

East and West:  
Outsiders and the Western Canadian Petroleum Industry

By David Finch – Historian

On May 9, 2008 when I presented this paper to the 150<sup>th</sup> Anniversary celebrations of the discovery of oil in North America, the **price of oil** had just set a new all-time record of \$125 per barrel. It went on to \$130 on May 21, 2008, \$135 on May 22, 2008, \$140 on June 26, 2008 and \$145 on July 3, 2008. On July 11, 2008, oil prices rose to a new record of \$147.27. Today it's less than \$40. In 1986, as many of you remember, oil fell to \$10 per barrel – or about \$17 adjusted for inflation to 2009. BUT, **adjusted for inflation**, the **average** price of oil over the last 60 years is **\$35**.

**Context is everything...**

I believe that the more we understand the big picture, the less we are inclined to be taken with the faddish thinking of the little picture – today's price of oil or gas, the prognostications of “experts” that try to predict the future...

**An enduring myth permeates the Canadian oil patch – eastern Canadians hate the West.** Though this theme serves a purpose – like when Westerners want to blame the international economic downturn of the 1980s on Ottawa's infamous National Energy Program – WHO DO WE BLAME TODAY? – the fact remains that numerous central Canadian petroleum industry pioneers, and some foreigners including key Americans and Frenchmen, migrated west to Alberta in the early 1900s and helped develop an industry that became pivotal to Canada's self-sufficiency in oil, natural gas and bitumen.

This paper reviews the careers of important individuals who helped find, develop and sustain the Western Canadian oil industry and explains how this relationship between the regions has contributed to the vitality of the Canadian oil patch.

### **The Problem – added for Ontario and US listeners...**

Recently it has become apparent that **Edmonton and Alberta is to Ottawa as Caracas and Venezuela are to Washington DC** – or at least that is the perception that is often experienced in Canada.

Imagine, for example, a scenario where Americans citizens moved to Venezuela and created an oil industry using their own financial resources when the markets at home and in Europe refused to invest in their highly speculative ventures. Then after these expats found oil, they made themselves into a cartel of one and used their power to fight against the perceived, and real, injustices perpetrated on them by the colonial power in Washington D.C.

Though this story closely resembles the Venezuelan oil development process – where oil was discovered in 1914 on the shores of Lake Maracaibo, and Venezuelans went on to become a founding member of OPEC – it is also the same sequence of events that landed us in the current situation in Canada. Oil was discovered in 1914 at Turner Valley near Calgary and there has been animosity, tension and stress in the relationship between the producer – Alberta, and the consumer – central Canada as represented by Ottawa.

**In spite of this sometimes antagonistic relationship** and the fact that Alberta and Ottawa have differed over programs, policies, taxes, royalties, export agreements, pipelines, regulatory agencies, international trade and many other aspects of the resource development process, the history of the Canadian petroleum industry shows **that central Canadians – and some Americans and French people too – have been deeply involved in the development of the western Canadian oil patch to the benefit of all parts of the country.** Even though the relationship is often strained, it has functioned well enough to be of mutual benefit to all parts of the country.

## **Explorers**

The first central agents to affect the development of the Canadian West had to come from somewhere, and many of these explorers came from central Canada. They came in the tradition of the fur traders who chased the beaver across the continent, intent on securing raw material for expense hats for people in the old country.

But the **Geological Survey of Canada** sent its surveyors west to find scout out the mineral resources that could be exploited to enrich Ontario and Quebec. In **1875 John Macoun** of the GSC looked into the future as he wrote in his diary on the shores of the Athabasca River, *“Long after the noises [of camp] ceased I lay and thought of the not far-distant future when other sounds than those would wake up the silent forest; when the white man would be busy, with his ready instrument stream, raising the untold wealth which lies buried beneath the surface, and converting the present desolation into a bustling mart of trade.”*

The very future of the petroleum industry in Canada today rests on the successful development of the bitumen he and others noticed along the shores of that northern river.

Many others fit into this category including **Alexander Mackenzie, David Thompson** – you can name many more and their stories all show the numerous ways the questing types contributed to the West.

## **Developers**

Eastern developers also got into the game early and the expansion of the conventional oil industry is full of the names of people who assisted with the development of the independent oil industry in Alberta before the invasion of the major oil companies after the discovery of oil at Leduc in 1947.

For example, **Archie Dingman** was the driller in charge of the Calgary Petroleum Products well that discovered oil at Turner Valley in 1914 and drew the attention of the North American oil industry to Alberta.

Born in **Ontario**, he learned drilling in the **Pennsylvania** oilfields before moving west. In the early 1900s he drilled successful natural gas wells in Edmonton and Calgary, provided energy for the Calgary Brewing and Malting Company's operations. He also formed the Calgary Natural Gas Company.

In **1930** he commented that he was “**confident that a great future awaits the oil industry in Alberta, and that Turner Valley is just one of the many structures in which large quantities of oil would be found.**”

Dingman then formed the **Highwood Petroleum Company** and drilled a successful oil well in the south end of Turner Valley in the late 1930s.

Another practical visionary in Alberta was Ontario-born **Sam Coultis**. With a pharmaceutical chemistry degree, Coultis began work for the Southern Alberta Oil Company in Turner Valley in **1917**. He built a small refinery for processing liquids from the company's two gas wells. He became superintendent of Royalite Oil – an Imperial Oil subsidiary – in **1920** and played a key role after the discovery of sour gas at the **Royalite No. 4 well in 1924**.

His **chemistry background** allowed him to create a series of ingenious systems for scrubbing hydrogen sulfide from the natural gas so that it could be piped to customers in Calgary. Beginning in 1925, a soda ash solution trickled down over a trellis of redwood grids in steel towers, absorbing the hydrogen sulfide. Operating at 300 p.s.i., double the pressure of any other plant at the time, the soda ash then went through actifiers where heat released the H<sub>2</sub>S from the solution and the soda ash went back to scrub more gas. The plant scrubbed 97 per cent of the hydrogen sulfide from 45 million cubic feet of gas per day, easily making it the largest gas scrubbing plant in the world. The full story of his accomplishments is told at the Turner Valley Gas Plant Historic Site.

In 1938, Coultis became president of the public utility, Valley Pipe Line Company and in 1949 moved to Edmonton where he finished his career as general manager for Imperial Pipe Line Company before moving back to Calgary in his retirement.

## **Investors**

**James Lougheed** was one of Calgary's first lawyers and as a result of his successful investment in real estate and the oil industry he also became quite wealthy. Born in Ontario, he quickly became a fierce defender of his adopted West.

When the Reverend Leonard Gaetz, a Tory in the Red Deer district, supported his appointment to the Senate in October 1889, he wrote: **“Mr. Lougheed is incomparably the best name we can offer. He is a gentleman of culture, ability & position with thorough knowledge of and faith in Alberta, a Conservative of the Conservatives, a good address, and will make I believe a first class representative.”** (DCBO)

Senator Lougheed took on all comers in his defense of the West and in the early 1920s **lobbied hard to keep Imperial Oil out of the North so as to “the octopus” – Standard Oil of New Jersey – from taking control over the resources of the Mackenzie Valley.** That struggle continues.

No wonder his grandson, Peter Lougheed, was called a “red Tory” and a “blue-eyed sheik” by his detractors. But the Lougheed line goes back to Ontario.

None of these ventures would have been possible without other investors. An early believer in the Alberta oil patch was Calgary lawyer **R.B. Bennett** who also became the first prime minister from the West. He invested in Bill Herron's Calgary Petroleum Products, the company that found oil at Turner Valley in 1914 and became a wealthy man. In his first speech as a “red” Tory in Ottawa in 1911 he said, **“The great struggle of the future will be between human rights and property interests: and it is the duty and the function of government to provide that there shall be no undue regard for the latter that limits or lessens the other.”**

As prime minister Bennett implemented many programs in a vain attempt to pull Canada out of the Depression of the early 1930s and he also claimed to have given the **equivalent of \$35 million (in 2008 currency) of his own fortune to the poor between 1927 and 1937.**

In spite of his vision and philanthropy his name is often associated with **the “Bennett buggy”** and the Depression.

## **Big Dreamers**

Sun Oil, of course, did not get its start in central Canada, but south of the boarder. It's visionaries, however, deserve mention and respect for it is through today's **Suncor** that a much bigger and bolder plan than conventional oil came to life.

**In the 1940s J. Howard Pew – Sun's chairman – was already concerned about the eventual decline of conventional oil production in America so he sent an envoy to Canada to check into the oil sands.**

In 1948 Ned Gilbert – Sun's only employee in Alberta – recommended a core-hole drilling program to test the oil sands in Alberta. Results were poor so in 1951 the company decided to drop its Canadian land.

Ned argued for staying the course. "It was a wonder I did not get fired on the spot for recommending things that my management were not approving."

For a time the company called one piece of its land holdings "Gilbert's Folly" though it later turned out to contain a lot of oil – today it's called Firebag.

**But it took until 1967 for Sun Oil to get the Great Canadian Oil Sands plant built and producing oil.**

And it took even longer for GCOS to make money – **by the end of 1978 it had lost more than \$23 million. J. Howard Pew died in 1971**, not living long enough to see his great gamble turn a profit.

The oil sands are making money today, but back when the price of oil was \$4 per barrel, it was tough slogging.

**"I am convinced this venture will succeed,"** he said.

Many others fit into this category too, but none were larger on the western landscape than the men and companies that dreamed of turning the bitumen into oil.

**Schlumberger's story** is another example and it the story of its operations in Canada that is one of my current projects. Socialists from France, the Schlumberger brothers expanded their company beyond Europe into North America in the 1920s.

The history of this international company shows that it has been mostly profitable, even when others have been losing money in the downturns. From time to time they have had to lay people off too – after 51% increase and huge staffing buildup, that was inevitable – but it always kept investing in research and development. It has been visionary in other ways too, including the early use of seat belts in vehicles and the fact that it has had a policy for many years of not talking on cell phones while driving.

Finally, the inevitable happened. Company chairman and CEO Jean Riboud reminded the readers of the 1983 annual report that he had foretold the future, often to deaf ears.

"Many times, in writing or in public speaking, I issued a word of caution, an early warning. The pace of growth could not last forever. In the annual report for 1979, I wrote, 'The potential for growth is so obvious that one could forget that growth is never a straight line into the future but a pattern of cycles.' But earnings kept on going up, so the warnings were unheeded."

Net income fell 20% that year on revenues that were also down 8%, after uninterrupted growth for almost two decades.

Schlumberger cut back where it could – on inventory and some people lost their jobs, but SLB increased its investment in research and development by 14%.

"Years of growth of 40%, or even 30% cannot be sustained without paying a price for it. It is difficult to train field engineers...maintain tools and equipment...to ensure the optimum performance and efficiency of drilling rigs at this pace of growth."

"A slowdown permits a lot of catching up, in depth. This is happening today in the field and the customers are aware of it," Riboud suggested.

"In this sense, recessions serve a necessary and useful purpose. As they say in the cowboys' country, it separated the men from the boys," he concluded. "It is useful, I believe, to understand how Schlumberger performed during this time, what it did and what it did not do."

This coming from a CEO whose company income had just dropped half a billion dollars... In a subsequent downturn its income dropped two billion dollars.

Schlumberger's story in Canada goes back almost 90 years. Until I started researching it, they had been dating the company history back to 1949 – for reasons that are still unclear. Anyone here have a guess?

But SLB has been in Canada since the 1920s, perhaps even as early as 1921. The early work was for mining companies, but in 1928 it did a surface electrical survey for Imperial Oil in Turner Valley. So it has been an active player in the western Canadian oil patch since at least 1928...

### **The crossovers**

Oil's history also comes through the leaders who take daily life and turn it into a kind of greatness as befits their times. One of these men is **Roland Priddle**. Though the **regulation** of the Canadian energy industry got its start in **1938** when the Alberta government created the Energy Resources Conservation Board, the federal government created a similar body, the National Energy Board, with a national mandate in **1959**.

Priddle rose to become chairman of the NEB from 1987 to 1997 after helping **dismantle the National Energy Program** that was conceived and implemented in the heady days of the early 1980s by a federal government that expected the **price of oil to rise to \$100 per barrel – or about \$265 in 2008 currency**.

He was widely respected for helping deregulate the energy industry in Canada and for moving the NEB offices to Calgary. This year the NEB celebrates 50 years in operation...

### **Geologist who made himself into a historian**

Another NEB employee who connects east to west is the recently deceased **Aubrey Kerr**. A geologist born in Ontario, he was involved in the development of the **Leduc oilfield for Imperial Oil**.



Sixty years later Kerr recalled his role in the development of the Leduc field as **“the greatest achievement I ever had. There was almost that element of Christopher Columbus about it, of sailing into that unknown world. What happened in those weeks and months in 1947 changed the whole face of Alberta forever.”**

But Kerr’s most important contribution to Canadian petroleum history was as a recorder of its significant events.

**According to Roland Priddle, “Aubrey loved the profession of geology and later in retirement successfully recaptured in his books the early glory days of the Alberta industry – particularly Leduc and Redwater, and the people associated with those profoundly important discoveries. For that work alone the Alberta public owes him a debt....”**

And so, in the late 1970s, Kerr began collecting the history of the oil patch while many of its participants were still alive. His self-published books tell part of the story and the Petroleum Industry Oral History Project that he founded collected more than 300 tape-recorded accounts from key participants in the recent history of the western Canadian oil patch.

## **Conclusions**

So there is much to learn by studying the sometimes strained relationship between East and West in the history of the Canadian petroleum industry.

First, I’m not saying that we should learn to love the Easterners. They have their **point of view**, and if we remember that they are consumers, and we are producers, the underlying differences are clear.

But we can **benefit by looking back** at the history of the relationship between us and them, and by getting to know their stories, we might **understand** them better.

Front page in Herald last week...Tuesday, Feb 17, 2009

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**INDEX**  
 Accommodations B6  
 Bridge B6  
 Calgary Business C1  
 Classifieds C6  
 Community C7  
 Crossword C8  
 Editorial A6  
 Entertainment E1  
 Home & Garden G1  
 Local News L1  
 Real Estate R1  
 Sports S1  
 Television T1

Complete weather information Page D10  
 Today -4°  
 Tonight -15°

**TWO SPECIAL SECTIONS**  
**Imports ONLY**  
 Your guide to the top foreign autos for 2009:  
**PLUS:** Tips to create wealth by understanding, finding and investing in real estate  
**See inside**

**Albertans feel like rich giving to poor**  
**RANDY BOSWELL**  
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 A poll commissioned by the Association for Canadian Studies asked respondents whether, regarding "money and other considerations," their province or territory "puts more into Confederation than it takes out."  
 In Alberta, 78 per cent say they give more than they take — more than 20 percentage points higher than B.C. (55 per cent), Ontario (50) and the national average (46 per cent).  
**SEE POLL, PAGE A7**

**Ottawa prepares for Obama**  
 Security will be at an all-time high in Ottawa when U.S. President Barack Obama makes his first visit Thursday. But the real story may be which of Canada's federal leaders will forge the closest ties with Obama, columnist Don Mart in writes.  
**News, Page A3**

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**SEE HEALTH, PAGE A4**

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**Albertans feel like rich giving to poor**

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In Alberta, 78 per cent say they give more than they take — more than 20 percentage points higher than B.C. (55 per cent), Ontario (50) and the national average (46 per cent).

**This kind of attitude does not serve us well.** In our children we would call it immature, self-centred and we would hope they would grow out of it...eventually.

We can move **away from a narrow mindset** by looking at the big picture. The people for the western Canadian oil patch had to come from somewhere else – in fact, we are all immigrants to this region.

Next, the **money needed to finance** the development of the Western oil patch was not available here and so we needed outsiders to underwrite these expensive ventures. “Other people’s money” was what Ernest Manning called it, and Brian Brennan did a good job of telling us about the Social Credit and its relationship to oil at the last meeting.

A third point is that **visionaries** are not always what they seem. They are a special breed, of course, and even though they can have deep pockets and be hard-nosed business people, sometimes their dreams are so big that they do not live long enough to see them succeed.

Examples in this category include Bill Herron from the Turner Valley oilfield. Another is Mr. Pew of the Sun Oil company who did not live long enough to see his extraordinarily large dream make money. Even his delegate, Mr. Gilbert, may not live long enough to see it solve its tailings ponds problems...

Schlumberger’s long-term commitment to research and development is another example, and Imperial Oil’s current plan to invest in the oil sands is another. Other companies **take the long view** too – and we can learn from them.

## Conclusion

**East may be East and West may be West, but in Canadian petroleum history these regions have supported and learned from each other many times.**

David Finch is a consulting historian based in Calgary and the author of more than 20 books on the history of the Canadian West including the current bestseller, PUMPED: Everyone’s Guide to the Oil Patch published in late 2007 by Fifth House Publishers of Calgary.