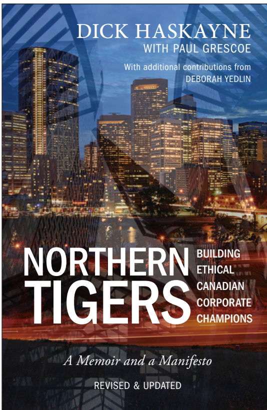


# NORTHERN TIGERS: Building Ethical Canadian Corporate Champions

Dick Haskayne with Paul Grescoe

With additional contributions from Deborah Yedlin

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CHAPTER THREE

# THE DEATH OF HBOG

## Dome Petroleum

IF THE COMMUNITY OF GLEICHEN was the melting pot that helped shape my moral centre and basic business skills, Hudson's Bay Oil and Gas was the crucible that first tested my ethical instincts and management talents in the context of a big company. The in-house training combined with a culture that minimized internal strife helped to produce outstanding employees. It's astonishing how many of them, like Gerry Maier, later became leaders—sometimes at the pinnacle—of major corporations.

There was Dave Powell, for one, who would someday be chairman of Talisman Energy, Canada's leading deep-sea gas explorer. And Charlie Fischer, who joined HBOG in 1972 with chemical engineering degree in hand, worked in gas processing, production operations, and corporate planning. He moved on to run TransCanada Pipelines' upstream oil and gas subsidiaries—the companies that explore for, develop, and produce resources—and then joined Nexen Inc., Canada's fourth-largest independent petroleum producer, where he's now president and CEO.

Pat Daniel joined a year after Charlie as a process engineer to design gas plants, and then he transferred to the emerging computer field to manage our information systems, a field where the company was a pioneer. Because computers came under my purview, I got to know Pat and was impressed by his technical expertise and managerial acumen. Today, he's president and CEO of Enbridge Inc. of Calgary, operator of the longest crude oil and

liquids pipeline system on the planet and the largest natural-gas distribution company in Canada. He first worked in New York State for Hooker Chemical, which was later found to have buried toxic waste in the Love Canal neighbourhood of Niagara Falls, NY, causing severe health problems in the community. In contrast, reflecting on his later career with Hudson's Bay Oil and Gas, Pat says, "We knew we were working with an honest company and senior managers with a high degree of integrity. They were very hard-working, very high achievers, and that environment attracted good people."

Allen Hagerman was a chartered accountant and had an MBA from Harvard when I hired him in 1977 as an analyst in corporate planning. The son of a chief financial officer I knew at Husky Oil and NOVA, Allen was practical, dependable, and honest. He eventually became planning director and treasury manager. HBOG was a team operation with little politicking, he remembers: "There was a community feeling, and we were very proud of our assets and what we'd accomplished." He went on to Home Oil and Interhome Energy before becoming CFO at Fording Coal and, lately, at Canadian Oil Sands, the largest partner in northern Alberta's enormous Syncrude oil-sands venture. (I value Allen so highly that he's one of two executors of my estate.)

Diane Reid was my administrative assistant (or "executive secretary," as we called it back then), and she remembers HBOG as being "like a big, people-oriented family." A native Calgarian, she joined the company as her first job out of Business College and was soon working in employee relations, where she drank up the caring culture. And this bright young woman, who always looked so much younger than her age, was one of the most caring. As Ken McNeill reminds me, "Diane was a perfect foil for you—a consummate professional. She knew you well, knew what you needed when you needed it. And she could tell people where to go in such a manner that they looked forward to the trip." We were always fiercely loyal to one another (she went on to work with me at Home Oil, and I'm delighted to know that she works today with Gerry Maier).

So when Gerry and I arrived back at HBOG, people of high calibre were well in place. Stan Olson was executive VP, second-in-command to Carl Jones. Stan—a tall, almost austere-looking man until he smiled—was another headstrong production guy, like Gerry, and though highly articulate, still took the time to select each word with care. He'd been with the company for a quarter-century and, within a couple of years, would succeed Carl as president and then CEO. But because Stan was approaching sixty-five, his growth strategy for the company was (like Carl's) less assertive than Gerry and I would have liked. By then, we'd become executive VPs: Gerry ran the guts of our business—conventional exploration and production, worldwide—while I handled finance, administration, computers, and our involvement in pipelines and Syncrude.

In 1976, when HBOG celebrated its fiftieth anniversary, we settled into our own forty-two-story tower on Seventh Avenue. The company was the largest non-integrated oil company in Canada (meaning that we had no marketing, transportation, or refining operations) and the ninth-largest oil company in sales, with net earnings of $78.7 million. During the last half of the decade, we explored the Dutch and British sectors of the North Sea as well as in Greenland, Turkey, Egypt, and Australia. By 1980, our net earnings were $145 million, we were Canada's third-largest producer of natural gas, and, outside the country, had oil and gas plays producing in the U.S., offshore Norway, and especially Indonesia. Management had the confidence of our board. Five of the directors were nominated by Conoco, and three by Hudson's Bay, and the rest were independents. Among the board members were Walter Light of Northern Telecom, George Bleumenauer of Otis Elevator, and Ian Barclay of B.C. Forest Products. As Peter Foster remarked in his book *Other People's Money*, the company was then a Cadillac—"one of the largest and soundest in the Alberta oilpatch … a rock-solid corporate empire of huge landholdings and high quality oil and gas production."

One of the key contributors to the success of our international holdings was Dave Powell, a wiry Welshman—about my size and

a year older than me—with a global background in the petroleum industry. He had his countrymen's typical coal-black hair, gift of the gab, and tendency to launch into song in social situations. A coal-miner's son, he'd been inspired by geologists working in West Africa where he was doing his national service with the British Army. Afterward, he took an honours degree in geology and then joined Burmah Oil of London, which had him do a master's in petroleum reserve engineering and sent him to Burma as a field geologist. The oil company was one of the biggest and best of its day, owning pieces of British Petroleum and Shell. His career took him to India, Pakistan, Ecuador, and Australia before Burmah Oil made some unwise investments in oil tankers and became laden with debt.

In Australia, Dave had met Gerry Maier, now HBOG's second-in-command, who in 1978 had urged him to join the company as manager of geology for a new international arm. With a passion that could excite the people who worked for him, he zoomed up the ladder in little more than a year to become president of the division, HudBay Minerals. His knowledge of Indonesia brought us major holdings in the narrow channels and shallow reefs of the Malacca Straits, which link the Indian and Pacific Oceans. Our discoveries there would produce about 100 million barrels of recoverable oil.

In the spring of 1980, Stan Olson retired. Our board chose Gerry as the first Canadian chairman and CEO, replacing John Kircher, who was also Conoco's deputy chairman. And I was named president. Here, finally, was our chance to propel HBOG into more aggressive growth. Gerry always says he returned to HBOG out of a sense of nationalism, with the vision that it could truly be what we've come to call a Northern Tiger. It was an ambition I shared.

OUR TIMING, AS IT HAPPENED, was bloody terrible. Only half a year later, the Liberal government of Pierre Trudeau, demanding more control over energy resources, enacted the much-loathed National Energy Program (NEP). The rationale was to increase

Canadian ownership of the industry and protect Canadians from rapidly rising oil prices. Predictably, Albertans protested this federal intrusion into provincial rights and the accompanying tax grab to share the province's wealth with the rest of the country. The fall out from the NEP still has resonance today, as *Globe and Mail* business columnist Eric Reguly reported in the spring of 2006:

> The NEP was a disaster (I lived there at the time). Among other horrors, it created the petroleum and gas revenue tax, or PGRT. Note the word "revenue." This was a tax on sales, not profits. The NEP's timing was equally disastrous. It coincided with the fall in energy prices, doubling the pain and plunging Alberta into a tailspin that wouldn't end for more than a decade.

Albertans were not the only victims. Within the first nine months alone, Canada suffered from more than a $10-billion outflow of capital. The Canadian dollar slumped drastically, and the official bank lending rate topped 21 percent, the highest in any major industrial nation. My memory is that we figured the NEP would cost Hudson's Bay Oil and Gas alone about $90 million a year in PGRT, a significant chunk of our cash flow. Even worse, we'd been deemed a foreign company because of Conoco's owner ship stake, despite the fact that it was held in a voting trust that didn't give the American company control. The irony is that just before Energy Minister Marc Lalonde announced the new rules, Gerry convinced our board to buy an airplane, a Gulfstream jet from the Ivory Coast—used, but with gold taps and all the trimmings. And it was on that fancy Gulfstream that we flew to see our directors, such as George Richardson in Winnipeg, the governor of the Hudson's Bay Company, who could view the expensive plane from his office while we told him about the financial crisis the NEP would wreak on HBOG.

Within weeks, we began considering how we could merge with an all-Canadian company to avoid the crippling taxes and take advantage of new grants that encouraged domestically controlled

enterprises. Behind closed doors, we secretly fashioned a deal to merge with Inco Limited of Toronto, the world's second-largest nickel producer, and at the same time, Conoco agreed to reduce its interest in HBOG to as little as 30 percent. Nobody knew about the pact until Gerry and I went to Ottawa to give Marc Lalonde the details behind this proposed Canadian giant that would combine petroleum and mining—a Northern Tiger in the making.

Lalonde, fresh from the 1980 election that had returned the Liberals to power, sat in his office on Parliament Hill, dining on a full breakfast in front of us. Looking on was his executive assistant, the lawyer Michael Phelps (later the CEO of Westcoast Energy). Once we'd outlined our proposal, the minister said, in effect, our scheme was simply not acceptable: "I have a list on my desk of a number of people who want to buy your fine company, which will be much better for both of us." As far as he was concerned, that was the end of it.

After the meeting, we were just bristling with anger. Our mood wasn't improved when we encountered Roy Maclaren in the hall. A business-magazine publisher and a member of Parliament from Toronto, he was Lalonde's Parliamentary Secretary. "How did it go, boys?" he asked.

"Not very well."

"Well, it would have gone much better if it wasn't for your South African content."

*South African content?* Oh, he was referring to Hudson Bay Mining and Smelting, a Canadian-based company controlled by South Africa's Anglo American Corporation, long considered a pillar of apartheid in that country. Unaccountably, Maclaren—who tabled reports and answered questions in the House on behalf of his minister—had mixed up our two distinctly different companies. That was our day in Ottawa.

All of this lobbying would prove sadly academic in the end. As Marc Lalonde had noted, there were people out there who wanted to buy our fine company. Or try to sell it. One of them was Robert Greenhill, the New York investment banker who built the mergers and acquisition business at Morgan Stanley & Company.

Greenhill approached federal Energy Minister Donald Macdonald in the autumn of 1981 to have the new state oil company, Petro Canada, take over the HBOG shares owned by Conoco. To have Bill Hopper and his gang at the government-owned PetroCan overseeing all that we'd helped build over the years was a personal affront to Gerry and me. As it happened, the deal failed late in the year with the two parties half a billion dollars apart. But before we could take more than a deep breath, up loomed "Smilin'" Jack Gallagher and Bill Richards of Dome Petroleum.

The black Dome Tower, rising beside the HBOG building in downtown Calgary, was a testament to the two men who had created Canada's highest-profile energy company. With assets of $6.5 billion in western Canada, the Arctic Islands, and the Beaufort Sea—sixty million acres in the Beaufort alone—it was exploring on land holdings surpassed in size only by HBOG's. In the previous five years, Dome had become an investor's darling on stock markets around the world as its shares skyrocketed from $1.58 to $25.38 per share.

Chairman Jack Gallagher was a dapper, handsome guy with a trim mustache and a penchant for taking risks, much like the dare devil pilot Smilin' Jack of the wartime comic strips who inspired his nickname. In Gerry's words, Jack was "a great visionary and one of the world's best salesmen." He had a blinding smile and a well-honed pitch of sales patter: "Jack would say the same thing exactly the same way he'd said it a few days before. He had all these things memorized, word for word—pronunciation, enunciation, pauses—everything exactly the same. And I thought to myself, *this guy would make the greatest stage actor in the world*. Unfortunately, Jack and his guys were totally impractical in what they were saying to the public—and the analysts and the media of the day just gobbled it up.

"They were saying that they were going to have oil production flowing [from the Arctic] to Canada within two years. Well, Dome hadn't even made a discovery worth economic development at that time. And coming from the international scene and the North Sea—where it's much easier than the Arctic—I knew that

from discovery to production took a minimum of seven years, and sometimes twelve or longer." When Gerry stated this publicly at the time, the media happily picked it up and people from Dome attacked him for being so negative.

Jack was a Winnipeg-born petroleum geologist who'd worked for Shell and Standard Oil in the U.S., the Middle East, and South America before returning to Canada and founding Dome Exploration (Western) in 1950. Three decades later, he'd acquired $4.5 billion worth of Canadian resource properties—among them, $360 million in assets developed by my friends Bill Siebens, an American petroleum engineer, and Harold Siebens, Bill's entrepreneurial father. Dome had also gained a controlling position on the board of TransCanada Pipelines by buying the block of shares held by Canadian Pacific. This was a complex deal—with Dome's earned dividends more than balancing the expenses of financing—that essentially left Gallagher and Company getting them for free.

Bill Richards was another Winnipegger, a smart, workaholic lawyer who'd joined Dome's legal department in 1956. By now, he was really running the company as president. I once asked an executive there, "Harry, what's the organizational structure like at Dome?

"Dick," Harry said, "it kind of runs like the Catholic Church. There's Bill Richards, who's the Pope, and there's a whole bunch of cardinals, who report directly to him."

"And Jack?"

"He's God."

Before the government passed the NEP legislation, Bill had been negotiating with Ottawa to somehow sidestep the new rules. Because of its heavily American ownership, Dome Petroleum was ineligible for the grants and liable for the penalizing petroleum and gas revenue tax. In a classic Richards move, he conceived Dome Canada, a subsidiary to be controlled by the parent company but with a majority of Canadian shareholders—in fact, sixty thousand of them who would buy stock after an initially wary Ottawa finally agreed to this corporate juggling act.

Riding high, Bill went on the hunt for yet another acquisition. Soon he had his gun sights set on good old wealthy and wisely run HBOG—or "Swampy," as he code-named our company. Jack himself found out about the idea only after walking into a meeting where Bill was discussing the potential takeover with his executives. Dome Petroleum certainly didn't have the ready cash to take on such a major acquisition. But what if they bought shares of Conoco, our controlling stockholder, on the U.S. markets and then traded them for the 50.2 percent of HBOG shares that Conoco held? That kind of trade would be wonderfully tax-free. In fact, such a deal would supposedly allow Conoco to avoid paying $400 million of capital gains tax.

In his encyclopedic history *The Great Canadian Oil Patch*, Earle Gray impartially paints the scene that led to the Gallagher-Richards gamble to bid $4 billion for our company in what would be the largest acquisition in Canadian history:

> HBOG offered a number of attractions. There were large cash flows and earnings that Dome could certainly use. The National Energy Program, with its adverse impact on foreign investment in the oil business, had reduced the price at which HBOG might be bought. HBOG, with its years of prof its, was paying a high tax rate, while Dome's aggressive exploration expenditures had created a pool of tax credits that could be used to reduce the taxes on HBOG's revenue. Geologists might search for oil pools but lawyers looked for tax pools. Politically, buying out a controlling U.S. parent based in Connecticut and merging HBOG with a Canadian company based in Calgary would be a winner, based on perception. In reality—unless Dome sold more shares to Canadian investors—buying HBOG would actually reduce Canadian ownership of the oil industry, because of Dome's 60 percent American ownership.

Gerry and I felt frustrated by our lack of power to influence any of these proceedings. And then we were infuriated to discover that

the bank that was leading Dome's loan to buy the Conoco stock was none other than the Canadian Imperial Bank of Commerce. *Our* bank—for the past half a century. We were one of their best clients. But Jack Gallagher was on the CIBC board, which in itself shouted, "Conflict of interest!" Frank Duncanson headed up the commercial side of the bank locally. I hauled him into my office and gave him holy hell. Frank was a nice enough fellow, but because every bank in Canada would have loved to back the high-flying Dome, he was blind to the mess CIBC was making. So was Russell Harrison, the bank's chairman in Toronto. When Gerry got him on the phone, he exploded in self-defence, arguing that the bank would never betray one client's secrets to another. (Years later, when I got involved with CIBC, I would make damn sure that directors' relationships were spelled out when the bank backed any party during a takeover.)

The chairman of Conoco was Ralph Bailey, in his late fifties, the stocky son of an Indiana coal miner. He and I had enjoyed a good relationship, which was weakened a bit by the fact he'd been willing to discuss the possibility of having PetroCan take over Conoco's shares of HBOG. Now he seemed to be at least entertaining the idea of Dome's doing the same thing. We bristled at the very idea of getting into an uncomfortable bed with this big spending, ball-breaking company.

Ken McNeill, our human resources specialist, sums up some of the differences between them and us: "Our executives said, 'Listen, let's not do what's not good for our people.' But Dome would hire an industrial psychologist to interview all the candidates for a job and make them into the same ilk—and then they'd look down their noses at everybody else with equal disdain. And the employees were left to live on the edge—for instance, in the way that their pensions were handled. Dome had a pension plan, but it made the plan very unattractive to get into." (In recent years, Enron Corp., the failed American energy resources trader, used similar incentives to encourage stock ownership for employees instead of pensions.)

Gerry and I flew to New York to meet with the Conoco management. Well, we *attempted* to meet with them: Ralph said his lawyers

wouldn't let him talk to us, and so we paced the floor, never learning what the company's intentions were.

Behind the scenes, as it turned out, Bailey and his board were trying to fend off Dome's tender offer, which offered 30 percent over the current market price. When it was made public in May 1981, shares of Conoco, HBOG, and Dome all shot up—ours by 40 percent to $31.75, and Dome's to more than triple our figure. Conoco launched a lawsuit against Dome, and the two companies engaged in a nasty war of news releases (one of Dome's misnamed us as *Hudson* Bay Oil and Gas). Ultimately, Conoco learned that its pursuer might in fact be going after a wholesale takeover of the American company. During Conoco's federal court case in Oklahoma to forestall this development, Jack Gallagher testified, convincingly enough, to help get the legal action dismissed.

In late May, after all the gun smoke had cleared, Dome had paid a little over $2 billion Canadian for 20 percent of Conoco's own stock, with the intention of swapping the shares for the American company's interest in HBOG. Conoco's advisors at Morgan Stanley & Company went looking for anyone but Dome to buy it. They first approached Olympia & York Development (O&Y) of Toronto, owned by the Reichmann family, which bid nearly $1 billion. But that offer was sidelined by one from Edgar Bronfman's Seagram Company. The world's major liquor distiller had huge profits from the recent sale of petroleum properties in Texas and wanted to take over not HBOG but Conoco itself by acquiring 35 percent of its shares. To forestall that bid, the oil company went on the defensive (there was talk at the time that the Jewish ownership of Seagram would harm Conoco's image in the Middle East, where it had substantial operations—but that, frankly, was a crock of bull). Ralph Bailey approached Cities Service of Tulsa, a much smaller petroleum player, to amalgamate instead. But when Seagram offered to buy 40 percent of Conoco for more than $10 over the going price of $62 per share, Cities Service pulled out and two more serious contenders stepped in. E.I. du Pont de Nemours and Company, the major American chemicals producer, made the first friendly ante, followed by the

multinational Texaco (as well as unsolicited offers from Mobil Oil, Marathon Oil, and Unocal). Ralph, worrying that the Ronald Reagan government would look dimly on a marriage of two petroleum titans, stayed with du Pont and its $7.6-billion (U.S.) bid.

The subsequent merger proved to be, at that time, the largest ever in American corporate history, creating what was then the nation's biggest industrial enterprise. While Jack Gallagher and Bill Richards couldn't match that record, they did complete the largest such deal to that point in Canadian history when Conoco agreed to trade shares with Dome, after all. That very day, Gerry and I were in Calgary. After Ralph phoned to fill us in, Jack called Gerry and, at his friendliest, said he really liked us and wanted to work with us. I got a call from Bill (he and the equally strong willed Gerry never got along) as he was flying home. He and Jack wanted to meet us immediately on his return.

We had lunch at the Country Club with the slender, health conscious Gallagher and the burly, cigar-chomping Richards. They took pains to assure us that we ran a very good company. Hell, we knew that—and we were infinitely bigger and more dominant in producing properties than Dome ever was. Jack was at his charming best as they pointed out, "You guys don't have a lot of money."

Which was true—we didn't enjoy all the stock options that top Dome executives had. Their idea, as it transpired, was to put all the HBOG-ers on the Dome payroll.

"Look," I said, "that's not in the cards. They're separate companies and we've got another 50 percent of the shareholders out there who we represent, as well."

The four of us agreed to meet weekly to discuss the transition, though Jack often failed to show up, or he wandered in late. (Ken McNeill remembers being called over to meet with Bill Richards and his people to discuss the merging of the companies' human resource functions and Bill confiding, "Now, this is between us. No need to talk to Jack about any of this stuff right now.") One point that soon became apparent was that Bill and Jack had the naive notion that, with a merger, they could save the roughly $300 million a year that we paid in taxes. Dome Canada's tax bill was

negligible because of the break it got through the NEP. Our position was that we spent money wisely and paid taxes because we were so successful. But they assumed that with some slick accounting, Dome would suddenly get rid of those hundreds of millions in tax charges. In fact, you had to *spend* about $1 billion a year to save that amount in taxes. A third-year accounting student could have figured that out.

Harking back to that time now, Gerry says, "As long as I was going to be there as chairman and CEO, they were not going to get their hands on our cash flow or tell us how the hell to run our business."

Knowing this, Bill and Jack had to go after the other half of HBOG's stock, held by a mixed bag of individuals, pension funds, and the largest minority shareholder, the Hudson's Bay Company, with 10.1 percent. As they were pursuing these shares, Dome's long-term debt had more than doubled to $5.3 billion while the price of its shares was falling. Meanwhile, the Toronto-Dominion Bank had unwisely given the company loans amounting to about three-quarters of the bank's own capital and was now pressuring Dome to sell off its HBOG shares. Instead, the Gallagher-Richards duo met with the Bay at the King Edward Hotel in Toronto. Also present were a lot of lawyers, investment bankers, HBOG's commit tee of independent directors—and Gerry Maier.

Gerry believed that the price Dome was offering for the Bay stock—the price that the bankers and the independents had agreed was fair—was much too low. In fact, he knew that the Dome negotiators would go higher. In a story I heard only recently, Gerry explains exactly how he knew they were low-balling:

"I flew in from Calgary to Toronto and got checked into the hotel and went down to the bar. There was a bunch of guys standing around there, and some were Dome guys—and none of them recognized me. They were drinking and talking while I was standing right beside them. I listened to everything they said. I'd known before then that they had to take out the shareholders to get their hands on the cash. And I knew from their conversations that there was upward mobility in what they thought the company was

worth because of their projection of oil and gas prices in the future. Oil prices were fairly high for that day and age. But they were projecting prices to increase by about 3 to 5 percent per year, ad infinitum. Well, that makes the value of the shares incredibly different. So I knew that if push came to shove, because they needed to have the total company, they'd meet a higher price.

"So I went back and told our guys what I'd heard. I knew then that the number that they had offered—and the number that the Hudson's Bay Company had already accepted—was way too low. It wasn't a bad price, it wasn't that ridiculous, but I knew that Dome was willing to go much higher. I told our people, 'This is our number,' and unless they agreed to it, I'd go and get financial backing to take out Dome and buy HBOG at this number. Of course, I was bluffing. In the end, I didn't get exactly the number I suggested, but very, very close to it. And if I remember right, it meant about $75 million just to Hudson's Bay Company alone. The Bay guys were so damned embarrassed, and they never had the courtesy to thank me."

It was sweet revenge. The final tab to buy out HBOG's minority shareholders reached $2.3 billion. Typically, Dome didn't intend to front real money for the stock: It issued special shares that could be cashed in three years, making the company's cost of acquiring them free of any capital gains tax. A week later, Ottawa decided to change the rules allowing such an exemption, a move that would kill the deal. Marc Lalonde, the energy minister who'd been hostile to Gerry and me, had applauded most of Dome's initiatives so publicly that many in the Oil Patch saw the company as a private-sector instrument of government policy—a blunt instrument, as it happened. Now he convinced his colleague, Finance Minister Allan MacEeachen, to make a last-minute exception and let Dome escape the capital gains levy.

Bill Richards' next problem was to figure out how to finance the deal while the company was so deeply in hock to Canadian banks. This time, he went south to a Citibank-led consortium of twenty-seven American financial institutions. And as collateral for the world's biggest oil-production loan up to that time, he put up

all of HBOG's oil and gas wells and promised to pay Citibank $400 million (U.S.) when Dome sold some of our assets. The Canadian lenders were outraged to hear this plan, which would wipe out the collateral value of the HBOG shares they were now holding.

For months, I'd seen the ugly handwriting on the wall, and it hollered, "Get out now, while the getting's good!" In the fall, I finally decided to exercise that option. Fortunately, on their own hook, our directors had long since decided to protect the top seven management people as well as the company itself. They'd worried that, given all the machinations of a possible Dome deal, all of us high-profile guys would bail out of HBOG early. Their solution was to create one of the first Canadian "golden parachutes"—those contracts given to senior executives in the event they lose their jobs when their company faces a hostile takeover. Generally, the contracts offer sizeable severance pay, stock options, and a bonus. Our general counsel had a hard time even finding a precedent for such a provision in Canada. Many parachutes have a double trigger: Not only does your company have to be gobbled up but your job has to be diminished in some way to activate the 'chute. Mine had only the single trigger of a takeover.

And when Dome did snare HBOG, my parachute turned out to be gilded enough—worth $660,000 in total—that, by making shrewd investments at the current interest rate of 18 percent, I could probably have retired then and there. But at my ripe, young age of forty-six? Not a chance. At that time, I was able to put the money into an RRSP tax-free (only two weeks later, Ottawa made such funds taxable), and that's where I parked it while I considered the next rung up on my ladder.

Gerry and I could officially step down in October 1981. While relinquishing his CEO role to Bill Richards, he decided to stay on as a heartbroken chairman till March 1982, when the Citibank loan was to be signed and sealed. I'd already had a number of approaches from, among others, Shell Canada and James Richardson & Sons, the old, established western investment and grain dealers. But the job offer that proved most attractive came from Home Oil, just across the street from the HBOG tower. What

convinced me was the encouragement from my friend Ken Burgis, who was retiring as our senior VP. A great advisor, he underlined the fact that Home was part of the supposedly stable and well-heeled Hiram Walker conglomerate of companies, which included one of the world's major liquor distillers. Home's parent was Hiram Walker Resources, and its president was Bill Wilder, whom I knew well when he was chair and I was controller of the benighted Arctic Gas project. Another important influence on my decision was Stan Olson, HBOG's former chief executive, who'd been appointed to the Hiram Walker board.

I agreed to become Home's president and CEO, replacing the outspoken Al McIntosh, who had not been long in the position. My leave-taking would occur just before year's end (by which point, four of the five most senior executives had announced their departures). Meanwhile, I could observe the continuing financial brinkmanship of Richards and Gallagher that—though I didn't realize it then—would lead to the eventual demise of Hudson's Bay Oil and Gas.

As ever, all of Dome's dealings were perfectly legal, but also foolishly risky and politically charged. In March 1982, the company was $7 billion in debt and needed $100 million by month's end to avoid bankruptcy. Only its friend Marc Lalonde's intervention with Toronto bankers saved Dome this time. But the condition attached to the rescue was that Jack and Bill had to resign—which they would, at long last, do at the end of 1983.

After the merger, some insightful employees at Dome (and it had many stars) had begun to realize the fine distinctions between the two cultures. One of those people was Hal Kvisle, who was organizing the production-engineering department of the combined operation. A young man from Innisfail, Alberta, of Norwegian extraction (his name is pronounced "*Quiz*-lee"), he'd started as a production engineer, went on to get his MBA, and was fated to someday lead TransCanada Pipelines: "My introduction to Hudson's Bay was an enlightening experience, to learn a little bit about how a well-run company worked. The purchasing, accounting, and computer-systems departments all worked

really well. And they let the technical professionals just get on and do their job. Dome had grown from 330 people when I joined to 6,500 after the Hudson's Bay merger—and nothing worked. Dome had this great entrepreneurial approach but was really quite weak on the administrative and accounting and financial systems. Which was ultimately their downfall."

It had quickly become clear to Dave Powell that, with all Dome's problems, his pride and joy, the international division, would have to be sold off. He'd begun by reporting to a commit tee of Gallagher, Richards, and senior VP John Beddome, and when that didn't work, to Jack and Bill. "But they were putting fires out all over the place," he remembers, "and we had one meeting which ended up with them quarrelling and me quietly sidling out the door." By the end of 1982, when the international operations had grown seven-fold from the early HBOG days to a value of about $350 million, they were hived off to British Petroleum and Lasmo Oil of London.

Over the next few years, a new chairman tried to staunch the bloody flow of cash, but to no avail. By mid-1987, the badly limping company had the largest debt in Canadian corporate history—$6.3 billion. When Hal Kvisle's $200-million capital budget plunged to zero, he took the lead in convincing the creditor banks to restore 80 percent of the capital funding. Hal went on to work with Morgan Stanley to get a fair evaluation of the Dome/HBOG assets and to find a buyer for the company. They targeted three serious contenders: TransCanada Pipelines, Exxon, and Amoco Canada Petroleum, the Canadian subsidiary of the Amoco Corporation in the U.S. "While I would have loved to see TransCanada do the deal, the Canadian government did not," Hal says now. "It was Mulroney's government, with Michael Wilson the finance minister. They just wanted this nightmare over but didn't want Dome to go bankrupt." That November 1987, after months of negotiation, Amoco Canada agreed to buy Dome Petroleum for $5.5 billion.

It was only a temporary pause in an inevitable decline and fall. Within five years, Amoco sold nearly two-thirds of its oil fields

and chopped more than half its staff. By the end of the 1990s, it vanished entirely when its parent company merged with British Petroleum. Most of its remaining properties in western Canada went to Canadian Natural Resources and Penn West Petroleum, controlled by the shrewd Calgary financier Murray Edwards, for $1.6 billion.

The question remained: What the hell really happened here? A newspaper quoted me not long after Dome's takeover of HBOG about the general topic of mergers: "Only one in five corporate mergers are successful. The others are disastrous. Look at Dome: a huge disaster." While acknowledging that the minority of companies—the one-fifth or so—that do succeed in merging well can ultimately win big, I wouldn't change a word of that statement today.

Certainly nobody won in the Dome takeover. Throughout the resulting drastic decline in its share price, stockholders lost big time. The banks lost on the bad loans. Three thousand or more employees eventually lost their jobs and, having bought corporate stock under an incentive scheme instead of contributing to a pension plan, lost their savings for retirement. Canadian taxpayers lost literally billions of dollars in Ottawa's series of subsidies and special tax exemptions to a company in dire straits. There were no winners.

And Canada lost a potential Northern Tiger. I don't see any Canadian companies around today that could have exceeded HBOG, with our combination of an enormous land base, the auspicious discoveries we were making in Australia and Indonesia, and the disciplined people who went on to operate other petroleum giants.

We should have been the ones taking over Dome. But because of the supercharged, overvalued performance of its shares, the stock markets wouldn't allow us to do that. Dome was trading at high multiples based merely on the utter hype Jack and Bill had built up around their unproven Beaufort Sea holdings. Simply far better at promoting themselves than we were with HBOG, and sup ported by a fawning federal government, they stickhandled us out

of existence. There's no question that we should have been more aggressive. Today's oil companies *are*—and the EnCanas and Canadian Natural Resources are far smarter in balancing promise with execution, having learned from the fancy but ultimately ineffectual moves of the high-sticking Domes of the world.