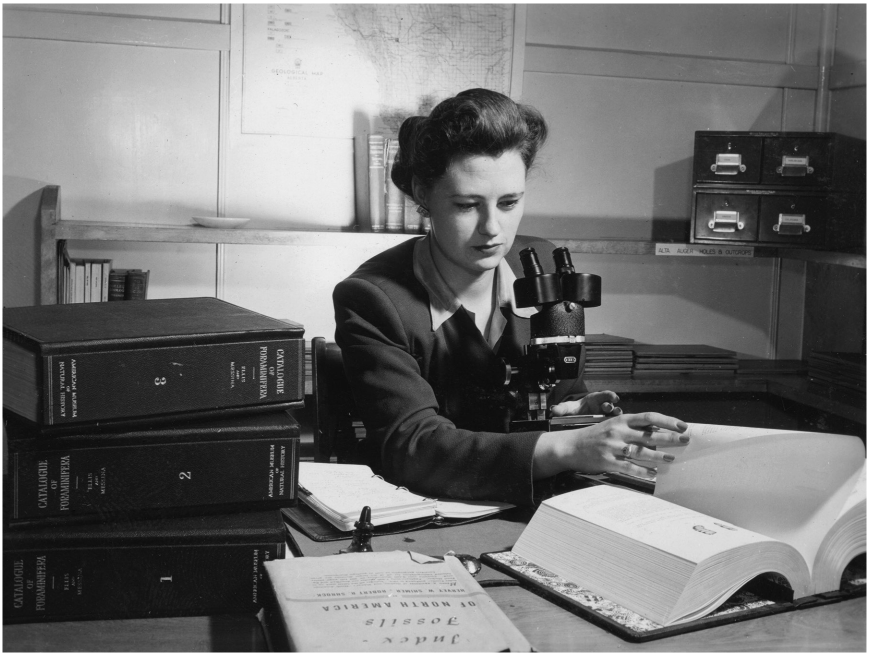

FIGURE 12.2. Diane Loranger, geologist, Royalite, 1946. Glenbow Archive IP-14a-1470, Imperial Oil Collection.

The relatively benign relationship between Imperial Oil and Exxon that prevailed after the Second World War began to fray in the mid-1980s. The collapse of world oil prices in 1985–86 hit the entire industry hard, and many Canadian independents disappeared. Imperial had already instituted staff cuts in 1982 and closed down most of its western refineries when Strathcona was opened, so it avoided the worst ravages of the recession in the oil patch. But Exxon was not so fortunate: the company's revenues fell by 18 per cent in one year and earnings failed to return even to 1985 levels for six years. A new senior management team, under board chairman Lawrence Rawl and president Lee Raymond, drastically reorganized the company, paring down the complex committee systems and focusing on the most profitable product lines, particularly in petrochemicals. Inevitably the quest for savings and efficiencies led to changes in Exxon's approach to affiliates. Among other things, dividends from Imperial rose from \$1.60 to \$1.80/share (CAD) drawing up to 70 per cent of net earnings by 1990.[20]

Two developments, both involving mergers, would influence Imperial's relationship with Exxon after 1986. In 1984 a legal battle erupted between the US parent of Texaco Canada (formerly McColl Frontenac) and a Texas-based independent oil company, Pennzoil. Pennzoil charged that Texaco had acted illegally in a bidding contest for another large independent company, Getty Oil. In 1985 a Texas jury ruled in favour of Pennzoil and imposed a stunning \$10.3 billion (USD) in damages on Texaco. Over the next two years the two companies bickered until finally reaching a settlement in 1987, after Texaco filed for bankruptcy, with Pennzoil receiving \$3.5 billion (USD) as compensation. Among the assets Texaco was obliged to sell to cover these costs was its 78 per cent ownership of Texaco Canada.[21]

Texaco Canada's assets were valued at about \$4 billion (CAD). It was considered a good performer, with profits in 1986 of \$283 million (CAD), but like Imperial Oil, its reserves of conventional oil were declining. On the other hand, it owned a chain of 2,000 service stations nationwide, and its Nanticoke refinery was set up to produce lead-free gasoline that was required by the Canadian government. So there were many interested parties in addition to Imperial—including Husky Oil, owned by Nova Corporation (the former Alberta Gas Trunk Line) in partnership with a Hong Kong millionaire, Li ka-sheng; Gulf Canada, now controlled by the real estate entrepreneurs, the Reichmanns; Occidental Petroleum; Conoco Canada; and several entrants from outside the oil patch, such as Provigo, a Quebec supermarket conglomerate, and Bell Canada Enterprises. By the summer of 1988 share prices had risen from \$35/share to 39.37/share (CAD).[22]

Imperial sold its Esso Minerals Division as a preliminary step in the contest, "to concentrate on its core energy business." By the beginning of 1989 the field had narrowed to Imperial, Shell Canada, Bond Holdings, an Australian company, and Socanov Company of Montreal, which presented itself as "the only totally Canadian group of bidders." In the end Imperial emerged victorious, paying \$41/share (CAD) for 78 per cent of Texaco Canada. But its troubles were just beginning.[23]

The federal Bureau of Competition (successor to the Restricted Trade Practices Commission) indicated that Imperial would be expected to sell the Nanticoke refinery and a significant number of Texaco Canada's service outlets before the transaction would be approved. In addition the government of Quebec demanded that Imperial sell 225 of the Texaco Canada stations in that province. Nova Scotia gas station owners and employees of Texaco's Dartmouth refinery wanted assets in that province sold "as a block" with Ultramar Canada waiting in the wings to take them over. The Consumers Association of Canada opposed the merger, as did the opposition Liberals and New Democrats in Ottawa.

The Competition Bureau review dragged on into 1990. Imperial Oil's stock fell from $64/share to $60.50/share, and its net earnings fell by 9 per cent in 1990, which reflected in part the effects of a more general decline in the economy after the 1987 market "correction." Eventually the Competition Bureau accepted a plan under which Imperial would divest itself of 638 retail outlets, but would retain the Nanticoke refinery. The major beneficiary was Ultramar in Atlantic Canada.[24]

As the hearings ground on, and the value of the Texaco takeover shrank, Imperial's shareholders—including the major one, Exxon—became increasingly irked. When Imperial reported losses in its downstream business in 1990, Exxon dispatched a senior vice president, Robert Wilhelm, to assess the situation in Canada. He warned "we have a real mess on our hands," and urged major financial and staff restructuring at Imperial to address the problems. In the short run, the Canadian company—and the industry generally—benefitted from the price spike that accompanied the Gulf War, and so Imperial was able to report overall profitable performance for 1990. But it had issued $1 billion (CAD) in new equity in 1989 to help finance the Texaco Canada takeover, and its long-term obligations rose from $1.3 billion to $4.6 billion (CAD) in 1990.

Oil prices fell by $20/bbl. (USD) in the aftermath of the Gulf War and declined again in 1996. Imperial brought in a new president, Robert Peterson, in 1992 who imposed substantial cost cutting, laying off 1,700 employees and closing 1,000 service stations as well as shutting down the refinery at Port Moody, BC. Under Peterson the Texaco acquisition was paid off, and he remained as chief executive for ten years, steering the company through the oil industry doldrums of the late 1990s.[25]

Although Imperial Oil had rebounded from its troubles, the view from Exxon—headquartered in Irving, Texas near Dallas after 1990—remained skeptical. Lee Raymond, the chief executive and dominant figure in the company from 1993 to 2006, had a particularly jaundiced perspective toward Imperial: “All we heard from Imperial for years was [the need to consider] the minority shareholder,” he complained. After the Exxon-Mobil merger in 1999, the parent company reassembled Mobil’s operations in Canada into a new subsidiary, independent of Imperial. More changes were soon to come. In 2008 Bruce Marsh, a Mobil veteran who had held positions in the Middle East and Europe, became the first non-Canadian in more than fifty years to assume the presidency of Imperial. Marsh was succeeded in 2013 by Richard Kruger, who had worked for Exxon since 1981 in Russia, Africa, and Asia.[26]

By this time many of the issues that had preoccupied public attention—foreign ownership of Canadian industry, the role of government and private enterprise in resource management, the relative share of benefits between the federal and provincial governments—were beginning to fade. In their place the most salient concern by the early twenty-first century focused on the impact of the industry on the environment, and a debate over the effects of fossil fuel exploitation on the future of life on the planet. Inevitably Exxon and Imperial Oil were positioned at the centre of these issues.