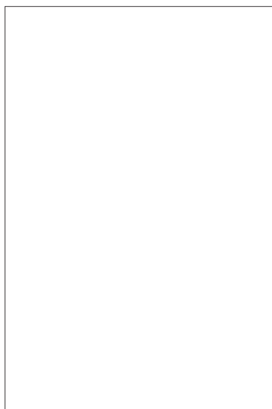

IMPERIAL STANDARD: Imperial Oil, Exxon, and the Canadian Oil Industry from 1880

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A MORE COMPLEX WORLD

Competition

Leduc attracted a wide range of entrepreneurs and companies, large and small, to explore and exploit the western Canadian oil fields, and some evolved into integrated firms that challenged—on a regional or even national scale—the Big Four that had dominated the industry before the Second World War. Among them was the Belgian-based Petrofina, which had started in the Romanian oil fields: it was intended from the outset to integrate into refining and marketing, and expanded through the 1950s through mergers and takeovers of smaller companies. Another was Ultramar, a British company that had holdings in Venezuela. Initially it set up an exploration venture in Alberta, but came to focus more on eastern Canada and Newfoundland where it established a large refinery and a strong presence in distribution of petroleum products. A much larger British enterprise, Anglo-Iranian—later to become British Petroleum (BP)—invested in a western exploring company, Triad, in 1953, and then established itself in marketing gasoline in Ontario and Quebec; in 1964 it acquired the Cities Service refinery, and later took over the Supertest Petroleum Corporation that had been one of Imperial's quasi-autonomous retail agencies until the early 1960s.

Other companies entered from the opposite direction. Sun Oil, a major US independent, had formed a Canadian subsidiary in 1919 to market its products. It built a refinery at Sarnia in 1935, and in 1953 extended a pipeline to Toronto from Sarnia, giving it access to one of the country's largest consumer markets. A decade later Sun began taking steps

to enter the Athabasca oil sands—where now, as Suncor, it is the dominant player. Standard Oil of California (Chevron) also came into Canada through refining and marketing, setting up Standard of British Columbia in 1935, and by the 1960s was one of the largest oil and gas distributors on Canada's west coast. On the other side of the country, as recounted earlier, Irving Oil built a refinery in New Brunswick in 1957, in partnership with Standard of British Columbia, which held 51 per cent of the refinery's shares. The Irving Oil company extended its distributorships across the Maritimes and into Quebec and New England. Glenn Nielson's Husky Refining Company was started in Wyoming in the 1930s and established a refinery in Alberta in 1946, moving later into exploration and a national distribution network.[1]

For at least two decades after Leduc, however, the "Big Four"—Imperial Oil, Shell Canada, Texaco Canada (McColl-Frontenac), and British-American Oil—retained their dominant positions in virtually every phase of the Canadian oil industry, with Imperial playing the leading role. (In 1969 the American major Gulf Oil acquired British American, which then became Gulf Canada). In the middle of the 1960s the four companies controlled 80 per cent of the country's refining capacity and sales of petroleum products, 75 per cent of the service stations across Canada, and slightly less than one-third of crude oil production.

Imperial continued to tower over its main competitors in many respects: the company's net sales in 1963 were equal to the combined total of the other three companies, and exceeded them all in terms of net earnings. It held one-third of the shares of the two largest pipeline companies, Interprovincial and Montreal Pipeline, and more than one-third of the country's refining capacity. The only area where it lagged was in production of natural gas—Imperial entered the field late in the 1950s—where it ran second to Shell Canada, but still accounted for one-third of the output of the "Big Four;" the natural gas sector was more competitive than other parts of the petroleum industry, with a large number of smaller producers in Alberta and British Columbia.[2]

Imperial's greatest vulnerability was in the retail auto gasoline market. According to one reckoning, Imperial had been losing market share in this sector since 1935 when other oil companies began building service stations; but conditions worsened in the 1950s–60s. Imperial's sales of

petroleum products grew by 18.5 per cent between 1958–63, but lagged well behind the other three majors, particularly Shell (although arguably that company's biggest spurt of growth came in 1962 after it took over Canadian Oil Companies Ltd.). Even taking Shell out of the equation, the average growth rate for the other companies exceeded 32 per cent. Imperial's market share declined in every region except Atlantic Canada and the Prairies during this time: in Quebec it fell behind both Shell and Texaco, although sales by Imperial's affiliates—specifically Champlain and Supertest—offset these losses. In Ontario Imperial held its position as leading retailer, but it had lost 5 per cent market share, due in part to new entrants, Sunoco, BP, and Petrofina. On the west coast, it also held a lead, but was challenged by Standard of British Columbia as well as Shell and Texaco.[3]

In 1955 Bill Twaits, who would become Imperial's chief executive in 1960, examined the company's ongoing issues with marketing. Twaits had begun his career with Imperial working at the Sarnia refinery, then held a wide range of positions, which provided a broader perspective on the company than others who had worked exclusively in one area. From his point of view Imperial's top management was focused primarily on the supply side, with little interest in marketing; Twaits furthermore observed that the conditions of limited supply and a stable competitive environment left the company unprepared for a "period of ample supplies and a buyer's market." He urged Imperial to integrate sales more closely with overall company strategy, and to create "an atmosphere of responsibility within the organization toward the sales effort." He insisted: "Everyone must contribute to sales objectives."[4]

As president and chairman of the board through the 1960s and early 1970s, Twaits pursued this approach to marketing, but finding solutions to the market challenges of the era proved elusive. Not surprisingly, the company looked first to improving product quality: in 1956 Imperial introduced a new motor oil christened "Multilube Uniflow," and two years later another higher grade "Esso Extra'" motor oil. The most effective sales campaign originated with Humble Oil in Texas, which marketed a premium gasoline product in the early 1960s also called "Esso Extra"—and featured the slogan "Put a Tiger in Your Tank," festooned with a cartoon "friendly tiger." The promotional campaign was also popular in Canada,

Figure 9.1. William O. Twaits, 1962. Glenbow Archive IP-26-8b-Twaits, W.O. 1961-1-16, Imperial Oil Collection.

and welcomed by Esso dealers because it was accompanied by measures to upgrade service stations' facilities. A subsequent analysis, however, observed that the effort boosted sales temporarily but did not stem the longer-term market share decline.[5]

Over the years the marketing department (and later the auto division) undertook a variety of experiments to improve sales performance, and in many cases the other major companies emulated them. One approach was to try to find ancillary businesses that could attract motorists. For a time carwash services were seen as a panacea, and the department produced an ambitious plan to couple service stations with carwashes; but by 1975 Imperial was divesting itself of more than a dozen locations. Another idea was to attach restaurants with fixed menus to service stations, which led to the establishment of Voyageur restaurants on the Trans-Canada Highway during the 1960s; Shell and Texaco also ventured into this ancillary market. By the late 1970s, however, these experiments were being scaled back; some outlets were also sold to third parties.

FIGURE 9.2. "Put a Tiger in Your Tank," 1965. Glenbow Archive IP-13d-1-38, Imperial Oil Collection.

The 1950s–60s were golden years for advertising and Imperial was a beneficiary of the substantial investment Jersey Standard made in establishing the "Esso" brand throughout North America. In the early 1960s Imperial began quietly replacing its own name on service station signs, replacing it with the Esso oval logo; the name Imperial Oil only appeared on the buildings.[6] As demonstrated in the "Tiger" campaign, the Esso brand could boost sales—but in the more nationalist period of the 1970s the association could also be counterproductive with some Canadians. Similarly, Imperial's sponsorship of the popular "Hockey Night in Canada" had both positive features for the company and also some drawbacks.

Imperial's involvement with professional hockey in Canada dated back to the 1930s. Canadian General Motors had begun sponsoring hockey broadcasts on radio in 1931, but by 1934 they dropped the sponsorship—at which point Imperial Oil took over. This decision reflected more of a commitment to institutional sponsorship than a specific attempt to boost gasoline sales, where the company was already the dominant player at the time. In 1952, when the Canadian Broadcasting Corporation (CBC) proposed to televise professional hockey, Imperial extended its sponsorship. The story presented in the *Imperial Oil Review* was that the head of the Canadian Hockey Association expressed reservations about approving televised broadcasting, fearing loss of revenue as fans would no longer flock to the arenas. But Conn Smythe, head of Maple Leaf Gardens, approached Imperial with a proposed contract of $100 (CAD) in the first year to test the waters.[7]

In 1953, Smythe raised the ante to $150,000 (CAD) per year for a three-year contract. This demand exceeded the figure budgeted by Imperial's advertising department. At the same time, CBC expressed its desire to take over the franchise if Imperial dropped it. In the end Imperial's executive committee agreed to undertake a partnership with McLaren Advertising to retain the franchise. This was just the beginning of regular debates at the senior level of Imperial over the wisdom of the increasingly costly sponsorship. In 1961 Twaits mused about "a possible alternative medium for public contact," noting that much of the company's advertising budget was tied to Hockey Night. Molson took over co-sponsorship in Quebec, and later Imperial secured a partnership with Ford of Canada, but each

time the contract came up for renewal the cost-benefit issue was revisited. In 1976 Imperial relinquished the franchise to its partners.[8]

On a more substantive level, the debate over gasoline marketing focused on the relationship between the company and service station dealers, swinging between centralization and decentralization. In the early years of service station development, the company had relied on wholly owned dealerships, except for the autonomous affiliates like Irving and Supertest, who had their own dealer organizations. By 1948, though, Imperial was exploring a more decentralized model: they offered to support dealers who wanted to be autonomous by underwriting mortgages and providing direct financing with up to ten years' repayment. Dealers were expected to market Esso products and maintain standards of operation but were no longer under Imperial's direction.[9] By the end of the decade, however, the marketing department was touting a different approach.

To some extent, this alternative was based on an accurate analysis of the gasoline market. All of the major companies (and some of the newcomers as well) had pursued similar strategies, locating stations in areas of substantial traffic, but the result was overbuilding and diminishing returns for all the competitors. With full service stations on virtually every corner and crossroads, consumers could pick and choose: ancillary incentives like carwashes and free drinking glasses had at best limited returns.

In this context, Imperial's marketing department took another look at centralization. In 1963 they introduced the concept of market pattern programming, which would treat "a local urban market as one complete integral unit," and would result in "fewer and more strategically located units." Almost inevitably this led to the idea of "automotive service centres" first introduced in Windsor (Ontario) in 1963, that would require higher initial investments to cover the range of services covered, but would allow for the closure of many smaller service stations in "uneconomic" locations.[10]

Predictably, this initiative did not work out as expected. The Windsor project itself exceeded its original estimated cost by more than $100,000 (CAD), and the initial plan for ninety-five service centres was substantially modified. By 1973 Twaits was musing about "whether increasing the number of salaried outlets was the correct response to present conditions." Franchising was raised as the model of the future. Furthermore, the concept of "full service" stations was being called into question.

Inspired by the "self-service gas market" that had originated in Europe in the 1960s Imperial planned to triple the number of stations between 1973 and 1975, and at least half of the future stations were to be "dealer operated." By the end of the decade only 21 per cent of gasoline sales were accounted for by stations under direct company ownership, with dealers contributing one-third of the total, and the remainder covered by the independent agencies.[11]

In fairness, all of the major oil companies in Canada were facing similar challenges. The common threat was from "unbranded" discounters, who thrived from the late 1950s through 1971 as new oil sources came on stream, independent producers and refiners flourished, and crude oil prices fell. In some cases the discounters were companies like Canadian Tire, marketing lower-priced gasoline to attract customers to their chain stores; in other cases they were simply small operators offering a stripped-down model of service: no carwashes, no repair bays, no free glassware, just cheap gas.

In the days of John D. Rockefeller, the appropriate response would have been a ruthless price war until the interlopers had capitulated or been driven out of business. Although Canada's Combines laws were less onerous than the antitrust measures periodically invoked in the United States, large companies had to avoid charges of predatory pricing, and, even trickier, collusion with others to suppress competition. Both provincial and federal authorities were apt to show up when a "price war" broke out.

One strategy pursued by Imperial and the other oil majors was to temporarily drop prices in a local or regional market against discounters. The aim was not to drive them out of business but to "discipline" them (not a term used by Imperial) to accept what the majors regarded as a "normal" range within which all competitors could operate with reasonable margins. Of course the larger companies had the resources to outlast small discounters if necessary. To ensure that their dealers followed the strategy, the majors would subsidize them on a short-term basis to ensure their profit margins. An alternative to temporary subsidies was the practice of longer-term supply consignments to dealers; but although the practice gave the company more flexibility in changing price levels when required, Imperial was not happy with the fact that consignments tied them to a fixed rate of supply.[12]

Price wars were not entirely random: they were apt to erupt in the wake of a significant reduction in crude oil prices, strengthening the leverage of discounters, as for example in 1957 when companies accumulated large inventories in response to the closure of the Suez Canal, and again in the late 1960s when new oil came onto world markets because of discoveries in the North Sea and Libya. They would surface in urban markets such as Toronto and Vancouver and could last a long time: a Toronto price war ran from April to August 1958, and spread to southern Ontario, eventually diminishing when Combines authorities began investigating—only to emerge again the following spring.[13]

In 1961, Imperial's Marketing department reported that the discount sector, which accounted for less than 4 per cent of the Ontario market, was projected to grow to 17 per cent by 1965. This was the context in which the ill-fated service centres strategy was unveiled, but other options were also raised that proved more viable. One proposal was to emulate the Canadian Tire model by partnering with chain stores such as Eaton's and Simpsons-Sears, offering retail gasoline and other auto products. This idea was pursued off and on over the next decade: the most ambitious venture was a program to lease equipment and provide gasoline to Eaton's Horizon stores in the early 1970s, but the undertaking was not successful and Horizon stores were phased out by 1978.[14]

The other proposal made in 1961 envisioned the creation of a "second brand" of low-priced retail gasoline that could challenge the discounters on a sustained basis; and this proved to be the most enduring legacy of the era of "price wars." Over the next ten years Imperial established a three-tiered gasoline marketing strategy. The first tier embraced higher priced gas sold at full service stations; a second tier was set up to compete with Canadian Tire discounts, carrying an "Econo" brand in Ontario and "Relais" in Quebec. A third deep discount tier carried a brand named "Gain" and was aimed at the small-scale discounter, with a similarly streamlined operation. This structure converged with the move toward "self serve" gas bars later in the 1970s.[15]

Once in a while, the marketing department would take a look at the service station dealers, those who had to endure these frequent shifts in direction. They were a disparate group—some were Imperial employees, others quasi-independent business people with varying degrees of reliance

on the company as a supplier. There were also those who held loan guarantees from Imperial, and dealers in a completely arms-length relationship. Consequently, many surveys of their views were not particularly revealing: dealers wanted to be treated with respect, or wanted a say in the local implementation of company policies, and so forth. But one report, from a survey conducted at the end of the 1950s, in the midst of the price wars, provided interesting insights. The survey also reflected the end point of a period of decentralization of Imperial's relationship with its dealers.

One feature that stood out was that the dealers, at that time, placed greater emphasis on their auto repair and service activities, and resented efforts by the company to promote gasoline sales—particularly when extra hours were imposed or frequent price changes were required. They recognized that there were too many service stations in certain locales and insufficient services elsewhere, for which they tended to blame—rightly or wrongly—company policies rather than municipal restrictions or other factors. Surveys tend to bring out the critics but the dealers also appreciated the fact that the Esso brand and the size of the company provided stability even in volatile markets. Imperial was always wary of allowing their dealers to join wider dealers' associations, in part because this would bring them into contact with discounters. But on the whole the Esso dealers were loyal to the company, if not necessarily to the company emissaries they encountered.[16]

Red Tape

From its earliest years, Imperial Oil had been interacting with governments at virtually every level: refiners in London (Ontario) contended with municipal authorities concerned over the fire hazards and pollution emitted by their activities. The company's leaders lobbied politicians in Ottawa for protective duties under the National Policy. Imperial's managers in South America confronted unfamiliar legal systems and, sometimes, hostile political regimes. In western Canada, the company had to adapt to changing regulations imposed by the federal, and then by the provincial governments. In the years following the Second World War, however, these interactions were magnified, both in scope and detail, as public authorities assumed a wider range of responsibilities and

powers—while also feuding with one another over issues of jurisdiction. At the provincial level, for Imperial, Alberta remained the most critical player, as so much of the company's newly found resource base was located there, and the province's government laboured to master unfamiliar tasks of regulation, balancing a belief in free enterprise with the demands of a jostling new cohort of multinational businesses and local entrepreneurs. By 1949, with the development of the Redwater oil field, it was clear that a regulatory system developed primarily for a limited number of natural gas producers in the Turner Valley needed to be revised. The Social Credit regime under Ernest Manning, with Nathan Tanner continuing as the government's point man on energy matters, was pro-business and pro-development but also wanted to protect the province's natural resources and provide opportunities for Albertans to reap the greatest benefit from their carbon riches.[17]

A first step in this direction was the "checkerboarding" of leases on the Woodbend and Redwater fields. Despite this measure, by 1949, with the federal Pipe Line Act opening the way to the exporting of oil (and eventually gas) out of the province, and the appearance of new major players including Socony-Vacuum, Socal (Chevron), and Shell, the smaller independents once again feared displacement from the New Golconda. The revised Oil and Gas Resources Conservation Act expanded the goals of the legislation beyond "conservation . . . to prevent waste," and to encompass the aim of giving "each owner [of a lease] the opportunity of obtaining his [sic] just and equitable share of any pool [reservoir]."[18]

The devil was in the details. The Imperial position as presented to the Alberta Oil and Gas Conservation Board (newly rechristened as the Petroleum and Natural Gas Conservation Board) embraced the standard praise for the free enterprise system: "In undertaking a drilling operation, an experienced operator knows he may either find no oil at all, or . . . marginal production, or . . . prolific production. If the operator . . . finds prolific production he [sic] should be afforded the opportunity to produce the prolific wells at much higher rates than other less productive areas," subject to limits on "wasteful" rates.[19]

In practice, Imperial's negotiators, led by Tip Moroney, the conqueror of the Atlantic Number 3 fire, recognized that the overwhelming majority of producers supported some form of prorationing of oil field production

along the lines sought by the government, and undertook to get the best deal that they could from the outcome, which set up an elaborate procedure where the board set calculated rates at which oil could be produced from each "pool" or reservoir without impairing the total amount of oil that could be recovered with secondary recovery methods, such as water flooding, called the Maximum Permissible Rate of Recovery (MPR). Refiners (including Imperial) would provide "nominations" each month, indicating the amount of oil ordered per refinery and determining the actual output of the pools (which up to the 1970s was significantly less than the available supply).

In the first rendition of this process, in December 1950, the Board set a market demand order of 81,855 bbl./day for all participants. Even taking into account checkerboarding and the input of independents, Imperial's share exceeded more than half that total. Nevertheless, Imperial's executive committee lamented the unfairness of the formula and tried to limit the allowable production rate accorded to the Pembina field (in which the company had no investments), fearing the reduction of its own allowables from Leduc and Redwater.[20]

Conditions for Imperial improved in the 1960s: a revised prorationing formula permitted production in fields determined to have good potential development to be increased beyond the basic cost recovery with a fixed return on investment, opening the way for a significant expansion of the company's production allocation. In addition, a new well-spacing arrangement was introduced that reduced the number of wells that could be drilled in a given field, thus enhancing the potential output of the remaining operators. By 1969 Imperial's crude oil and natural gas production from the Alberta fields was running at 179,000 bbl./day, double the amount ten years earlier and quadrupling the 1950 figure.[21]

The gasoline "price wars" that roiled the industry through the late 1950s and 1960s invited scrutiny not only by the federal Combines Act Branch, but also a number of provincial governments. The most serious episode, from the viewpoint of Imperial and the other majors, was the British Columbia "gas probe" in the mid-1960s, instigated by the province's premier, W.A.C. Bennett. Bennett, who ruled—and the term is apt—British Columbia from 1952 to 1972, was committed to the rapid economic development of the hinterland of his province, which was populated by

his supporters. Although Bennett was a businessman and propounded a pro-business agenda, he was fully prepared to use governmental authority to accomplish his aims, including a public takeover of British Columbia's electric power industry in 1961.

Shortly before that dramatic event, Bennett had met with Bill Twaits, at that point the incoming chief executive of Imperial Oil. Imperial of course had a number of assets in the province—including the Ioco refinery, which it had enlarged in 1953, a planned expansion of capacity in Vancouver, and a 50 per cent interest in the Trans Mountain Pipe Line. On this occasion, Bennett indulged in a rant against the export of oil produced in British Columbia "where it is beyond his control," and threatened "discriminatory taxation" and other measures against companies that did not accede to his demands. Although British American Oil rather than Imperial appeared to be the target of his ire, the message was directed at all the big producers and refiners.[22]

Twaits was very different from his predecessors: as chief executives at Imperial, Jack White and George Stewart tended to be low-key in public, preferring behind-the-scenes conflict resolution. Twaits by contrast was outspoken and opinionated, in public and private, traits that seem to have prepared him for the contentious years of the 1960s and 70s. In this situation, however, he appears to have been bemused, and a few weeks later he and the heads of Shell, British American, and Standard of British Columbia met with Bennett to reassure him that BC oil would be processed in the province and the prices would be held at $2.00/bbl. Imperial also took up a 25 per cent participation in the Gas Trunk Line of British Columbia.[23]

If Bennett was placated, it didn't last long. In September 1962, in the midst of a re-election campaign, Bennett announced his intention to set up a Royal Commission to look into "the whole retail gasoline business." Imperial's legal department advised the Executive Committee that Bennett had the authority to take over the gas distribution system in British Columbia just as he had "provincialized" hydro power a few years earlier.[24] Subsequently, the premier of New Brunswick indicated that his government might undertake a "gasoline inquiry," and even Alberta raised the issue of prices at the pump. By the middle of 1963 Imperial's senior management was feeling beleaguered on all sides.[25]

As was often the case with these events, the public hearings of the British Columbia Royal Commission sometimes took on the aura of a circus. A representative of the BC Federation of Labour brought in an Esso "tiger tail" to illustrate his argument that the large oil companies preferred to rely on advertising gimmicks rather than lowering gasoline prices for consumers. Imperial retained the services of a team of economists from the Stanford Research Institute, and the press had a field day contrasting the buttoned-down presentation of the academics with the testimony of "regular folks" from the BC hinterland—notably Cyril Shelford, a rancher from northern British Columbia who purportedly had initiated the entire inquiry by complaining to the premier about the price differentials between his community and consumers in Vancouver. The Stanford group maintained there was no evidence that Imperial and the other oil majors had engaged in "predatory pricing" and that price fluctuations around the province reflected situations of oversupply in some areas, particularly urban areas, and scarcity elsewhere. Ronald Ritchie of Imperial went into detail about the complexities of gasoline pricing, but was dismissed by another witness with the statement "if you can't convince them, confuse them."[26]

Judge Charles W. Morrow, the Royal Commissioner appointed by Bennett, was hampered to some extent by limited funding and staffing: the report did not come out until the spring of 1966. Twaits, who had been increasingly critical of the time and expense Imperial incurred dealing with the inquiry, welcomed the final product. Although Morrow recommended that wholesale and resale operations in the gasoline industry should be separated, he rejected the idea of a single province-wide price for gasoline and opposed the idea of establishing price controls based exclusively on costs—an issue that would roil government relations with the industry over the next decade.[27]

Imperial Oil was a federally chartered corporation, and over the years it had maintained a generally positive relationship with the government in Ottawa—in part because the company had endeavoured to keep on good terms with political leaders of the major parties, as well as key figures in the bureaucracy, but also because officials, particularly during and after the Second World War, regarded Imperial as a valuable contributor to the economic (and military) strength of the country. This relationship began to deteriorate in the 1960s and 1970s, not because the company

had changed, but because politicians and bureaucrats reinterpreted their range of responsibilities to embrace social and environmental agendas that extended beyond the traditional goals of economic development and balancing regional interests and antagonisms. The days when an Imperial executive could arrange to have some obstacle removed by placing a call to C.D. Howe were (almost) over.

Howe himself was an early victim of the changing political environment. By 1956 there were divisions, even within the governing Liberal party, over Howe's policies. In particular there were skirmishes related to the issue of direct US investment in Canada, with the oil and gas industry once again featured: a Liberal Toronto businessman, Walter Gordon, chaired a Royal Commission on Canada's Economic Prospects that lamented foreign control of Canada's petroleum and proposed that the government require a 25 per cent equity share for Canadians in all companies operating in the country. The opposition parties were even more vocal on the subject, and exploited a controversy over a proposed natural gas pipeline from Alberta to Ontario to fan the flames in advance of an anticipated federal election.

The Trans Canada Pipeline Co. had been set up in 1954 by a consortium of Canadian and US investors, including Clint Murchison, a prominent Texas independent oilman, after the Alberta Oil and Gas Conservation Board approved the export of surplus gas from the province. Unlike the Interprovincial Pipe Line, however, Canada's Board of Trade Commissioners (and Howe) insisted that the line follow an "all Canadian" route through Port Arthur to Toronto. There were technical and political factors involved: oil from the west could be trans-shipped to northern Ontario by lake tankers, whereas natural gas had to be carried to its final destination by pipeline. And Howe was anxious not to disappoint his constituents this time around. Since Trans-Canada needed exports to meet its financial goals, however, the company would be allowed to build a separate line to export gas to Minnesota.[28]

For a variety of reasons, including the reluctance of financial institutions to support the project as well as opposition by US-based gas providers to this new competitor, Trans Canada turned to the federal government to underwrite an $80 million (CAD) loan. When Howe presented the proposal in Parliament, however, opposition parties engaged in a filibuster

to delay approval. The government invoked closure, which exacerbated political tensions as Prime Minister Saint Laurent and Howe were charged with seeking to undermine parliamentary rule and selling out the country to foreign interests. In the ensuing election in 1957, the Liberals were defeated for the first time in more than twenty years; Howe lost his own seat in the debacle.[29]

The new prime minister, John Diefenbaker, was a Progressive Conservative from Saskatchewan, regarded as a kind of populist in contrast to the Bay Street businessmen and lawyers who traditionally had dominated the party. As a western Canadian, he was expected to support the interests of the region's oil and gas entrepreneurs as well as Prairie farmers. One of Diefenbaker's first initiatives was to establish a Royal Commission on Energy; it would look into potential wrongdoing by the former government in promoting the Trans-Canada Pipeline, but was also mandated to take a broader view of the longer-term prospects for development of Canada's petroleum industry. The chairman of the Commission was not, however, a westerner, but Henry Borden, a full-fledged member of the Tory establishment. He was also a nephew of former prime minister Robert Borden, Toronto corporate lawyer, and head of Brazilian Light & Traction, one of Canada's largest overseas companies.

Two big issues loomed over the proceedings of the Royal Commission. First was the demand, by western independent oil producers, for an oil pipeline from Edmonton to Montreal, which had the backing of Alberta's premier, Ernest Manning. The second, and related, issue was more vexing: the establishment by the US government of oil import quotas, responding to pressure from that country's own independent petroleum producers. The Borden Commission and the Canadian government had to devote much of its attention to trying to resolve these interconnected matters over the next four years.

1957 was not a propitious year for Alberta's oil producers. During the Suez Crisis the previous year, allowable production had increased by 15 per cent but then subsided to pre-crisis levels. Refiners had large inventories and the North American economy was lurching into its first major recession since the Second World War. The independent drilling companies in particular were operating well below capacity and were seeking new markets; an Edmonton-to-Montreal oil pipeline seemed an obvious solution,

as it would parallel the Trans Canada gas pipeline to eastern Canada and reduce the need for prorationing. A leading figure in this movement was Robert A. Brown Jr., head of Home Oil: his father had been co-producer of the pre-war Turner Valley Royalties, and "Bobby" Brown had parlayed the acquisition of Imperial's (and Royalite's) Turner Valley wells after Leduc into a large and diverse empire of wildcat drilling operations. These drilling operations were heavily leveraged, so Brown was anxious to find markets outside the province. The proposed 30-inch pipeline would have an initial capacity of 200,000 bbl./day upon completion in 1960, rising to over 300,000 bbl./day by the middle of the decade.[30]

Premier Manning initially supported the Montreal pipeline idea, although his main goal was to promote production and exports regardless of the destination. Imperial and the other oil majors, however, were resolutely opposed. As executive vice president of Imperial, Twaits—meeting with Manning in December 1957—argued that the problems for Alberta's oil producers related to international factors: the general economic downturn, excess inventories, and the advent of oil supertankers that could carry large cargoes of oil from overseas to North America. A pipeline from Edmonton to Montreal would cost more than $200 million (CAD) and would require firm long-term commitments from refiners in eastern Canada (which of course included Imperial). He took the view that the best solution for Alberta lay in enlarged refinery capacity in Ontario, already served by Interprovincial, and lobbying for export markets in the United States.

These were arguments that would be reiterated by Imperial's president Jack White before the Borden Commission several months later. But Imperial Oil was not the only critic of the Montreal pipeline: the final report of the Gordon Commission, released in December 1957, noted that Canadian consumers were paying "up to 50 per cent more for their energy than consumers in the United States," and covering the capital and transportation costs of the proposed pipeline would require even higher prices, exacerbating the difference. A report prepared by Walter Levy, an economic consultant retained by the Canadian Petroleum Association, concluded that constructing a Montreal pipeline would require government subsidies for the project and the imposition of restrictions on oil imports to eastern Canada.[31]

The alternative was to increase exports of Alberta's oil to the United States, particularly to the American west coast and the Midwestern states, where transportation costs would be lower. Imperial argued that, although currently US refinery inventories were at or near capacity, in the longer term the country was becoming a net importer of oil and the US government would recognize that Canadian crude was a "safe" source in terms of national security, in contrast to imports from the turbulent regions of the Middle East and South America.[32]

At this point, however, there was a significant impediment to expanding Canadian oil exports to the US Since the early 1950s independent oil producers in the American Southwest had been lobbying for protection against cheap oil imports from Venezuela, the Middle East, and elsewhere, and had secured support from the powerful Southern Democrats in the US Congress. President Eisenhower, a Republican, had resisted these pressures for a time, but in 1955 he had agreed to establish a Voluntary Oil Import Program. Canada and Venezuela had initially been exempted, but this exemption was removed when the program acquired a more formal structure in 1957.

In March 1959, the US government moved on to establish a Mandatory Oil Import Program, which initially provided no exemptions, and was applied most forcefully to regions east of the Rocky Mountains, with imports limited to 8 per cent of demand. On the west coast, the limits were less onerous and Canada retained one-third of the quota. Nevertheless, the measure was a serious setback for advocates of Alberta exports to the US, and strengthened the arguments for the Montreal pipeline. Inevitably the issue became entangled in the deliberations of the Borden Commission and Canadian-US diplomacy.[33]

As a western Canadian Prime Minister Diefenbaker might have been expected to support the Montreal pipeline, but his attitude appears to have been ambivalent—in part because of the cost of the project, which was likely to require government loan guarantees if not equity participation. These were precisely the features that Conservatives had criticized in the Trans-Canada Pipeline case. In addition, it was clear that the major refiners in Montreal, with ties to the oil majors, were reluctant to buy western Canadian crude, which would be more expensive than imported oil, unless compelled to do so through government regulation, which Conservatives

also opposed. There was also no indication that the Montreal pipeline was supported in Quebec: none of the members of Parliament from that province had even raised the subject.[34]

On the other hand, Diefenbaker wanted to help the Alberta oil producers, and the best way to do so was to use diplomatic influence to open up the US markets by getting the exemption reinstated. After the initial exemption was cancelled he had devoted time in personal meetings with President Eisenhower to press this case, citing national security reasons in particular. These efforts appear to have been effective: less than two months after the announcement of the Mandatory Oil Import Program, an "exception" was made for "overland" oil shipped by pipeline or rail. This exception would apply to Mexico as well, but it was primarily intended to benefit Canada. Canadian oil exports doubled in volume between 1959 and 1961.[35]

In its first report in October 1958 the Borden Commission dodged the Montreal Pipeline issue, but recommended the establishment of a National Energy Board to provide a coordinated approach to the regulation of all energy matters as well as oil and gas transportation, imports and exports. The second report was issued in July 1959, by which time the Canadian exemption to the US import control program had gone into effect. Not surprisingly, the commission recommended an export push and the shelving of the Montreal pipeline unless Canadian production and exports continued to stagnate.

In February 1961 the federal government unveiled its National Oil Policy and the Montreal Pipeline was indefinitely postponed. Canada east of the Ottawa Valley would be supplied by imported oil. The rest of Canada, including most of Ontario, would be supplied by oil from western Canada, whose producers would also be encouraged to export to its "natural" market in the Midwestern United States. This policy remained more or less in effect until 1973. On the whole, all interested parties appeared satisfied: consumers in eastern Canada continued to have access to less costly oil; western producers had access to the Ontario market as well as the US export market—Manning's Social Credit party continued in power for another twelve years. The oil majors retained their hold on eastern Canadian markets.[36]

During the energy crises of the 1970s, when oil prices spiked for consumers in eastern and central Canada, and tankers bound for the Canadian east coast were rerouted to meet surging demands in the US market, the issues that loomed during debates in the 1950s over national oil pipelines and "continental" energy policies regained saliency. Imperial Oil and other affiliates of the petroleum multinationals were assailed for blocking the Montreal pipeline at the behest of their corporate masters; the parent companies, particularly Jersey Standard, were accused of exercising influence over US and Canadian foreign policies to foster a "continentalist" approach to energy resource development—to the detriment of Canadian national interests.[37]

Imperial Oil did indeed have a long-term supply contract in the 1950s with another Jersey Standard affiliate, Creole Petroleum in Venezuela, and the Canadian market absorbed 10 per cent of that company's production in 1958. The company and the country both had a turbulent history. In the aftermath of the Second World War, a civilian regime under Romulo Betancourt had negotiated the first fifty-fifty profit-sharing agreement with Jersey Standard, a pattern followed by other concessionary countries including Saudi Arabia. In 1948, the government had fallen to a military coup, which dominated the country for ten years until another revolution toppled the regime of Marcos Perez-Jiminez. Betancourt and his energy minister, Juan Perez Alfonso, returned to power and the multinationals feared increased taxes on foreign oil concessions, and potentially the nationalization of the industry. Both the US government and Jersey Standard hoped to head off this outcome by providing stability for Venezuela's exports. Since Venezuela also lost its exemption from the US Mandatory Oil Import Program, both parties sought to ensure that the Canadian market remained accessible.[38]

This was not, of course, the argument Imperial presented to the Borden Commission, but in any case the cost of Venezuelan crude was lower than that of western Canadian oil shipped to Montreal. In the lead-up to the National Oil Policy, however, there were diplomatic trade-offs that reflected what might be called converging corporate and national interests. By the time the National Oil Policy was under consideration in Ottawa, there was a new Democratic administration in Washington that was less likely than its predecessor to respond to pressures from

Jersey Standard and the oil majors. But throughout 1959 and 1960, US State Department representatives—in conversations with their Canadian counterparts—had made it clear that their government was unlikely to extend an exemption to the Mandatory Oil Import quotas for Venezuela, but nevertheless hoped to maintain stable relations with that country. This was not exactly an outright demand that Canada shelve its commitment to the Montreal pipeline as a *quid pro quo* for retaining its exemption, thus ensuring Venezuelan access to eastern Canada—but the underlying message was clear enough.[39]

Through a judicious mix of public presentations and behind-the-scenes manoeuvring, Imperial and the other oil majors in Canada had been able to contain the threat of a Montreal pipeline in 1957–61—although the issue would resurface repeatedly: in 1969, again during the energy crises of the 1970s, and as late as 2015, in the form of debates over extending an oil pipeline through Quebec to Atlantic Canada. During the next decade, however, the entire industry—oil majors and independents—faced a new challenge to a much-treasured tax benefit: the depletion allowance. During the 1920s when the federal government controlled most of the subsoil leases in western Canada, provision had been made for a 25 per cent tax deduction for costs associated with exploration for oil and gas. An additional and even better benefit was introduced by the federal government during the Second World War.

In the United States unwarranted fears of the imminent disappearance of new oil fields had led to the establishment of a "depletion allowance" that would permit oil producers to deduct up to 27.5 per cent of earnings from sales of oil from their taxable income: this was a kind of "depreciation in advance," since the actual decline in value of the resource being exploited was hard to calculate at the time of discovery. This deduction first appeared in American tax laws during the First World War, but was enshrined in semi-permanent (to 1975) form by the US Congress in 1926. In Canada an even more generous rate of 33.3 per cent was put into effect in 1944 by the Dominion War Exchange Conservation Act, which was applied to mining as well as petroleum enterprises, and was supplementary to the exploration tax credits already in effect. Imperial Oil's vigorous oil drilling efforts from 1942, culminating in the Leduc discovery, were stimulated at least in part by these benefits. Imperial reported that

it had spent $8.4 million (CAD) on drilling in the period between 1942 and 1947, offset by $4 million (CAD) in tax relief from a combination of exploration and depletion allowance credits.[40] The 1949 Income Tax Law retained these provisions, which applied to all Canadian petroleum (and mining) companies and contributed to dramatic growth in these sectors in the 1950s.

By the middle of the decade oil producers were adopting a somewhat more jaundiced view of the tax benefits provided by the Canadian government. In 1953 Twaits urged the Finance Department in Ottawa to look at US tax incentives, arguing that "oil and gas industries receive more generous treatment under the US than under Canadian law." A few years later the Canadian Petroleum Association, which represented independents as well as the oil majors, recommended a revision of the depletion rules in place to replace what Carl Nickle, an influential Alberta spokesman for the industry, described as "a largely ineffective and unobtainable depletion allowance."[41]

In 1955 Home Oil filed an appeal to the Supreme Court of Canada for recovery of income taxes paid in 1949–50, which the company argued was based on a misapplication of the depletion allowance formula. Bobby Brown had acquired Home Oil in 1953 and was looking for any possible revenue source to offset the company's debt. Lawyers for Home Oil maintained that the depletion calculation should be applied against the profits of individual wells, including those operating at a loss, which the Revenue Department had set aside. The Exchequer Court had upheld the government position, but the Supreme Court overruled that decision, awarding not only Home Oil but also other oil producers an additional allowance that returned $2 million (CAD) to the companies.[42]

Imperial Oil decided to try extending the tax windfall to the years 1951–53, when it was operating a large number of wells, productive and otherwise, that could net a rebate of up to $13 million (CAD). Needless to say, other companies followed the proceedings, which could award the industry more than $60 million (CAD). In the course of their presentation, Imperial's lawyers reiterated the argument that "present regulations discriminate against producers engaged in extensive exploration and gives an advantage to US companies exploring in Canada," an interesting perspective from the largest US-owned enterprise in the Canadian oil

industry—of course Imperial as a Canadian chartered company operated under the tax laws of that country.

The Supreme Court in this case, however, did not accept Home Oil as a precedent. The ruling read by Chief Justice Kerwin asserted that a change in tax regulations in 1951 required companies to offset losses from non-productive wells against profits from its aggregate production in calculating the depletion allowance, so the circumstances were different. Three of the seven justices dissented from this interpretation, arguing that computations should still be based on the performance of individual wells. Nevertheless the court reduced the anticipated windfall to $790,067 (CAD).[43]

Imperial did not give up its quest for tax reductions. In 1962 the company, acting on the advice of Lazarus Phillips, Canada's leading tax lawyer, undertook a major internal reorganization. A new company, Imperial Oil Enterprises Ltd., would be established to take over the assets of the manufacturing department (refineries), chemical products, and exploration operations, while Imperial Oil Ltd. would continue to include production (operating wells), marketing, transportation, and other activities. In addition to exploration, the new entity processed crude oil on a fee-for-service basis. Imperial Oil Enterprises was incorporated under the federal charter that had been given to the Saint Clair Processing Corporation during the Second World War and headquartered in Sarnia. Phillips maintained that this change in structure would reduce Imperial Oil's tax liability by $4.5 million (CAD) per year.[44]

In a manner reminiscent of the good old days when Victor Ross and William Hanna would go to Ottawa to cut deals with this or that cabinet minister, Phillips and other representatives of Imperial met with the Deputy Minister of National Revenue and the Deputy Minister of Finance to ensure that they accepted the proposed reorganization. The Deputy Minister of Finance was quoted as saying, "Why would [we] discriminate against one taxpayer who was endeavouring to get itself into the same competitive position as others in the industry?"[45] This kind of reorganization that separated "upstream" and "downstream" operations would be followed by other oil companies in the coming years, sometimes leading to results that may not have been originally intended, including the closure of less profitable refineries. In 1968, Imperial decided to consolidate its

western refineries into a large new one, Strathcona, located in Edmonton, selling or closing its operations in Winnipeg, Regina, and Calgary.[46]

By 1962 Diefenbaker's Progressive Conservative regime was on its last legs. In an effort to rekindle the spirit of change that the party had promised five years earlier, the government unveiled a platform that included establishing a Royal Commission on Taxation that would make the system more efficient and address inequities. This was a fairly esoteric subject to the public generally, but business interests had been clamouring for an overhaul of the tax code: in the United States tax cuts for business had boosted a recovery while the Canadian economy remained in the doldrums. Kenneth Carter, who was appointed to head the commission, was a Toronto accountant of impeccable credentials, a former head of the Canadian Tax Foundation, acceptable to the major political parties. When Diefenbaker went down to defeat in 1963, the Royal Commission continued its arcane deliberations with the approval of the Liberals.

The oil and gas industry in Canada demonstrated unusual unity in its presentations to the Carter Commission in 1963. British-American Oil Co. president Ed Loughney argued for more liberal depletion allowances to "spur future exploration." A group of independent oil producers echoed this call, urging that the depletion allowance be applied to gross rather than net profits, to bring it into line with the US tax laws. Twaits, speaking for Imperial Oil, urged Canada to become a "tax haven," by reducing or eliminating corporate taxes and moving away from the concept of progressive income taxes, which discouraged "capital generation and retention of skills." He also pointed out that the oil and gas industry paid hefty royalties and other taxes to provincial governments that should be taken into account in assessing federal tax levels.[47]

Like Saint Paul on the road to Damascus, Kenneth Carter and two of his five other colleagues on the commission were converted to the gospel of tax reform during the four-year process of completing the report. When it was released in February 1967 in six volumes, it recommended (among many other things) that Canada should introduce a capital gains tax, and that the multitude of special tax arrangements should be winnowed away, including the depletion allowance.

The Carter report rejected the argument that companies in the extractive industries needed the allowance to offset the reluctance of Canadian

investors to support these "high risk" undertakings: this was particularly the case for the large companies that could "raise capital in the market at costs that are no higher than those incurred by corporations of comparable size in other industries," although the report acknowledged that smaller mining and petroleum companies encountered more obstacles in raising necessary capital. Similarly, the report dismissed the argument that Canadian companies in these industries were at a disadvantage in competition with US companies that benefited from the American depletion allowances. It pointed out that those foreign-owned corporations would have to pay the 15 per cent non-resident withholding tax. The alternative the commission proposed, which involved a rapid write-off of initial costs for all corporations, would—the report maintained—improve the after-tax cash flow for smaller petroleum companies. Nevertheless it acknowledged that this would not offset the loss of benefits the larger firms enjoyed under the existing depletion allowance.[48]

Predictably, the Carter Commission report aroused the ire of the large mining and petroleum companies that, according to that report, accounted for 85 per cent of the benefits provided under the depletion allowances. The Mining Association of Canada denounced the proposals, arguing that the depletion allowances "have been devised over many years by consultation between industry and taxing authorities." Twaits, speaking at the Imperial Oil annual general meeting on April 19, 1967, castigated the members of the commission for their ignorance of the way companies had to operate in the extractive industries and maintained that the commission's alternative "would drive Canadian investment funds into the purchase of mature, dividend-paying stocks and away from growth enterprises." He asserted that "the petroleum industry is probably the most heavily taxed in this country . . . Yet, in the public eye, as a result of the commission's report, we are represented as not paying our share of taxes."[49]

The federal government, now again under the Liberals, quailed before this onslaught. In May 1967, Finance Minister Mitchell Sharp assured the mining industry that the three-year tax holiday for new mines, which the Carter Commission recommended eliminating, would be maintained for at least seven years. Subsequently he promised to provide a "White Paper" that would deal with the Royal Commission's recommendations, but this was delayed throughout the year on the grounds that the government

needed to assess all the briefs submitted by critics of the report. Even Carter backed off somewhat, saying that not every proposal needed to be enacted, although he insisted that certain features, including the capital gains tax, were essential to the reform program the commission had presented. In December Sharp indicated that he was "opting for reform of the existing system rather than adoption of a completely different system," citing "uncertainty" about the impact of the Carter proposals on "international capital flows . . . and regional development."[50]

In 1968, the Liberal leadership changed hands and Pierre Trudeau led the rejuvenated party to victory. Tax reform was not a major issue in the election. But Edgar Benson, Sharp's successor as Finance Minister, promised to produce the long-awaited White Paper on the subject. It was finally released in November 1969. Business leaders, particularly in the extractive industries, were inclined to be suspicious of Benson who, as Minister of National Revenue, had been a zealous enforcer of regulations on tax avoidance.

In his first budget, in December 1968, Benson vowed to close "loopholes" in the depletion allowance rules, in particular where "companies can obtain greater benefits than were intended by having one subsidiary carry on production activities and another exploration and development activities. This allows the production company to obtain greater depletion allowances . . . by not having to subtract exploration and development expenses," which "can then be deducted from the profits in another part of the parent company's operations." This proposal targeted the kind of reorganization Lazarus Phillips had orchestrated with Imperial six years earlier. In 1969 Twaits complained that this measure would reduce Imperial Oil's profits by $2 million (CAD).[51]

Despite this inauspicious inaugural event, the White Paper proposals in 1969 were less onerous than the industry expected. In the overture to the White Paper, the government compared exploration and development in the mining and petroleum industry with scientific research in other fields and thus "warrant[ed] some special public support," although not as "generous" as in the past. Specifically, the proposals would retain the depletion allowance "if firms 'earned' the rights to the allowance by capital expenditures of $3 for every $1 of depletion allowance claimed. In

addition, sales of properties that had benefitted from the depletion allowance would be subject to the new capital gains tax.[52]

Although the outcry was somewhat less strident than the response to the Carter Commission, the industry was only partially mollified. Imperial Oil's presentation to the Canadian Senate banking committee reiterated the call for a "depletion allowance . . . competitive with the United States rate;" Imperial also objected that the $3 capital expenditure for $1 of depletion allowance would "penalize all those who spent less than 150 per cent of their net profits on exploration." In particular Twaits concluded that if the new formula came into effect, it would have to suspend ongoing projects in the Athabasca and Cold Lake oil sands.[53]

Despite the arguments presented by Imperial and others, many of the features of the White Paper appeared in legislation brought forward by the government in 1971, but the implementation was to be delayed until 1976. By that time, however, the climate had changed—in the wake of the energy crisis of 1973–74, the search for "frontier oil" and the development of "unconventional" sources in the oil sands and elsewhere became a preoccupation of governments at both the federal and provincial levels, even as they fought one another over sharing the royalties from the new oil boom. In place of the Carter Commission-era proposals to eliminate or limit the depletion allowances, by the mid-1970s a new era of "superdepletion" incentives had dawned—at least for a time.